



**ANNUAL  
REPORT**

**2016**

**CONSOLIDATED**

**LOTES RESERVA CANTINHO DAS AROMÁTICAS**  
PROJECTO PREMIADO I PRÉMIO EMPREENDEDORISMO E INOVAÇÃO CA 2016

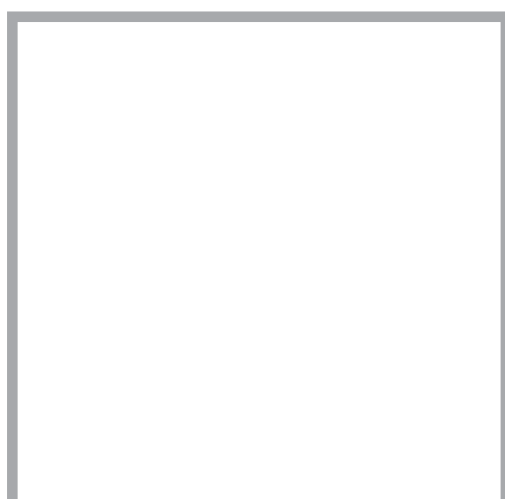
 **CA**  
Crédito Agrícola

# Executive Summary

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Message from  
the Chairman of  
the Supervisory  
Board

# MESSAGE FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

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To the  
Chairmen and Representatives of the Caixas de Crédito Agrícola,

Crédito Agrícola once again recorded positive results in 2016, standing out due to its resilience within the national financial sector, in a adverse context for banking activity, with the monetary policy inducing very low interest rates which penalised the remuneration of credit, the primary source of operating income of the institutions. Added to this scenario, the weak dynamics of demand for credit which, albeit attenuated, continue lingering, which has led to particularly strong competition between the different institutions, further lowering the lending interest rates.

Moreover, the sector continues overburdened by a high volume of poor quality credit and non-productive real estate assets, acquired during processes of credit resolution, constituting yet another factor dragging down bank profitability.

The structural problems of the financial sector and the heavy losses of certain institutions thus continue an current everyday reality, and despite the recovery that some are appearing to show, the level of losses (both on an annual basis and accumulated) that has been reported is truly astounding.

With this background environment, the performance achieved by the Caixas Agrícolas must be recognised as notable, considering that, with merely four exceptions, all the rest have recorded positive results, some have even attained a considerable improvement in relation to 2015. And with respect to those in deficit, the losses are, with a single exception, of minor value and largely explained by particular circumstances of the year in question.

The Caixas are thus to be congratulated, as in this still extremely unfavourable business environment they maintain very satisfactory results.

However, it cannot be ignored that some Caixas show, for key indicators, namely in the cost-to-income ratio and the overdue credit ratio, manifest imbalances that must be corrected, as their continued presence compromises their sustainability, leading to enhanced risk of future losses, which shall represent a burden to the entire Group.

As a whole, the Caixas achieved a net income of around 80 million euros, with over thirty having surpassed the milestone of 1 million euros. With the full conversion of the NCA accounting system (where the credit provisioning was based on Notice 3/95) to the International Accounting Standards (NIC) having occurred during the year, with the recognition of the losses in the portfolio being based on the concept of impairment, the generous proportions that the Caixas had in these provisions in relation to the calculated impairment levels enabled a lower provisioning effort during this year,

which naturally favoured the obtained results. However, the stronger contention in the remuneration of customer deposits which was adopted, following market trends, also greatly contributed to the good results of the Caixas, having had a positive impact on net interest income.

Caixa Central, in turn, and as had been foreseen in the Activities Plan submitted to this Meeting last December, recorded a loss of 9.3 million euros in 2016, essentially caused by the need to recognise losses in participation units of a real estate fund which included assets acquired in credit recovery processes, that incurred substantial capital losses under the latest revaluations. The net operating income generated by the institution during the year, affected by the squeezing of the net interest income of Caixa Central which sought to preserve the remuneration of the surplus liquidity of the Caixas as much as possible (despite the extremely low interest rates in the capital market), did not enable accommodating this type of exceptional losses. Nevertheless, in view of the results that are already available for the current year, the institution's operating conditions are approaching normal standards, with the efficiency gains achieved by the reduction of permanent employees and the progressive streamlining of administrative costs having contributed to this outcome.

With regard to companies, we highlight the good performance in the insurance area, with CA Vida showing net income of almost 4.2 million euros, and CA Seguros with 3.9 million euros. At Crédito Agrícola, the insurance activity thus continues on its successful path, with the Group being one of those in our country that has best known how to implant a banking-insurance model with effective articulation between the banking and insurance areas. We also have a generous margin for growth in this area where, in order to make the most of this opportunity, it is crucial for the Caixas in general, and especially those with greater involvement in the insurance business, to concentrate on this mission with even greater enthusiasm and dedication. The insurance activity already provides a very important contribution to the net operating income of many Caixas Agrícolas, through brokerage commissions which amounted to over 30 million euros in 2016, a figure that could still increase significantly.

In the area of asset and investment fund management, which corresponds to the core business of CA Gest, a loss was recorded of the order of 300 thousand euros, that follows on from the positive net income of 500 thousand euros in the previous year. In 2016 the operation was affected by the retraction of investors which occurred in the market in general, in view of the lower returns on investment funds induced by the rather adverse situation of the capital market. This business area currently also provides a significant contribution, which in 2016 stood at almost 6 million euros, to the Group's complementary margin, through the various commissions that it generates.

In the case of CA Imóveis, an instrumental company for the management of the real estate assets acquired under credit recovery and to boost their sale, in order to reduce their weight in the Group's balance sheet, the earnings continue to reflect the state of the real estate sector and the depreciation of the assets in relation to the value at which they had initially entered CA Imóveis. Therefore, its activity recorded a negative net income of 4.6 million euros, albeit lower than that of 2015.

Finally, it should also be noted that the area of technology and information systems continues to pursue a balanced operation, both at CA Informática and, which naturally more significant, at CA Serviços, simultaneously having managed, despite the growing obligations which require compliance in the regulatory sphere, to maintain an appropriate response capacity in the implementation of the projects and in the provision of the services that must be assured, consolidating the improvement of

performance recorded over the last years. The technological base and information systems are, nowadays, an absolutely critical factor of competitiveness in the banking system, they are our factory, nothing can be done without effective systems, so I am delighted to note the positive evolution that we have observed in this area.

The Group's favourable evolution in the financial arena also corresponded in 2016 to an excellent commercial performance. We even surpassed the figures achieved in 2015, having thus returned to enjoy the best commercial year ever. The degree of attainment of the objectives in some twenty business variables which were selected to be incorporated in the defined grid was in general very high, where special note should be made of the strong dedication shown by the Caixas, the companies and the commercial stimulation area which were the drivers of this outcome.

The success in the commercial activity is primarily reflected in the growth that we gained in the credit area as, at a time when the credit portfolio is contracting in the sector in general, Crédito Agrícola achieved growth, against the trend, of around 3.4 %. This is a situation that has been repeated over these last few years, and which enabled a significant increase in our market share in credit at a national level to 4.5%.

In turn, customer deposits, as I mentioned a few days ago at the 2nd Meeting of Administrations, keep on increasing, having reached around 12 billion euros, evincing the trust maintained by our associates and customers in our institution, which is increasingly viewed as a refuge bank. Considering the investments in off-balance sheet products, the total amount of customer fund entrusted to Crédito Agrícola exceeds 14 billion euros.

In other business areas, the commercial evolution has also been very positive, with our two insurers growing, both in terms of new production and in the portfolio, at rates that are much higher than those of the respective markets, and with the Group's asset management area also progressively gaining a growing position in the context of its sector.

In addition to these aspects related to the financial evolution and commercial performance, much more could be said about the activities of Crédito Agrícola in 2016, as numerous initiatives were carried out in different spheres of action (training of directors, system of assessment of staff in key positions, innovative solutions for the business front, a variety of seminars and events of interaction with society and our customer base, etc.). These issues are referred to in a fairly comprehensive and detailed manner in the Annual Report (a document whose quality in itself testifies to the new standard of technical competence that has been attained in key areas of Caixa Central). Special reference, however, must be made to the opening of the Crédito Agrícola branch in Madeira, with which the Group has completed its coverage of the national territory.

The Group's good position in the context of the national financial sector is also reflected in the various awards and distinctions that we have received, which I note with great pleasure offering my congratulations to all the areas involved. Thus, and to refer to just a few, in the insurance business, CA Seguros was considered by the magazine Exame as the best insurer of the real branch in its size segment, which occurs for the 6th time, and CA Vida led the rankings of customer loyalty and satisfaction indices in an independent survey by ECSI. In the banking area, Crédito Agrícola achieved the highest classifications of the market concerning satisfaction indices in the study conducted by BASEF and in asset management, various funds created and managed by CA

Gest were also distinguished, in addition to being well positioned in terms of the return provided to their subscribers.

At a time when other significant institutions in our financial system are constrained in terms of their strategic options due to the need to streamline their structures and recapitalise suitably, Crédito Agrícola, not facing this type of restraint, can and should make the most of its robust solvency and generous liquidity to increase the highly reputable position that it has already gained in the national banking system, and definitively transform itself into one of its top level institutions. We should thus make a determined commitment to this quest, and the secret to achieving this is in the sustained expansion of our business base, through a dynamic commercial policy, but naturally based on safe growth with due attention to risk and directing our offer and campaigns towards products and services that meet the effective needs the population. The local banking that we offer encourages relations of trust that facilitate the commercial action, but it is obviously also fundamental that this action should be conducted in a manner consistent with this trust.

In the Group's business strategy we must also pay due attention to the need to overcome some of the weaknesses that we still show in our implantation in the market, such as our scant involvement with small and medium-sized enterprises (i.e. in the segments above micro-enterprises), the low weight of the younger cohorts of the population and, in geographic terms, our insufficient presence in the urban centres.

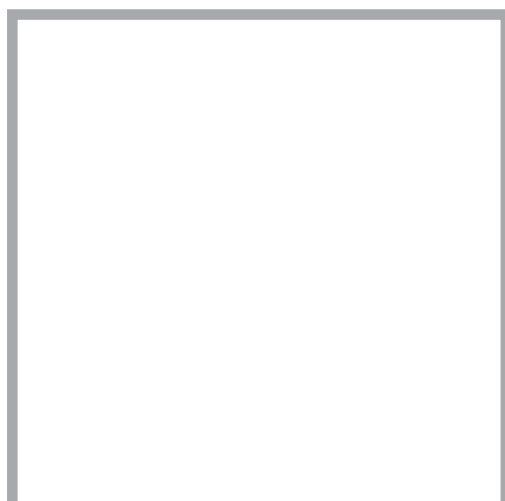
Crédito Agrícola has already clearly demonstrated its capacity to accomplish, knowing how to push ahead, discretely and without great fuss, achieving its desiderata. I am absolutely convinced that under this most complex scenario, but which presents unique opportunities, we shall once again make the very most of our potential to strengthen the Group's positioning within the national financial system, achieving our objectives, such as the Mission and Vision of Grupo Crédito Agrícola, defined in the Annual Report presented to you: being an engine of development of local communities (only we can do this) and the best financial group in the markets in which we operate (it is our duty to be so).

Lisbon, 28 April 2017

*[Illegible Signature]*

The Chairman of the General and Supervisory Board





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Key indicators of  
the Group and  
SICAM

# KEY INDICATORS OF THE GROUP

## Evolution of GCA

Values in million euros

	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.
Customer Funds (on and off-balance sheet) deposits	10,406	11,048	10,910	10,923	11,463	11,801	12,655	13,212	14,060
of which funds and capitalisation insurance a)	9,528	9,965	9,939	9,821	10,113	10,123	10,537	10,910	11,726
Gross Credit to Customers	878	1,083	971	1,102	1,350	1,678	2,118	2,302	2,334
Net Credit to Customers	8,300	8,781	8,534	8,507	8,301	8,136	8,099	8,373	8,651
Net Assets	7,926	8,366	8,041	7,914	7,660	7,472	7,261	7,555	7,941
Net Worth	12,122	12,948	14,224	14,241	15,113	14,621	15,051	14,936	16,699
Net Interest Income	987	1,075	1,108	1,142	1,100	1,141	1,211	1,205	1,244
Net Commissioning	425	341	335	381	367	307	307	310	327
Insurance Technical Margin	81	82	93	97	102	101	101	98	105
Operating Income	14	9	5	10	-4	-9	-21	20	14
Net Income	537	457	478	505	493	486	577	515	467
	121	52	36	55	45	-3	27	54	58
Ratio of Credit Overdue > 90 days b)	3.8%	4.1%	4.9%	5.8%	6.8%	7.7%	8.0%	7.8%	6.2%
Ratio of Coverage of Overdue Credit - %	136.0%	127.4%	127.8%	119.8%	114.2%	121.0%	122.9%	122.5%	129.8%
Core Tier 1 - GCA - %	12.2%	12.1%	12.7%	12.5%	11.6%	11.9%	n.a.	n.a.	n.a.
Common equity tier 1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.1%	13.0%	13.6%
Tier 1 - GCA - % c)	12.0%	11.8%	12.5%	12.3%	11.1%	11.4%	13.1%	13.0%	13.6%
Total Solvency Ratio - GCA - %	13.3%	12.7%	13.4%	12.7%	10.9%	10.8%	13.1%	13.5%	14.4%
Cost-to-Income Ratio - GCA - %	56.8%	68.8%	68.3%	65.4%	67.0%	68.2%	57.5%	63.8%	73.1%
Return on Equity (ROE) - %	12.2%	4.9%	3.2%	4.8%	4.1%	-0.3%	2.2%	4.5%	4.7%
Return on Assets (ROA) - %	1.0%	0.4%	0.2%	0.4%	0.3%	0.0%	0.2%	0.4%	0.3%
Number of employees d)	4,326	4,392	4,365	4,335	4,296	4,212	4,158	4,121	4,054

Notes:

The values for 2010 were calculated in accordance with the standards approved by the European Union, which entered in force from 1 January 2010 onwards; the values for 2009 and 2008 were restated for purposes of comparability.

a) The values refer exclusively to the Associated Caixas of SICAM.

b) The values presented for the period 2008-2011 refer to SICAM.

c) From 2014 onwards, the values correspond to common equity tier 1 - phased in (Basel III).

d) The values refer to employees with open-ended/indefinite employment contracts and with fixed/non-fixed term contracts (positions at year end).

# KEY INDICATORS OF THE BANKING BUSINESS (SICAM)

## Evolution of Banking Business

	Values in million euros								
	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.
Customer Funds	9,613	10,070	9,989	9,884	10,178	10,210	10,620	10,970	11,771
Gross Credit to Customers	8,373	8,859	8,606	8,587	8,365	8,199	8,147	8,430	8,713
Net Credit to Customers	7,945	8,392	8,069	7,988	7,717	7,310	7,310	7,578	7,998
Net Assets	11,447	12,097	13,213	13,027	13,747	12,969	13,267	13,060	14,881
Net Worth	979	1,000	1,026	1,054	1,098	1,106	1,168	1,173	1,227
Net Interest Income	403	315	306	342	318	251	248	245	276
Net Commissioning	87	91	110	116	130	132	129	130	138
Operating Income	513	424	445	472	465	473	554	503	475
Net Income	121	42	36	47	41	2	25	56	72
Loan-to-Deposit Ratio - % a)	82.7%	83.3%	80.8%	80.8%	75.8%	71.6%	68.8%	69.1%	67.9%
Cost-to-Income Ratio - SICAM - %	55.5%	69.4%	67.1%	64.7%	65.3%	64.0%	54.2%	59.8%	66.0%
Return on Equity (ROE) - %	12.4%	4.2%	3.5%	4.5%	3.8%	0.1%	2.1%	4.8%	5.9%
Return on Assets (ROA) - %	1.1%	0.3%	0.3%	0.4%	0.3%	0.01%	0.2%	0.4%	0.5%
Leverage Ratio	11.7	12.1	12.9	12.4	12.5	11.7	11.4	11.1	12.1
Number of CCAM	92	88	85	84	84	83	82	82	82
Number of Branches (Total of SICAM)	670	680	689	686	686	683	683	675	673
Average Net Assets by CCAM b)	116,924	127,626	132,375	133,162	140,695	159,839	161,788	159,266	181,471
Average Number of Branches/CCAM c)	7.2	7.6	8.0	8.0	8.0	8.1	8.2	8.1	8.1
Number of employees d)	3,854	3,907	3,878	3,845	3,832	3,760	3,706	3,674	3,604

Note:

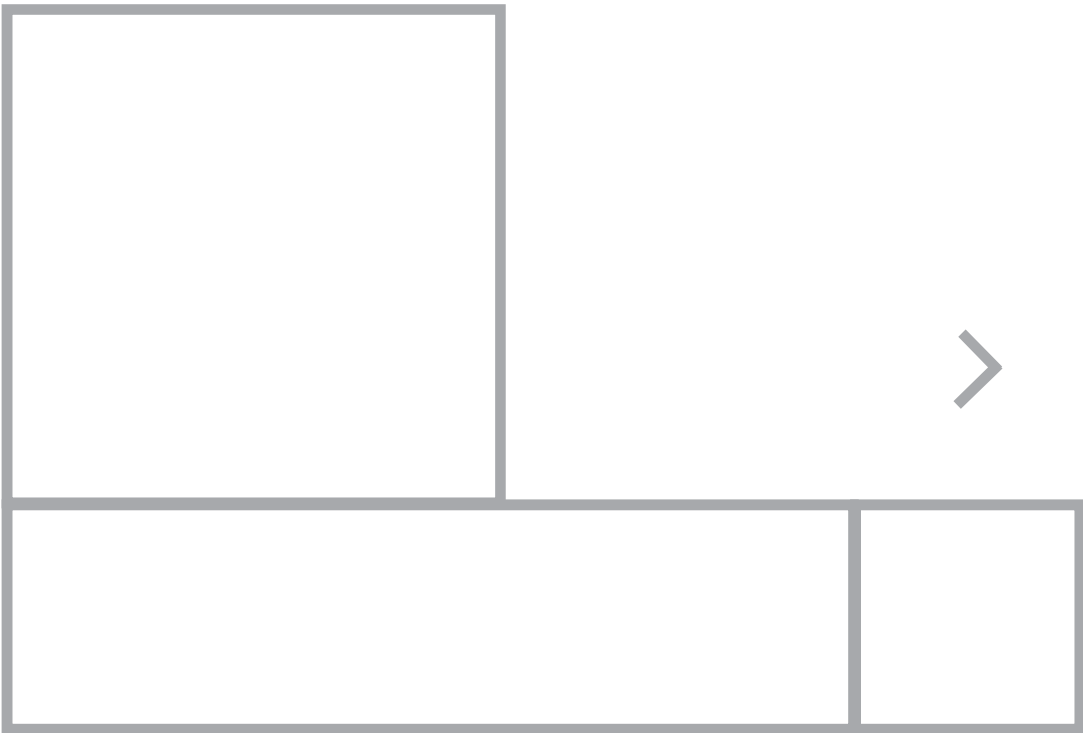
The values for 2011 were restated for purposes of comparability

a) Ratio calculated as net credit divided by funds pursuant to Banco de Portugal Instruction 23/2011.

b) Values in thousand euros

c) Only refers to branches of the Associated Caixas (SICAM)

d) The values refer to employees with open-ended/indefinite employment contracts and with fixed/non-fixed term contracts (positions at year end).



Presentation of  
the Report

# PRESENTATION OF THE REPORT

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## Economic environment

Notwithstanding the economic acceleration in the last quarter of 2016, the Portuguese economy recorded an overall slowdown for the year of 2016 in relation to the previous year. This more modest growth naturally had an impact on the activity of a financial group such as Grupo Crédito Agrícola, whose business is based on the financing of households and companies to accomplish new projects.



**Chairman of the Supervisory Board**  
*Carlos Courelas*

The Portuguese economy, penalised during the first semester by low growth of investment and fragilities in terms of exports, maintained the trend of deceleration started in the last quarter of 2015, having recorded year-on-year growth of 0.9% in the first semester of the year. However, the acceleration shown in the second semester of 2016, greatly on account of the evolution of tourist activity and private consumption, led to annual growth of 1.4% in 2016, a figure 2 p.p. below the growth occurred in 2015 (1.6%). The favourable conditions of external financing, reflecting the broad series of measures of the expansionary policy of the European Central Bank (BCE), were not unrelated to this performance and have constituted a window of opportunity to guide public policies towards increasing the resilience of the Portuguese economy to overcome adverse shocks.

In contrast with the past, the year of 2016 came to confirm the trends of transfer of productive resources to sectors that are more exposed to international competition (benefiting from the depreciation of the effective exchange of the euro), albeit with some slowdown particularly due to the economic and financial situation of Angola.

In turn, domestic demand was marked by a recovery derived from the positive evolution of the consumer confidence index (essentially explained by the stabilisation of the situation in the labour market, by the decline of the price of fuel and by the lower interest rates), albeit still constrained by the process of deleveraging of the economy in general and households in particular. In contrast, gross fixed capital formation recorded a year-on-year decrease in the first 3 quarters (-2.5%, -2.2% and -0.1%) and a strong recovery in the last quarter (+4.5%) which was embodied in a minor annual

reduction in relation to 2015. The factors that most contributed to this scenario were the external uncertainties (market volatility at the beginning of the year and political uncertainties associated to the electoral processes of Portugal's main trading partners) and domestic uncertainties (feasibility of the political solution and problems in the Portuguese banking system) which discouraged investors. Moreover, there was also a decline of public investment to historically low levels (up to September a reduction of 27.6% in gross fixed capital formation by public administrations was recorded).

## **New management and supervisory bodies**

The year of 2016 was also marked by the election of new management bodies in most of the Associated Caixas, now pursuant to the alterations introduced by Decree-Law 157/2014, of the Legal Framework of Credit Institutions and Financial Companies (RGICSF) which led to the overall review of the practices in force at SICAM concerning the Policy of Assessment, Adequacy and Selection of Management and Supervisory Bodies. These alterations gave rise to a total increase in the requirements of the banking and financial sector in relation to the persons responsible for the administration and supervision of institutions, establishing a series of standards and requirements on matters of suitability, qualification, professional experience, independence and availability relative to the adequacy of the holders of management and supervisory positions.

Supplementing the above, the process of assessment of the holders of key positions (compliance, internal audit and risk management) took place with a view to conferring efficacy to the first level of action on matters of internal governance, during a preventive stage prior to the action of the supervisory entities (second level).

At the same time, measures have been implemented that include, but are not limited to, work aimed aligning the remunerative policies to the risk profile of the institution and individual performance, namely conferring greater transparency to the outcome of the performance assessment and the attributed benefits.

## **Financial performance of the Group**

Grupo Crédito Agrícola presented a consolidated net income of 58.3 million euros for the financial year of 2016, continuing to show comfortable liquidity and solvency levels. This performance was primarily influenced by the net income of the banking business which grew by around 28% in relation to 2015, as well as the insurance activity, whose technical margin represented a positive contribution of 14 million euros.

The portfolio of gross credit to customers reached 8.7 billion euros, corresponding to growth of 3.3% in relation to 2015, against the market trend that declined as a whole by 4.2%<sup>1</sup>, which implied a reinforcement of the market share of Grupo Crédito Agrícola to 4.2% of the credit granted in Portugal.

Credit to companies and the administrative public sector presents a relative weight above 50% in the credit portfolio, with growth of 3.8% having been recorded in relation to 2015.

Total customer funds reached 14.1 billion euros, reflecting year-on-year growth of 6.4%, distributed over deposits which increased by 7.5%, and investment funds and capitalisation insurance which increased by 1.4% in relation to the value recorded at the end of 2015.

Net operating income fell by 9.4% to 467 million euros, largely on account of the decline of net trading income (-65.5 million euros), as the technical margin presented a positive contribution (+17.7 million euros). Net commissions decreased slightly by 7.0%, having reached 105.1 million euros.

In 2016, the Group's structural costs, including non-recurring effects derived from the Group's reorganisation process, recorded year-on-year growth of 3.8% corresponding to an increase of 12.4 million euros in absolute terms.

The credit portfolio of Grupo Crédito Agrícola has shown a notable improvement in terms of its risk profile since 2014, in particular during the second semester of 2016, in recording a very significant reduction of overdue credit of around 121 million euros (corresponding to a decrease of around 18%) in relation to the end of 2015. The mortgage and company credit segments have been primarily responsible for the alleviation of the claims rate levels of the portfolio, influenced by the increasingly more effective action in the CA Group's approach to credit monitoring and recovery activities and in asset write-off procedures. In terms of quality of the credit portfolio of Grupo Crédito Agrícola, the ratio of credit overdue by more than 90 days fell to 6.2% (-1.6 p.p. than in 2015), the ratio of credit at risk (which includes the total value in debt of credit overdue by a period equal to or more than 90 days and restructured credit also overdue by these periods without the full payment of interest and charges and the full reinforcement of guarantees having occurred) fell to 9.4% (-1.8

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<sup>1</sup> Source: Statistical Bulletin of the 4th quarter of 2016 – Bank Loans and Deposits (BdP/ECB).

p.p. than in 2015), and the ratio of coverage of overdue credit shifted to 129.8% (+7,4 p.p. than in 2015).

Concerning non-productive credit, the divestment of a portfolio exclusively held by Caixa Central of the value of 59M€ (Cassiopeia 2) was carried out in December 2016, with extraordinary income having been received of approximately 3.5M€ (50% paid on 30.12.2016 and 50% payable on 28.12.2018). The divestment of a portfolio of credit written off from the assets of the Associated Caixas (Cassiopeia 1) is foreseen for 2017.

It should be stressed that, during 2016 and with respect to the direct exposure to real estate assets, over 100M€ of sales of real estate properties and 74M€ of accrued income was achieved, which demonstrates that the strategies, processes and supporting tools, combined with more favourable market conditions, effectively produced results, with the entire CA Group being strongly dedicated in pursuing the marketing effort.

It is also important to note that, between December 2015 and December 2016, the value of non-characterised real estate assets decreased by 6.2 percentage points in relation to the total assets in the balance sheet of SICAM of 28% of the properties (1,010 out of 3,612) with net book value of 23.7% (82.8M€ out of 349.5M€) at the end of 2015 to 25.0% of the properties (984 in 3,939) with net book value of 17.4% (57.7M€ in 330.8M€).

Grupo Crédito Agrícola's own funds reached 1,227 million euros (+85 million euros in relation to the same period of the previous year), corresponding to year-on-year growth of 7.4%. Own fund requirements to cover credit and operational risks increased as a whole by 0.8% in relation to 2015.

In this context, the common tier 1 and total solvency ratios calculated for 2016 based on application of the transitional provisions (phased-in) and full application (fully implemented) of the rules established in Regulation (EU) 575/2013, are comfortably above the regulatory minimum stipulated by Banco de Portugal.

The Banking Union has also brought in fresh challenges and new regulatory requirements, namely new liquidity requirements, new requirements on disclosure of information on encumbered assets and minimum amounts of liabilities that may be used to absorb losses (bail-in able), new classifications incorporated in reporting frameworks and guidelines on strategies of divestment in non-performing exposures (NPE), among others.



The programme of reduction of non-productive assets, currently in course, aims to mitigate the risks associated to (i) the high exposure to credit risk, particularly in processes of credit to companies under insolvency procedures, which could generate significant and extended direct costs (e.g. credit impairments, fees of lawyers, litigation expenses) and indirect costs (e.g. loss of focus of the management team for issues related to expansion of the balance sheet) ; (ii) the time of credit recovery, in particular in the case of mortgage guarantees, depending on the performance of the justice system, which could imply the deterioration of the value of the assets; and (iii) the high exposure to the risk of real estate devaluation which, among other aspects, could be generated by the enlargement of processes of credit under recovery and by the need for the rapid and massive sale of real estate assets in order to fulfil the agreed disinvestment plan under implementation.

## Organisational and technological development projects

Concerning the planned activity of technological development, during 2016 and as a result of the close collaboration with the business and supporting areas and the information systems and technology development teams, 65 projects and 375 micro-projects were completed, corresponding to an allocation of effort of, respectively, 35,200 and 26,200 hours of internal and external resources with technological profile. Supplementary to the above, around 51 projects and 56 micro-projects were carried over from 2016, which amounted to a total effort of 108,000 hours and 5,400 hours, respectively.

From 31 December 2016 onwards a new cycle began with respect to credit provisioning which shall be based on the measurement of the existing or deemed impairment in credit exposures, replacing the system in force up to this date established in Notice 3/95, on which the closing of the accounts for 2016 was based. This alteration of paradigm implied the need to make adjustments in the central computer system (core), the profile, and in the procedures for the monthly assessment of impairments, where these developments had to be completed in time for the start-up of the new system on 1 January 2017. Simultaneously, and at the level of the Associated Caixas it was necessary to balance their levels of provisions and the impairments that had been calculated in the meantime, where, in most of the Caixas there was a very considerable surplus in the provisioning (more provisions for accounting purposes than impairment).

Regarding the Group's risk management, the overall model for operational risk was defined, incorporating various aspects such as the definition of policies and processes, communication and training, self-assessment, capture of events or monitoring and reporting. At the end of the first semester of 2016 the the review of the Internal Regulations of the Monitoring Area – Internal Processes and Procedures was proposed and completed, whose control methodology henceforth

started to consider the following as indicators for the assessment of management quality, and the need for measurements of: (i) capital risk; (ii) profitability risk; and (iii) credit risk of the CCAM.

In order to improve the quality of the credit portfolio of SICAM and in particular minimise the probabilities of default of potential debtors, over the more recent years major focus has been placed on the provision of automation tools for processes throughout the entire cycle of credit concession, credit monitoring (PARI, PERSI, Instruction 32), credit recovery and divestment of real estate properties given in lieu of repayment due to default.

Illustrating this focus and widespread adherence of SICAM are the: (i) pre-rating and rating models, respectively for non-customers and customers of the companies segment; (ii) risk propensity models of operations for individual customers and sole proprietorships (behavioural scoring); (iii) credit concession workflow (concession, renovation, extension and restructuring); (iv) credit monitoring workflow (“collections box”); (v) tool to support credit recovery by judicial and extrajudicial means; (vi) tool to support the activities of management, prudential reporting and marketing of real estate properties derived from credit recovery of SICAM (“DFOA Online”); and (v) business information tool related to the monitoring, quality, concentration and recovery of the credit portfolio of SICAM (PIN). Nevertheless, these are effectively processes and tools with room for continuous improvement.

SICAM’s Risk Function project has been developed, with the objective of implementing, in technological support, reporting (and measurement) to be provided to SICAM, with the holding of training actions being foreseen aimed at the capacity-building of the employees with risk management duties and incorporating the new regulatory ratios.

In order to improve the control and recovery of credit at the level of SICAM, a series of indicators were defined for monitoring customers that have received based on statistical information on use of the “collections box” system implemented at SICAM. These indicators enable monitoring the degree of implementation of the regulations on credit monitoring and recovery by the Caixas Agrícolas.

In order to assure that a coordinated liquidity management between the different units of Grupo Crédito Agrícola and the systematisation in a single document of all the liquidity risk management mechanisms, a new General Framework for Liquidity Risk Management (QGGRL) was approved. The QGGRL includes, among others, the definition of a general model for the governance of liquidity risk, the internal organisation and separation of functions, the reference policies and

principles for management, the approved measurements and limits, and the contingency measures in force.

As a result of an active commercial strategy based on a bancassurance model, the CA Group has progressively demonstrated its capacity to achieve growth, in absolute terms (gross stock of credit to customers and customer deposits) and in relative terms (market shares), in a context of intense commercial competition presented by the traditional and new players and of squeezing of the applied margins.

These results of Grupo Crédito Agrícola have also been influenced by the effort/investment and incentives directed at commercial stimulation activities (e.g. Investment in credit recovery mechanisms (CRM), investment in a system of daily information on achievement of commercial objectives, investment in an engine generating leads for the approximately 2,500 members of the salesforce, capacity-building of the “companies manager” position) as well as the modernisation of the branches in a competitive context and the improvement of the digital channels.

With the objective of simplifying and enhancing the flexibility of the process of sale of the CA offer, work continued on the development of a new credit workflow with the simulators (CA Flow) as well as with presential training ministered to all the employees with commercial duties at SICAM. At the same time, a new consumer credit product (CA Flash) has been designed, with remote or presential subscription, with immediate approval, which uses the behavioural risk analysis model for this type of customer and products.

In view of the low demand and the need for Crédito Agrícola to increase its credit portfolio and boost its profitability through this mechanism, in particular through concession to medium and large size companies, a “product/solution” has been developed which enables the automatic management of “syndicate credit” operations in which Crédito Agrícola is present. The created solution is intended for structuring and operational support of medium/long term operations which, due to their volume and associated risk, are distributed over a series of entities, enabling the parameterisation of different participant interests (%) and generation of single movements in the customer’s account. The main advantages for company customers include the obtaining of the intended financing amount, through a unique relationship with the credit institution (even if the participants in the syndicate are various entities of the CA Group).

In the second semester of 2016, Caixa Central started the implementation of a system aimed at automating the treatment of notifications of attachment, using the electronic platform of SIBS

Processos supplemented by a service provision model of the same entity to support the reception, processing and response to notifications related to customer attachment processes, including orders for blocking and attachment of bank balances and values of securities, withdrawal orders and transfer orders of attached values.

In terms of efficiency and control of structural costs, it is important to note that the Group (i) operationalised the centralisation of purchases in various categories; and (ii) automated the production of monthly individual tables on budget control of the Associated Caixas, and has been giving progressively more attention to the monitoring of deviations and the implementation of cost/consumption control measures and greater scrutiny to investment decisions.

With a view to ensuring more effective cost control at the level of the entire SICAM, in the third quarter of 2016, the Remunerative Statute of Crédito Agrícola was approved, which, as the primary regulation of binding nature and applicable transversally to the whole of SICAM, entered into force in October 2016. This regulation establishes standard remuneration rules both for the employees and the members of the management and supervisory bodies, establishing, with respect to the latter, remunerative brackets that take into account the rule of proportionality/size, measured according to the net assets and own funds of each institution.

Also during 2016 and aimed at enhancing the flexibility and increasing the processes of in-house mobility, the general lines were drawn of the Reference Model for the CA Group with regard to this matter.

\*

Reference is also made to the opening of Crédito Agrícola's first branch in the capital of the Autonomous Region of Madeira, with Crédito Agrícola now being present in all parts of the country without exception. This new presence was well received by the local authorities, with the inauguration ceremony having constituted an extremely important event at a local level, with extensive coverage by television and other local media.

## Market recognition

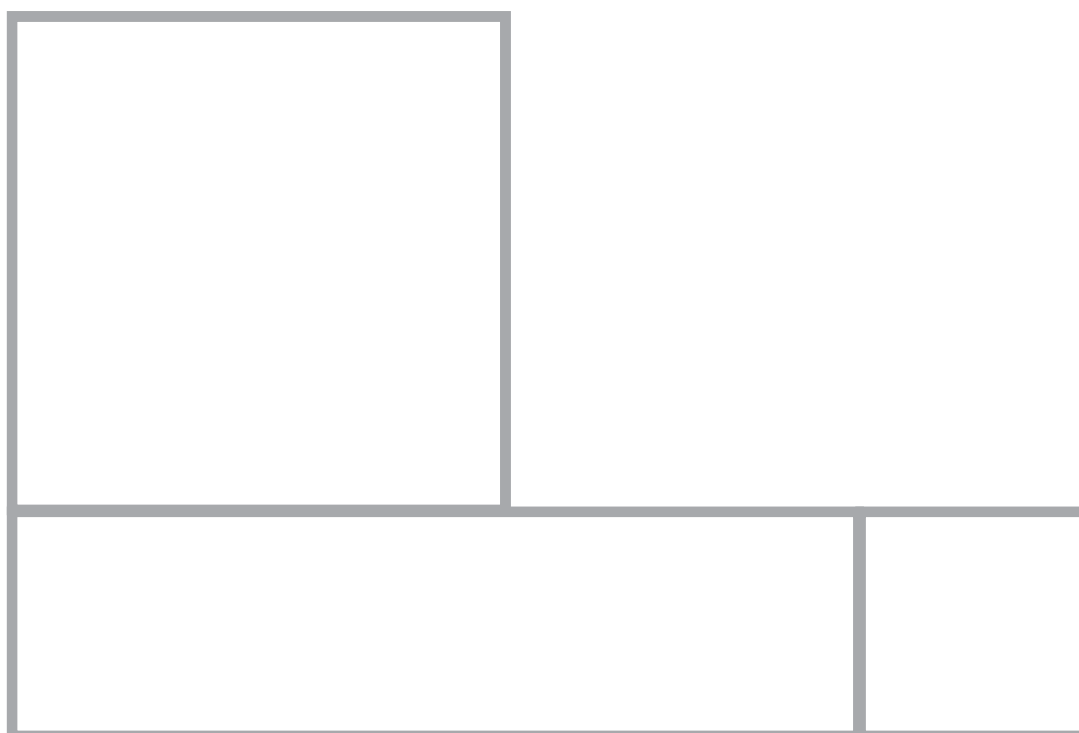
Crédito Agrícola was awarded the title of “The Best Bank in Customer Attendance Service”, “The Most Recommended Bank” and “The Bank with the Most Satisfied Customers”. CA Seguros was distinguished, for the sixth consecutive year, as the Best Non-Life insurer by the Magazine Exame in partnership with Deloitte and Informa D&B. Likewise, CA Vida was distinguished as the Best Large Insurer of the Life Branch in a study by EY and Ignios (Dinheiro Vivo), having also led the rankings of Customer Loyalty and Image of the National Customer Satisfaction Index of ECSI Portugal 2016. The asset manager of Crédito Agrícola achieved the highest yield in three of its Equity Investment Funds in their respective categories, one of them for the eight consecutive year, according to the yields disclosed by the Portuguese Association of Investment Funds, Pensions and Wealth (“APFIPP”).

Crédito Agrícola stands as a financial group with national capital that intends to continue to be a partner of excellence of its current and future customers, contributing to meet their financial needs and aspirations and their protection through a universal offer of a comprehensive network of branches and supplementary channels that are flexible and easy to use. Crédito Agrícola does not neglect its fundamental role in the economic, social and cultural development of the local communities in which it operates, in investment in sustainable projects, in the fostering of institutional relations with relevant entities on matters of supervision of the financial system, in the increasingly more proactive and systematic approach to business opportunities that present prospects of continued profitable returns and to strengthening cooperative values, safeguarding the respect for prudential regulations and limits, standards of ethical behaviour and compliance rules.



### **Executive Board of Directors**

*Renato Feitor, Sérgio Raposo Frade, Licínio Prata Pina  
(chairman) Ana Paula Ramos, José Maia Alexandre  
(from left to right)*



Relevant facts  
2016

# RELEVANT FACTS OF 2016

## Distinctions achieved by Crédito Agrícola

In 2016, Crédito Agrícola was awarded the title of “The Best Bank in Customer Attendance Service”, “The Most Recommended Bank” and “The Bank with the Most Satisfied Customers”, and is also referred to in the behavioural supervision report of Banco de Portugal of 2016 as one of the institutions with the lowest number of recorded complaints.

The achieved distinctions were not exclusive to the banking business, with CA Seguros having been distinguished, for the sixth consecutive year, as the Best Non-Life insurer by the Magazine Exame in partnership with Deloitte and Informa D&B.

Likewise, CA Vida was distinguished as the Best Large Insurer of the Life Branch in a study by EY and Ignios (disclosed in a special edition of the newspaper Dinheiro Vivo), having also led the rankings of Customer Loyalty and Image of the National Customer Satisfaction Index of ECSI Portugal 2016.

In the area of asset management, Crédito Agrícola achieved the highest yield in three of its Equity Investment Funds in their respective categories, one of them for the eight consecutive year, according to the yields disclosed by the Portuguese Association of Investment Funds, Pensions and Wealth (“APFIPP”). Monetary CA, Open Equity Investment Fund of the Money Market, with risk level one (one a scale of one to seven) and yield of 0.10% in 2016 achieved, for the eight consecutive year, first place in the category of Euro Money Market Funds. Income CA, Open Equity Investment Fund of Bonds, with risk level two and yield of 2.25% in 2016 won the Euro Indexed Rate Bond Funds for the fourth consecutive year. In 2016, for the first time, Alternative CA, Flexible Open Alternative Investment Fund came first in the category of Flexible Alternative Funds, ISRR 3. This is an investment fund with risk level three and yield of 4.20% in 2016.

*Award of best Large Insurer of the Life Branch in 2016  
CA Vida  
Seeking the best for you*



*Best Non-Life Insurer of your segment 2016  
Exame*

*6x IN 9 YEARS*

*CA Seguros  
Securely at your side*



POUPANÇA

### **Crédito Agrícola. Fundos distinguidos pela rentabilidade**

**A APFIPP distinguiu três fundos de investimento mobiliários do grupo Crédito Agrícola: CA Monetário, CA Rendimento e CA Alternativo.**

*Crédito Agrícola SAVING. Funds distinguished for their profitability  
The APFIPP distinguished three equity investment funds of Grupo Crédito Agrícola: CA Monetário, CA Rendimento and CA Alternativo.*

## Other relevant facts of the activity of 2016

### January

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- Campaign of adherence to the Internet Banking service with a weekly lottery of an iPhone 6s and the offer of the first annuity of the insurance CA Family Civil Liability.
- Partnership between Crédito Agrícola and the Portuguese Press Association (API), with special conditions for senior staff and employees of the media bodies, attributed in the acquisition of products and services of Crédito Agrícola.

### February

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- Representation of Crédito Agrícola at the 21st edition of SISAB – International Fair of the Food and Beverage Sector , through a stand presenting its us products and services aimed at companies that intend to internationalise or are already exporting.
- Launch of the campaign “live a carefree life”, a personal credit solution intended for the most diverse purposes – remodelling; furniture; entertainment; travel; electrical household appliances.
- Official sponsorship of the 5th edition of the “Gourmet Market” which presents the best national offer of gastronomic and wine related products of Portuguese, being held at Campo Pequeno, in Lisbon.

### March

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- Disclosure of the results for 2015 of Grupo Crédito Agrícola: positive net income of 54.1 million euros.
- Holding of the Award Giving Ceremony for the SME Leader and SME Excellence prizes at Campo Pequeno in Lisbon.

### April

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- Launch of the “CA Protection and Investment Solution” campaign, specifically directed at customers of the CA Dedicated segment. The campaign’s products included the Family Protection Life Insurance, the Woman CA Life Insurance and and the Health CA Insurance.
- Exclusive sponsorship of the 6th International Competition of Extra Virgin Olive Oil - CA Ovibeja Award, which selected 10 Portuguese olive oils as the best of the World.
- Launch of the CA Companies, through which Crédito Agrícola offered financial solutions intended for small and medium-sized enterprises (SME), thus strengthening its support to the Portuguese business structure.
- Organisation of the 1st Seminar of the 3rd Edition of the Entrepreneurship and Innovation Award of Crédito Agrícola, held at Caves Ferreirinha in Vila Nova de Gaia, which was attended by the Minister of Agriculture, Forestry and Rural Development, Luís Capoulas Santos.

### May

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- Launch of the multimedia institutional campaign of Grupo Crédito Agrícola with the claim “We are the generation that does not sit around waiting”, aimed at showing that Crédito Agrícola is a Universal Bank which is not only intended for farmers but also those who face life with the same strength, attitude, resilience and determination.
- Organisation of the First Meeting of Administrations of Grupo Crédito Agrícola, held at Belém Cultural Centre, in Lisbon.



## June

- Introduction of the “CA Express” solution in the branch network of Crédito Agrícola, an innovative system which enables the rapid opening of customer and accounts of individuals and sole proprietorships, by reading the citizen card and, if necessary, in a context of mobility.

## July

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- Presentation, to Banco de Portugal, of the plan for divestment of non-productive assets (credit and real estate) over the 2016-2020 horizon.

## August

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- Disclosure of the half-yearly results for 2016 of Grupo Crédito Agrícola: positive net income of 2.4 million euros.
- Implementation of stress tests for 2016. For the first time, this included the Wide Stress Test conducted by the EBA and the SREP Stress Test conducted by the ECB in the context of the Single Supervisory Mechanism, in a bottom-up approach throughout a time-line of 3 years.

## October

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- Recognition of Crédito Agrícola as the financial institution, among the main Banks operating in Portugal, which recorded less complaints than its customers, during the first semester of 2016, according to the Behavioural Supervision Report of Banco de Portugal.
- Recognition of Crédito Agrícola as the bank that, in 2015 and in the first wave of 2016, according to the study by BASEF, obtained the highest classifications of the market concerning: (i) overall satisfaction with the institution, (ii) satisfaction with the attendance provided, (iii) satisfaction with the quality of the products, and (iv) recommendation (willingness of the customers to recommend the bank to others).

## November

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- Promotion of an award giving ceremony for the winners of the Third Wine Competition of Crédito Agrícola, in partnership with the Association of Wine Waiters of Portugal, which was held at the Estufa Fria, in Lisbon.

## December

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- Distinction of CA as “Member of the Year” by the French-Portuguese Chamber of Commerce.
- Recognition of CA Vida as the “Best Large Insurer of the Life Branch”, an award attributed as a result of a study prepared by EY and Ignios and disclosed in Star Company, in a special edition of the newspaper Dinheiro Vivo, distributed with Diário de Notícias and Jornal de Notícias.

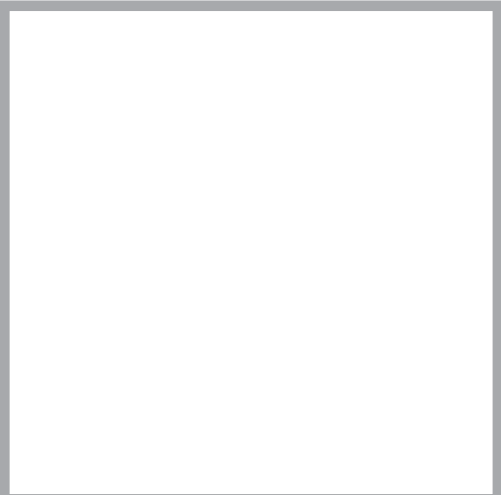
## Other relevant aspects of the activity in 2016

It should be noted that throughout 2016 Caixa Central assured the follow-up of the Caixas Agrícolas concerning the appointment of the managers of the control functions, both in terms of provision of clarifications and in the identification of situations generating potential conflicts of interest in light of

the defined and approved policy. Reinforcing this follow-up, Caixa Central disclosed guidelines to the 82 Associated Caixas aimed at clarifying the implementation and performance of the control activities and promoting the correction of situations when their independence is not assured in relation to the functional areas subject to appraisal or when there continues to be an undue accumulation of control functions. As agreed with the Supervisor, in 2017 SICAM shall start the regular appraisal of the adequacy of the Personnel in Key Positions, in accordance with a Single Assessment Model (MUA) transversal to the entire Grupo Crédito Agrícola and which shall also be adopted for the selection and recruitment of new personnel in key positions.

New terms of office 2016-2018: In the analysis of the current composition of these management bodies, it is found that around 20% of the members are part of a governing body for the first time (a sign of the renewal operated in terms of their composition). The representativeness of women in the governing bodies of SICAM as a whole stands at 12%, when compared with around 6% observed in the terms of office ended in 2015.

“Progress” training cycle: Throughout 2016 various specialised training programmes were ministered, directed at the management and supervisory bodies of Crédito Agrícola delineated in articulation with the Bank Training Institute (“PROGREDIR”). The two editions of this Programme involved close to 400 participants.



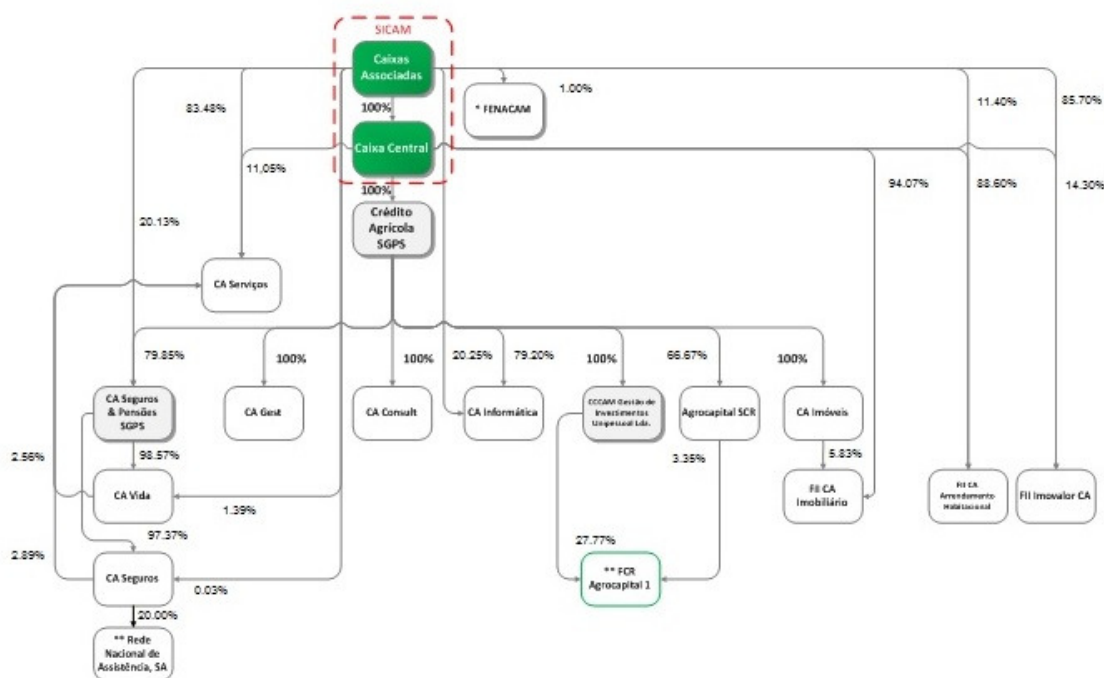
Presentation of  
Grupo Crédito  
Agrícola

# I. PRESENTATION OF GRUPO CRÉDITO AGRÍCOLA

## 1.1 STRUCTURE OF GRUPO CRÉDITO AGRÍCOLA

The corporate organisation of Grupo Crédito Agrícola is driven by its sustainability and support to the competitiveness of the 82 Associated Caixas. The Group's companies are directly held by Caixa Central and/or Associated Caixas, or indirectly by Crédito Agrícola SGPS (holding 100% held by Caixa Central).

### a) Corporate structure

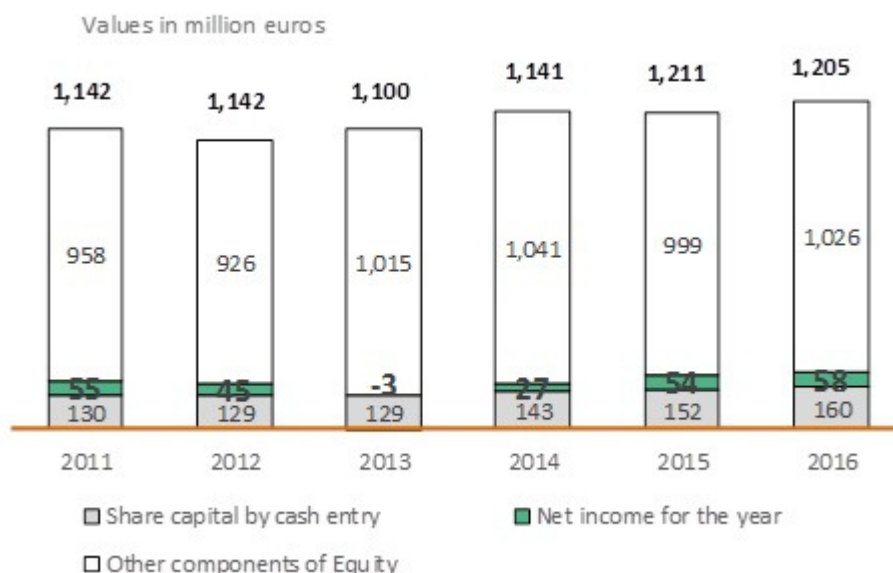


(\*) FENACAM holds 98.98% of its own capital.

(\*\*) Consolidation through the equity method.

## b) Equity structure of the CA Group

Grupo Crédito Agrícola has demonstrated, in a consistent and unique form in the sector in Portugal, its capacity to comply with the capitalisation level requirements imposed by Basel III and derived from the Banking Union (Capital Requirements Directive IV), exclusively with reinforcement of the participation of its current Associates and the entry of new Associates) and fundamentally via the incorporation of the annual net income over the years.



## c) Cooperative Model of Crédito Agrícola and SICAM

### i. Structure of the legal mechanism

Grupo Crédito Agrícola is a cooperative group, regulated by a specific legal system, the Legal System for Mutual Agricultural Credit and Agricultural Credit Cooperatives (RJCAM) and, simultaneously, by the Legal Framework of Credit Institutions and Financial Companies.

The Integrated System of Crédito Agrícola Mútuo (SICAM) is composed of Caixa Central and its Associated Caixas Agrícolas. Caixa Central is the “head of the Group”, operating as a central body which coordinates and represents the Group, being responsible for the coordination and planning, supervision, guidance and intervention in the Associated Caixas, reporting to the supervisory entities, integrated liquidity management, overall monitoring and control of risks and the definition and follow-up of the main policies and regulations of the Group, including, among others, those related to credit risk, human resources, information systems and marketing.

SICAM's mutuality/cooperative principle is based on a mechanism of solidarity which, when activated by any financial imbalance in any of the Associated Caixas, assures that Caixa Central is liable first and only afterwards the remaining Associated Caixas. In turn, Caixa Central, in a situation of financial imbalance, is backed by its Associates for reinforcement of its own funds. This mechanism is legally binding by the RJCAM.

Pursuant to the RJCAM, this system of mutual liability is a formal mechanism of crossed guarantees where: (i) Caixa Central fully guarantees the liabilities undertaken by the Associated Caixas, under

terms by which the guarantor backs the secured entity; and (ii) the Associated Caixas, whenever requested for such, underwrite and pay share capital increases to the amount required to correct any financial imbalances of Caixa Central, which are reflected in a reduction of own funds to a level below the legal minimum requirement or in non-compliance with the applicable prudential ratios and limits.

Supplementary to the above, the Crédito Agrícola Mútuo Guarantee Fund (FGCAM) provides a reinforcement of the support mechanism through the possibility of using part of the amount of this fund to guarantee the solidity and sustainability of SICAM.

## **ii. Crédito Agrícola Mútuo Guarantee Fund**

The Crédito Agrícola Mútuo Guarantee Fund (FGCAM) operates as a reinforcement of GCA's solidarity mechanism. This fund not only guarantees the liabilities in relation to depositors of GCA, but also supports the solvency and liquidity of its system, through loans to the Associated Caixas, referred to as Financial Assistance Contracts.

The Crédito Agrícola Mútuo Guarantee Fund is a legal person governed by public law, endowed with administrative and financial autonomy, which operates with Banco de Portugal, and is totally independent of the Deposit Guarantee Fund for the Portuguese banking sector. This fund is managed by a Steering Committee, its Chairman is a Director of Banco de Portugal and it has two appointed members, one in representation of the Ministry of Finance and the other in representation of Caixa Central de Crédito Agrícola Mútuo. The supervisory duties are entrusted to the Audit Board of Banco de Portugal.

The deposit guarantee mechanism is analogous to that governing the Deposit Guarantee Fund, applicable to the banking system in general, taking into account the particularities of the Caixas de Crédito Agrícola Mútuo belonging to SICAM. Thus, the FGCAM guarantees up to 100 thousand euros, per deposit holder and per institution, the repayment of deposits constituted at Caixa Central de Crédito Agrícola Mútuo and in its associated Caixas de Crédito Agrícola Mútuo. This Fund has never been called on under the guarantee of deposits.

As at 31 December 2016, the FGCAM's own funds present a value of 346.9 million euros, of which 199.8 million euros corresponded exclusively to investments intended to guarantee the deposits constituted at SICAM.

In conformity with the provisions in the Legal System regulating the activity, the FGCAM applies the available resources in financial investments, based on an investment plan defined by the Steering Committee, pursuant to which 30% of its assets should be invested in deposits repayable on demand and in highly liquid financial instruments. As at 31 December 2016, total financial investments reached 261.4 million euros.

## d) International Presence of GCA

Aware of the importance of the international market, Grupo Crédito Agrícola has progressively strengthened its presence worldwide through commercial and investment agreements, together with the expansion of the network of representation offices and commercial agents and enlargement of the offer of products and services aimed at supporting the international business of Portuguese companies.

### International Presence of Crédito Agrícola in 2016

**Europe**  
 Germany  
 Belgium  
 France  
 Luxembourg  
 Portugal  
 Switzerland  
 Spain

**Africa**  
 Cape Verde



#### Caption:

- Domestic network
- Offices (ER/EI)
- Fund raisers
- SFE
- Equity stakes

## 1.2 CAIXA CENTRAL AND GOVERNANCE OF THE GROUP

### a) Governing Bodies of Caixa Central

Although it is a cooperative, pursuant to the Legal System of Crédito Agrícola Mútuo, Caixa Central's governance may be based on one of the models established for public limited liabilities companies in the Commercial Companies Code. In this light, Caixa Central has adopted the German model, with a General and Supervisory Board, a Chartered Accountant and an Executive Board of Directors, as well as a Board of the General Meeting and an Advisory Board, where this last Board is of an advisory and non-executive nature.

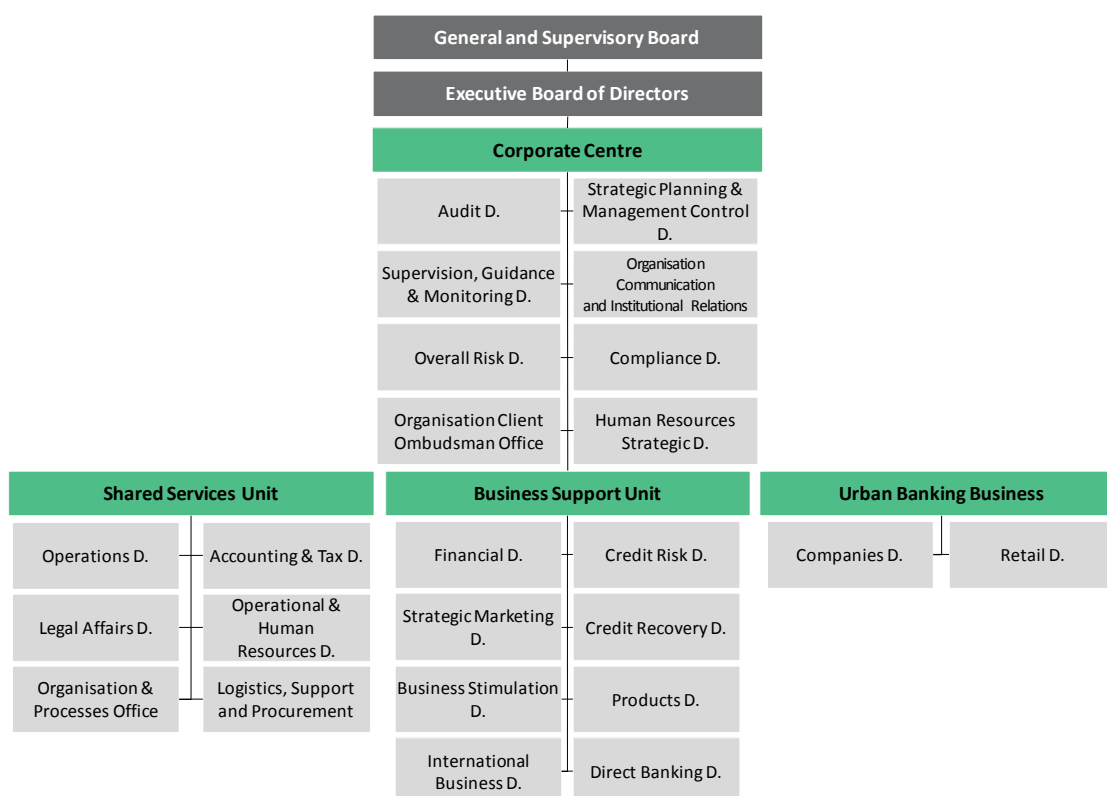
The Board of the General Meeting, the General and Supervisory Board and the Advisory Board are exclusively composed of Associates of Caixa Central (the current 82 Caixas Agrícolas which appoint natural persons performing duties in their own name) elected at the General Meeting. Each Associated Caixa Agrícola may only belong to a governing body through its representatives, and cannot, therefore, accumulate duties in more than one body.

Following the recent statutory review, the Executive Board of Directors is elected at the General Meeting, being composed of natural persons, Associates or not of the Caixas Agrícolas and related or not to Grupo Crédito Agrícola.

BOARD OF THE GENERAL MEETING	GENERAL AND SUPERVISORY BOARD	ADVISORY BOARD	CHARTERED ACCOUNTANT	EXECUTIVE BOARD OF DIRECTORS
Chairman <b>Nuno Carlos Ferreira Carrilho</b> CCAM Terras de Viriato	Chairman <b>Carlos Alberto Courelas</b> CCAM Pombal	Chairman <b>Hélio José de Lemos Rosa</b> CCAM Alenquer	PricewaterhouseCoopers & Associados – SROC, Lda represented by: Aurélio Adriano Rangel Amado	Chairman <b>Licínio Manuel Prata Pina</b>
Deputy Chairman <b>Josué Cândido Ferreira dos Cantos</b> CCAM Ferreira do Alentejo	<b>Francisco Amâncio Oliveira Macedo</b> CCAM Azores	<b>José Luís Tirapicos Nunes</b> CCAM Alentejo Central		Member <b>Renato Manuel Ferreira Feitor</b>
Secretary <b>Carlos Alberto Samora Bitoque Vargas Mogo</b> CCAM São Bartolomeu de Messines e São Marcos da Serra	<b>Alcino Pinto dos Santos Sanfins</b> CCAM Alto Douro	<b>José Lopes Gonçalves Barbosa</b> CCAM Alto Cávado e Basto		Member <b>José Fernando Maia Alexandre</b>
	<b>António João Mota Cachulo da Trindade</b> CCAM Baixo Mondego	<b>Normando António Gil Xarepe</b> CCAM Extremoz, Monforte e Arronches		Member <b>Ana Paula Raposo Ramos Freitas</b>
	<b>Afonso de Sousa Marto</b> CCAM Batalha	<b>António Germano Fernandes de Sá e Abreu</b> CCAM Médio Ave		Member <b>Sérgio Manuel Raposo Frade</b>
	<b>Orlando José Matos Felicíssimo</b> CCAM Aljustrel e Almodôvar	<b>João Nascimento Canas Guerra</b> CCAM Nordeste Alentejano		
	<b>José Gonçalves Correia da Silva</b> CCAM Noroeste	<b>António Francisco Coelho Pinheiro</b> CCAM Paredes		
	<b>Artur Teixeira de Faria</b> CCAM Terras do Sousa, Ave, Basto e Tâmega	<b>José Manuel Guerreiro Esteveira Gonçalves</b> CCAM Silves		
	<b>Magda Cristina Batista Antunes Santolini</b> CCAM Zona do Pinhal	<b>Francisco Eduardo das Neves Rebelo</b> CCAM Vale do Távora e Douro		
		<b>Adriano Augusto Diegues</b> <i>By inference, pursuant to number 2 of article 35 of the Statutes of Caixa Central.</i>		



## b) Functional organisation of Caixa Central



The organisational chart of Caixa Central, derived from the process of internal reorganisation in line with the vision established in the Programme of Transformation of Grupo Crédito Agrícola, reflects its 4 essential functions:

- Corporate Centre (including the duties of planning, monitoring, control and supervision of SICAM), Shared Service Unit (which, in a more encompassing perspective, includes the sphere of action of the companies CA Serviços, CA Informática and CA Imóveis), Business Support Unit (including the treasury management of SICAM) and Urban Banking Business of Caixa Central (retail/branches and corporate).
- The Corporate Centre aggregates the structures supporting the definition of the Group's policies, strategy, the implementation of risk control and management, and the supervision of the technical, financial and administrative aspects of the organisation and management of the Associated Caixas. When necessary, this also includes intervention in their management to correct any imbalances of financial, governance or other nature which occur or are at risk of occurring.
- Recognising the importance of the existence of an appropriate and efficient internal control system, to assure effective compliance with the legal and regulatory obligations and all other duties to which Grupo Crédito Agrícola is subject, the Compliance, Risk Management and Audit structures have progressively become control functions of the entire Group. At the same time, the Supervision, Guidance and Monitoring structure performs the duties of control, supervision, guidance and monitoring of the Caixas Agrícolas, at a local level and systematically.

## c) Governing bodies and executive and non-executive forums of the Group

Apart from the Governing Bodies of Caixa Central, the governance of Grupo Crédito Agrícola is also complemented by forums composed of members representing the Associated Caixas and companies of the Group.

<b>Executive Forums of the Group</b>	
<b>General Meeting of the CA Group</b>	min ≥ 2 x year
<b>Programme Management Committees</b>	monthly
<b>Asset and Liability Committee (ALCO)</b>	monthly
<b>IS/IT (Business &amp; TI) Committees</b>	monthly
<b>Credit Boards</b>	weekly
<b>Recovery Boards</b>	weekly
<b>Executive Board of Directors</b>	weekly
<b>Non-Executive Forums (not exhaustive)</b>	
<b>Strategic Board</b>	monthly
<b>Commercial &amp; Marketing Committee</b>	quarterly
<b>Credit Recovery Committee</b>	quarterly
<b>Risk Management Committee</b>	quarterly
<b>Costs &amp; Efficiency Committee</b>	quarterly
<b>HR Committee</b>	quarterly
<b>IS/IT Committee</b>	quarterly
<b>Business Continuity Plan Committee</b>	six-monthly
<b>Internal Control Committee</b>	six-monthly
<b>Technical Audit Commission</b>	quarterly

## d) Internal control functions of the Group

### i. Compliance and internal control

The mission of the Compliance function, as an integral part of the Internal Control System and responsible for Compliance Risk Management, is to assure, together with all the other controls areas, the adequacy, strengthening and operation of the Internal Control System. Its objective is to mitigate risks according to the complexity of its business and disseminate the control culture so as to assure compliance with the existing laws and regulations, aimed at minimising the risk of incurring legal or regulatory, financial or reputation penalties.

The organisational model defined for this function at Grupo Crédito Agrícola (GCA) is based on a corporate logic where Caixa Central assumes the leadership. In this model, Caixa Central undertakes and centralises a significant part of the activities (with respect to SICAM), with the rest of the Group's members being entrusted to assure specific activities, with support of the specialised structural body created at Caixa Central.

This structure coordinates the tasks for which it is responsible, concerning Compliance risk management and control at the group, with the Compliance Monitors of the Caixas de Crédito

Agrícola and companies of the Group, who are essential links in the development of the compliance culture and improvement of the Internal Control System. This coordination and organisation enables the adoption of uniform practices with regard to the identification, interpretation and implementation of legal and regulatory requirements and appropriate follow-up and monitoring of the identified risks.

## ii. Risk management

Risk management constitutes a priority axis of action for Caixa Central and Group Crédito Agrícola, in recognition of its decisive impact on the creation of value. Risk management thus seeks to develop and support, in an overall and integrated manner, the definition of the strategy and policies on risk and capital management, assuring their compliance and appropriate organisational capacity through the implementation of methodologies, procedures and tools that assure the determination and planning of capital and the identification, measurement and control of a diversity of risks. The activities developed in this area place the function as an internal control body, involving the coordination of the targeted matters with the different specialised organisational units, in particular, credit, liquidity, interest rate, market and operational risks, and also seek to foster relations with the regulatory entities.

Recognising that risk management is an important factor of stability, Caixa Central and the Group are engaged in the ongoing development, in all areas, of a significant number of initiatives that include strong articulation with technological aspects and require the development of internal competencies and specific skills, in order to endow the Group with sufficient capacity for the challenges arising from a regulatory framework whose frequency of updating has been particularly accentuated in the recent past. Added to this, is the effort required from the banking system by the planning and control requirements in terms of liquidity and solvency levels. At the same time, Caixa Central and the Grupo aim to continue to develop the necessary conditions for the affirmation a true risk culture based on ethical values and high professional standards.

In line with these objectives, the business strategy that has been pursued seeks to assure the balanced and sustained development of the Group and places particular emphasis on risk control, defining measurable goals that it intends to assume alongside the desired profitability which is subordinated to the limitation of risks. The overall risk strategy defines objectives relative to quality, profitability, allocation of own funds and development of the credit portfolio, financial assets and securities. These objectives are monitored regularly as a basis for support to the review or updating of the pursued strategy.

The activities and measures associated to risk management have continued to be greatly directed at actions related to reporting of accounting and prudential nature based on the information models that have enabled harmonising and assuring the comparability of information in a European context on the net worth and risks of Financial Institutions, as well as on the work associated to alignment with the International Accounting Standards (NIC) pursuant to the publication of Banco de Portugal Notice 5/2015.

### **iii. Internal auditing**

The regulatory principles and rules established in Banco de Portugal Notice 5/2008 and in the Guidelines of the European Banking Authority on the Internal Governance of Institutions (EBA GL44) confer the internal audit area of Caixa Central, as the third line of defence in the internal control of SICAM, the responsibility of coordinating, controlling and monitoring the audit activity developed at the Associated Caixas. The common procedures, work methodologies and assessment criteria established centrally by the Audit area of Caixa Central assure the quality, sufficiency and coverage of the year of the local function, ensuring that the audit activity developed by the Associated Caixas Associadas contributes in an effective manner to the improvement and strengthening of the internal control function of SICAM.

At Caixa Central, the Audit area constitutes an autonomous and independent technical structure of control which supports the Board of Directors in improving the internal control system and helps the operational managers in fulfilling the established overall objectives. Its mission includes the assessment of the information systems, the compliance of processes and the adequacy of the human, material and technological resources, as well as the provision of internal audit services to the Associated Caixas and participated companies that decide to subcontract the function from Caixa Central.

The audit activities developed at Caixa Central primarily refer to the Plan of Audit Activities proposed to the Associated Caixas, and incorporate a series of specific exercises to assess the processes, procedures and controls derived from the regulatory and operating framework of Caixa Central at SICAM. This work has enabled investigating and supporting the main risks associated to the functional areas analysed, and recognising the effectiveness and adequacy of the instituted controls, in view of the rules and procedures in force and best banking practices.

Concerning work tools, the evolutive maintenance of the AUDIT application has sought to address the need to systematise audit work processes, with special emphasis on the management and monitoring of the process of correction of flaws detected during auditing.

### **iv. Supervision, guidance and monitoring of the Associated Caixas**

In 2016, the priority of the supervisory activity consisted of the opportune and systematic monitoring of the evolution of the Caixas Agrícolas. This enabled assuring an adequate and effective level of control, procedures that safeguard the timely detection of any insufficiencies and enable rapid intervention in the adoption of the necessary initiatives to remedy them.

In addition to the regular work established in the Work Programmes, which involved the treatment of the warnings emerging from the SIGA Application, the monthly analysis of the annulments of provisions carried out by the CCAM, the preparation of Detailed Reports on Remote Intervention, Monitoring and Control, and the issue of diverse opinions requested by the Caixas Agrícolas, the implementation of 16 Recovery Plans was also monitored, with these plans being aimed at the restoration of positive operating conditions on a sustainable basis.

Also in the context of supervision and support to the Associated Caixas, all the necessary assistance was given for the preparation of the merger of the CCAM of Alcobaça and Cartaxo, and of the CCAM of Pernes and Alcanhões. This support to the 4 CCAM which were part of these merger procedures, whose proposals had already been deliberated at the respective General Meetings, involved the preparation of the special projects for registration at the commercial registry offices, as well as the draft statutory amendments and redefinition of new organisational structures.

The alterations introduced by Decree-Law 157/2014, of the Legal Framework of Credit Institutions and Financial Companies (RGICSF) led to the overall review of the practices in force at SICAM concerning the Policy of Assessment, Adequacy and Selection of Management and Supervisory Bodies. These alterations gave rise to a total increase in the requirements of the banking and financial sector in relation to the persons responsible for the administration and supervision of institutions, establishing a series of standards and requirements on matters of suitability, qualification, professional experience, independence and availability relative to the adequacy of the holders of management and supervisory positions.

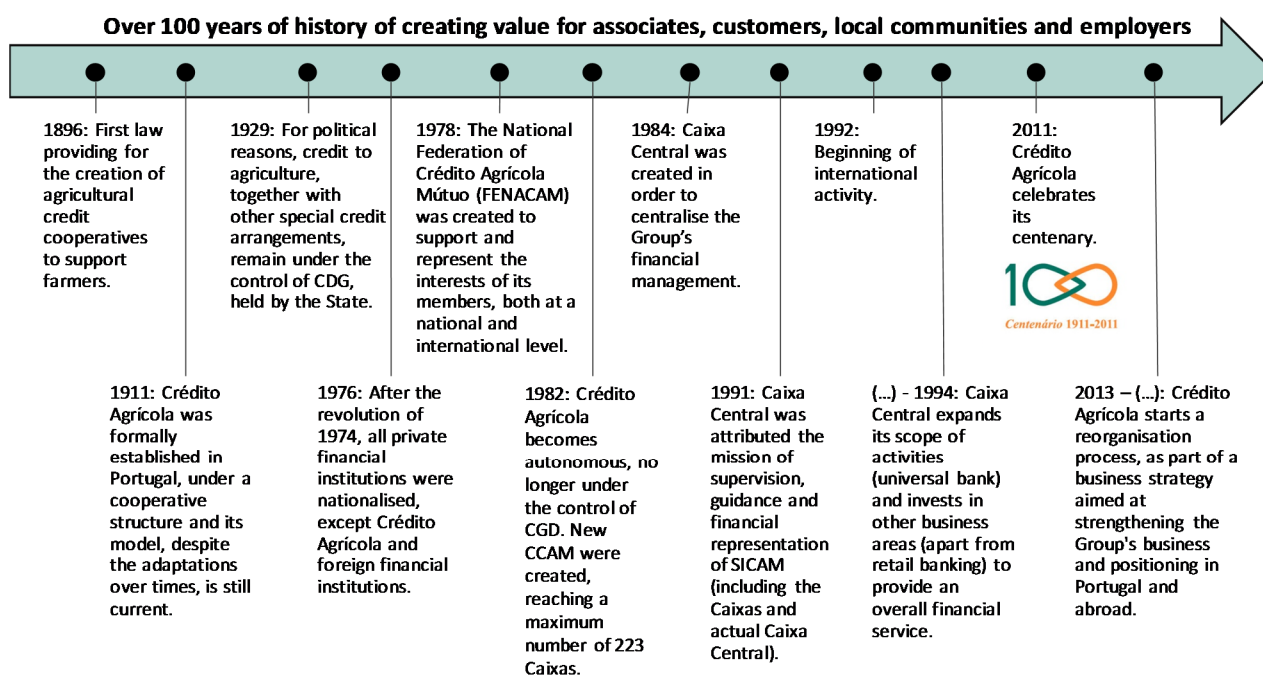
In view of the end of the term of office of the members of the governing bodies of most of the CCAM at the end of 2015, a working party was created with competence in the legal and human resources areas, with the establishment and approval at the General Meeting of an internal policy of selection and assessment of the adequacy of the members of the management and supervisory bodies (PISAA) and a Single Adequacy Assessment Model for the entire SICAM.

The year of 2016 was marked by the continued activity of the Assessment Committees at the CCAM, responsible for verification of the individual adequacy and collective assessment of the management and supervisory bodies of the CCAM, with the active participation of Caixa Central in the majority of these committees. In terms of Caixa Central, in the context of the process of authorisation for the performance of duties of the members of the management and supervisory bodies and under the terms and for the effects of the provisions in numbers 3 to 5 of article 10 of the RJCAM, Caixa Central analysed and prepared opinions on all the requests for registration at Banco de Portugal of the members of the management and supervisory bodies.

## 1.3 VISION, MISSION, VALUES AND STRATEGIES OF THE GROUP

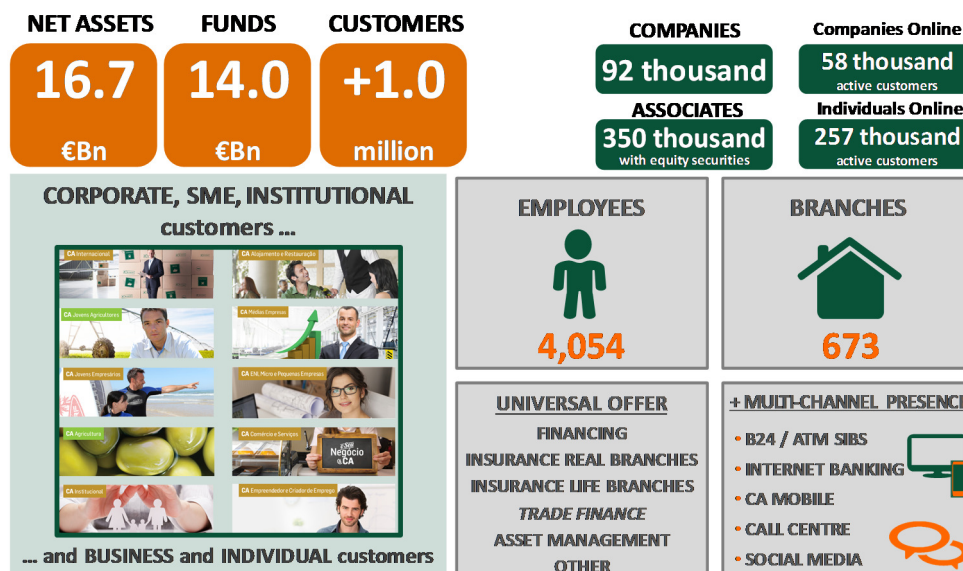
### a) Historic milestones

In Portugal, cooperative banking is represented by Grupo Crédito Agrícola with its remarkable secular history of contributing to the national society and economy, and which renews itself daily, rising to fulfil its mission of contributing to the development of local communities and to the Portuguese diaspora.



### b) Grupo Crédito Agrícola in 2016

Crédito Agrícola is a financial group with a universal offer representing around 16.7 billion euros of net assets, 14 billion euros of customer funds and a base of close to 1 million customers. With a net worth of approximately 1.23 thousand million, the Group interacts with its Customers and Associates through its 673 branches spread all over the country (which assure the Group a top positioning in terms of physical presence through bank branches) and its offer of non-presential and digital channels.



## c) Mission, Vision and Values of Grupo Crédito Agrícola

Being a cooperative-based and centenary Group and not being subject to the regulations and pressure of the capital markets, Crédito Agrícola focuses on a strategy of reinvestment of its generated net income and maximisation of value in the long term.

### Mission and Vision of the CA Group

Grupo Crédito Agrícola (and its Associated Caixas) aims to be:

#### Mission

The engine driving the development of local communities through relations of proximity with customers, contributing to the accomplishment of their ambitions and financial projects; and

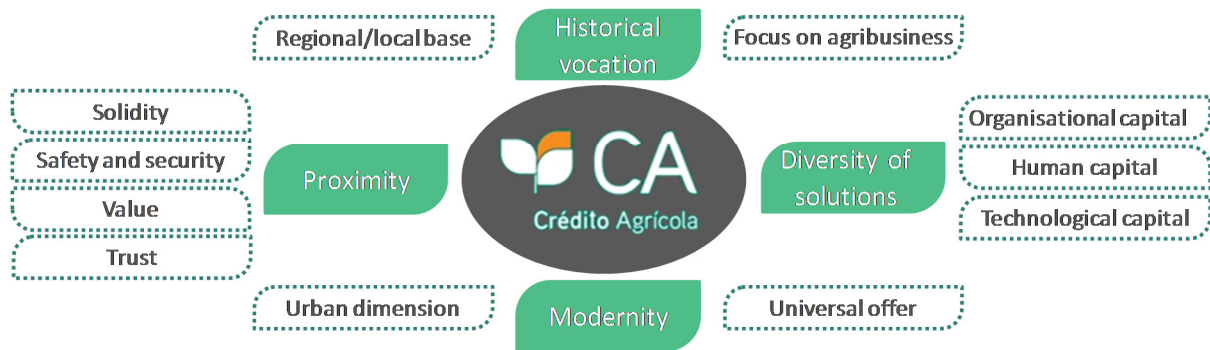
#### Vision

Recognised as the “Best Financial Group” in the markets in which it operates.

Grupo Crédito Agrícola concentrates on relations of proximity to meet the ambitions and financial projects of its customers and communities, being distinguished from the competition by reinvesting the profit created by each Associated Caixa in the actual region (the cases of distribution of net income is insignificant). This reinvestment is accomplished by investing the captured deposits in funding projects of the region of these depositors, by contributing the lower the unemployment levels of the regions where it operates (local recruitment) and by decentralising decision-making on loans taking into account the limits of exposure and policies of the Group in force.

The origin of the principles of solidarity and social responsibility of Grupo Crédito Agrícola, which guide its mission and values, go back to the fifteenth century, to the time of the foundation of the Santas Casas da Misericórdia in Portugal. These entities were pioneer in granting credit to farmers, from the middle of the eighteenth century, launching the bases to create the Caixas de Crédito Agrícola Mútuo. This system evolved continuously over the centuries, becoming increasingly important in the country's social and economic fabric, leading to its current legal and prudential framework and to its notable progress on matters of corporate governance and integration.

## Values of the CA Group



### d) Principles of strengthening of sustainability

In order to maintain the sustainability of the current business model, GCA has clearly demonstrated its capacity to adapt to change and respond with flexibility, standing on equal terms with the largest banks of the national banking system.

#### Guiding principles for the sustainability of the business model of CA

- **Monitoring of social trends on urbanisation and electronic recording.**
- **Modernisation of the brand** by fostering the brand's evolution to a concept of **universal bank**.
- **Driving the entire organisation towards knowing the Customer.**
- Maintenance and **encouragement of a discipline of rigour and cost containment.**
- Fostering a **culture of careful and strict appraisal of credit risk-taking.**



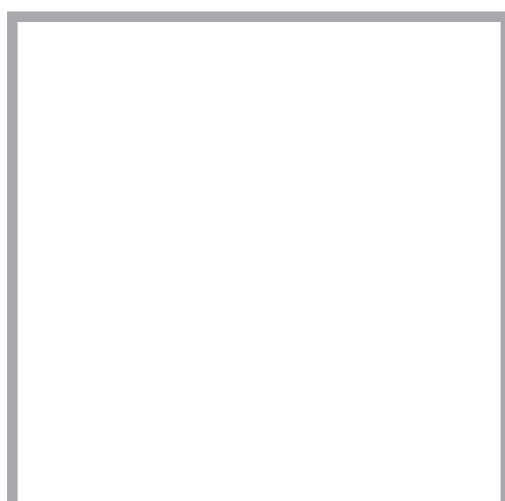
## e) Integrated marketing and commercial strategy (bancassurance)

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With the definition of a common strategy focused on the Customer and with the support of the senior management, Crédito Agrícola has reaped the benefits of its implementation of an integrated management of the banking business, insurance activity and asset management, which involves:

- Definition of commercial objectives aimed at focusing the branch network on the most profitable and binding segments/products (common strategy);
- Budgeting and attribution of incentives to the commercial staff of the branches so as to stimulate individual performance in compliance with the Group's objectives;
- Planning and accomplishment of campaigns, protocols and other marketing actions aimed at customer segments;
- Investment in tools to simplify the process of commercial interaction;
- Implementation of training cycles formatted according to the outcome of individual assessment of knowledge;
- Regular monitoring in the field of compliance with objectives;
- Preparation of commercial visits to customers and non-customers (when necessary, with the support of product specialists).

The transformation programme successfully focused the marketing and commercial strategy on a group model (banking-insurance). With these new dynamics, the insurance and asset management activities have been able to increase their participation in the generation of value for the Group.



2

Crédito Agrícola  
responsible  
banking model

## II. RESPONSIBLE BANKING MODEL OF CRÉDITO AGRÍCOLA

The cooperative foundations of Crédito Agrícola give rise to a governance model and an organisational structure that is very differentiated from traditional banking, with 82 Caixas de Crédito Agrícola dedicated to promoting the economic development and well-being of the communities of each of the regions in which they are implanted. Throughout this chapter we disclose a summary of the sustainability initiatives implemented in 2016 among the main stakeholders: Customers, Local Communities, Suppliers and Employees. More detailed information can be consulted in the sustainability report available at the website of the CA Group.

### 2.1 RESPONSIBILITY TO CUSTOMERS

#### a) Products with Social and Environmental Benefits

The commitment to sustainability at the CA Group is reflected in the provision of an offer of financial services inducing a series of social and environmental benefits. The sustainable offer for business customers, fostering the development of the Portuguese business fabric and, consequently, employability included, in 2016, financing lines for micro and small enterprises, for companies of strategic sectors of the Portuguese economy and support to microcredit projects. This also covers financing of renewable energy projects, namely wind and solar power energy enterprises.

CA Sustainable Offer for Business Customers	Value of financing in 2015	Value of financing in 2016
Support to the competitiveness of micro and small enterprises (million euros)	903	979
Support to companies of strategic sectors of the Portuguese economy (million euros)	443	450
Microcredit (thousand euros)	888	720
Credit for renewable energy (thousand euros)	7,077	242

In the individuals segment, the offer of products provided by CA promotes financial inclusion, eco-credit and support to education. CA also offers solutions boosting the creation of saving habits at a household level, in a perspective of responsible financial management.

CA Sustainable Offer for Individual Customers	Value in 2015	Value in 2016
Financial Inclusion (# minimum banking service accounts)	321	329
Eco-credit (thousand euros)	73	94
Support to Education (thousand euros)	1,828	735

### Campaign of Adherence to the Internet Banking Service

In 2016, Crédito Agrícola launched a campaign which awarded Individual Customers who joined the internet banking service with digital documentation, with a weekly lottery of an iPhone 6s and the offer of the first annuity of the insurance CA Family Civil Liability. This campaign promoted the reduction of paper consumption and the costs associated to this resource, simultaneously contributing to the preservation of the environment.

### b) Measures implemented to foster competitiveness and entrepreneurial action

In 2016, Crédito Agrícola continued to promote a series of initiatives to foster competitiveness and entrepreneurship. It is important to highlight, due to the role they have played in the Group's history, the protocols with business associations, namely those of the main economic sectors comprising CA's credit portfolio, which attribute special conditions for subscription of financial products and services to their associates/members. In 2016, CA increased the number of new protocols in relation to the previous year, to a total of 5, also having renewed 12 protocols with institutions of various economic sectors.

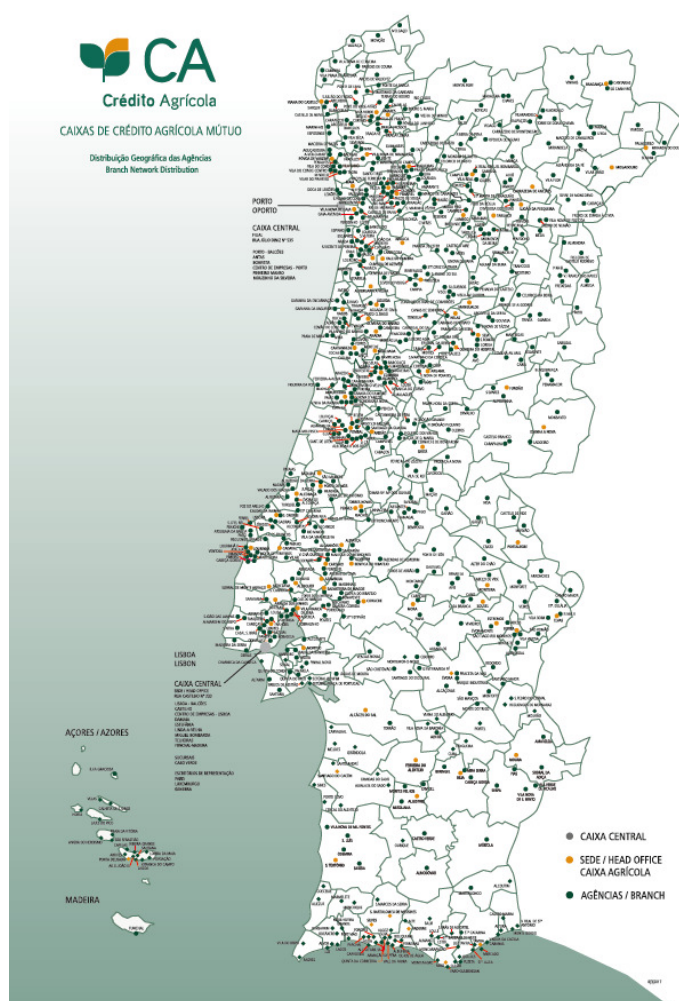
Protocols with Business Associations (#)	2015	2016
New Protocols	4	5
Renewal of Protocols	5	12

## Protocol with ANDC to promote financial inclusion

In 2016, Crédito Agrícola and the National Association of Right to Credit (ANDC) signed a protocol aimed at creating conditions for access to microcredit for persons wishing to start a small business, a micro enterprise or create their own employment, but who do not meet the conditions for access to commercial bank credit. This involves microcredit exempt from bank commissions and which does not require asset-backed guarantees, with an available financing amount of between 1,000 euros and 15,000 euros, including a initial period of use of the credit and/or grace of the principal of up to 3 months. Designed to support small-scale projects of economic nature, this financing is intended for citizens facing economic difficulties or integration or social integration needs, namely persons in situations of unemployment, or with employment but without capacity to use bank credit of the conventional type, and who cannot offer asset-backed guarantees, but who have active capacity to create and/or promote small businesses and their own job or commercial activity.

## c) Map of branches and ATM

In 2016, CA offered its Customers a network of 673 Branches, the largest network of branches in the Portuguese market.



### Crédito Agrícola

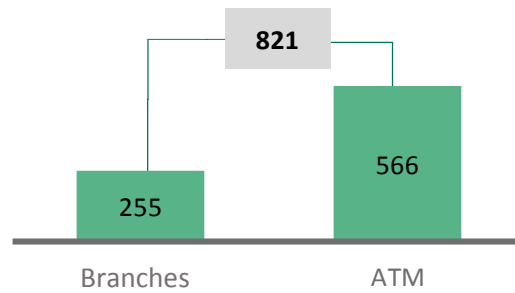
#### *A Private Bank with Public Functions*

With the largest network of branches in the country, marked by high capillarity and interior penetration, Crédito Agrícola continued, in 2016, to assure accessibility to financial services in locations that are more economically disfavoured and with lower population density.

The objective has been to maintain the maximum number of branches open, albeit with occasional adjustments and closing unprofitable branches, but opening others in new locations in which Crédito Agrícola is not present and that, in some cases, are abandoned by other competitive institutions.

For example, in October 2016, a new branch was inaugurated in Funchal which primarily aims to boost the economic growth of the Autonomous Region of Madeira and contribute to the well-being of its population.

### Map of Branches and ATM at locations where no others exist



In 2016, the number of ATM and Branches in localities where there is no other stood at 821 units.

## d) Relations of trust with customers

### Market Recognition

In 2016, Crédito Agrícola won the Five Star Award, in the “Banking - Customer Attendance” category, for the second consecutive year. CA was classified by the Portuguese as “very good” in Customer attendance. The study, developed in three phases – assessment committee, experimentation tests and assessment questionnaires to 1000 Portuguese – concludes that consumers are very satisfied with CA and that they recommend and trust the brand. This award reflects the culture of proximity that Crédito Agrícola has developed among the communities in which it operates, one of the distinctive features of the financial institution and which seeks to foster regional socioeconomic development.



SERVICE  
THE CONSUMERS' AWARD  
2016  
BANKING – CUSTOMER  
SERVICE

The satisfaction of CA’s Customers was also demonstrated in a study by Marktest, of the first four months of the year, where Crédito Agrícola showed an index of satisfaction with the quality of the attendance (on a scale of 0 to 100) of 89.7, compared to a sector average of 83.6 points. CA recorded an index of satisfaction with the quality of its financial products of 81.7 points, compared to the sector average of 74. The overall satisfaction index stood at 85.8 points, 7.5 higher than the sector average.

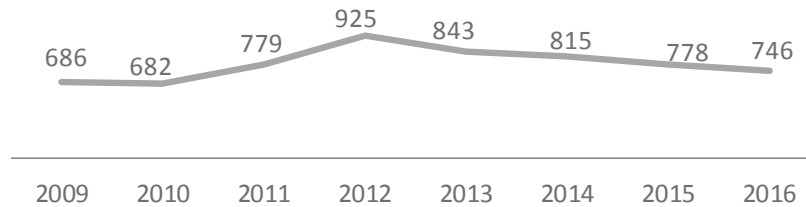
	Attendance Quality		Products Quality		Overall Satisfaction		Recommendation	
	CA	Sector	CA	Sector	CA	Sector	CA	Sector
Satisfaction Index (scale of 0 to 100)	89.7	83.6	81.7	74.0	85.8	78.3	85.6	77.2
Score Like NPS	70.2	45.8	36.9	10.3	54.5	26.1	54.3	27.1

The Marktest study indicates that CA’s recommendation level is 85.6 points, above the sector average of 77.2, with the net promotion score (NPS) being 54,3 (i.e. very good on a scale of poor to excellent).

## Complaints

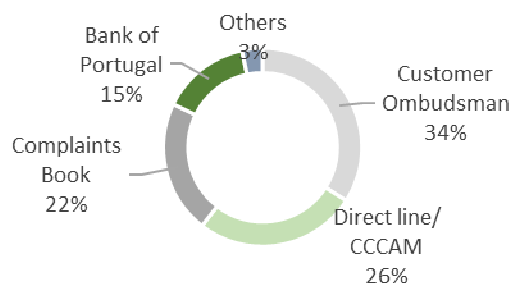
During 2016, there were 746 complaints recorded in the CA GPS application, representing a 4% decrease in relation to the previous year. This illustrates, therefore, the continued downward trend of complaints since 2012.

Evolution of the number of complaints



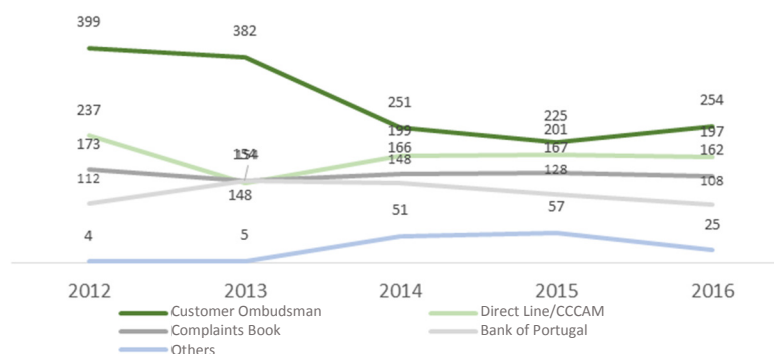
In 2016 the channel used most was the Office of the Customer Ombudsman, with 34%, followed by the Direct Line of Caixa Central, with 26%.

Origin of the Complaints in 2016



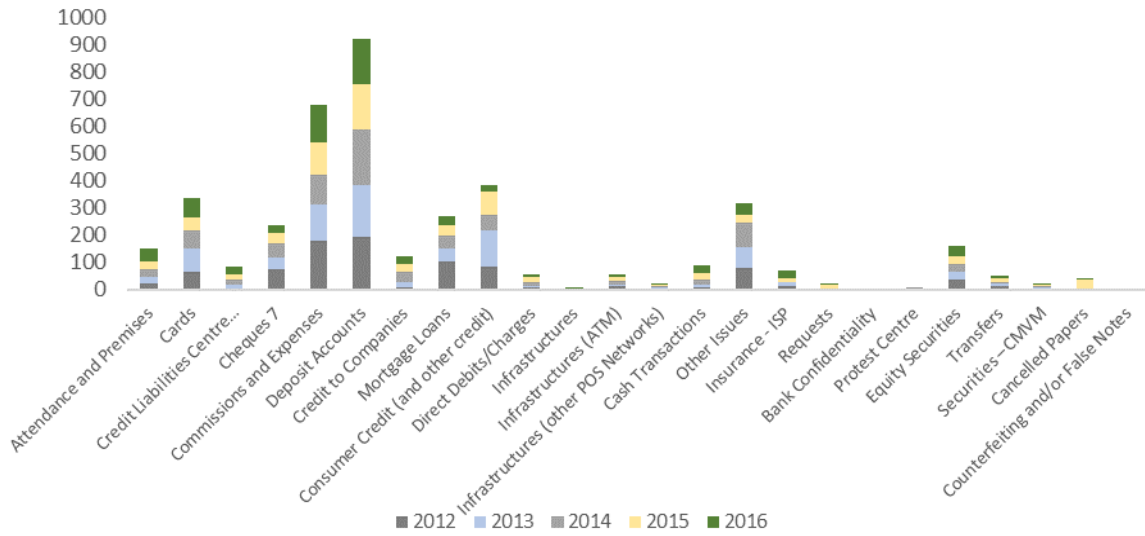
With respect to the distribution of complaints by entry channel, the Office of the Customer Ombudsman continues to be the channel that is most used, followed by the Direct Line of Caixa Central.

Evolution of the Origin of the Complaints



Analysis of the distribution of the topics of the claims indicates that the patterns of previous years were maintained in 2016, with “commissions and expenses” and “deposit accounts” being the priority topics, accounting for 18% and 22% of the total complaints received.

## Subjects of the Complaints

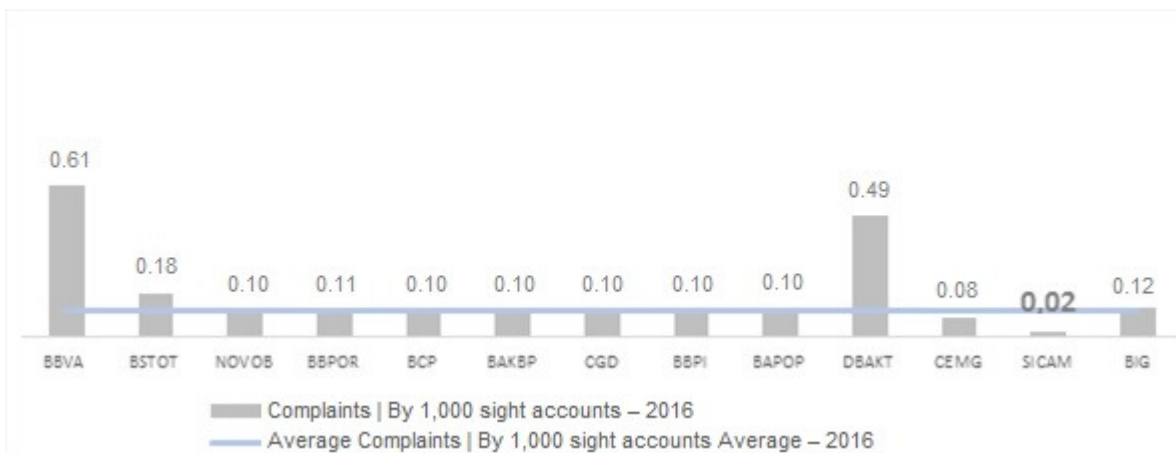


It should also be noted that 7 requests were received in 2016 from DECO aimed at providing Customer support, a figure that has fallen in relation to the previous year.

Source	Number of Requests in 2015	Number of Requests in 2016
DECO	11	7

Analysing the data of the financial sector included in the Behavioural Supervision Report relative to 2016 and published by Banco de Portugal, Crédito Agrícola (SICAM) is the institution least complained about at Banco de Portugal with respect to demand deposit accounts, having recorded a value of 0.02 per 1,000 demand deposit accounts, a figure greatly below the sector average of 0.11.

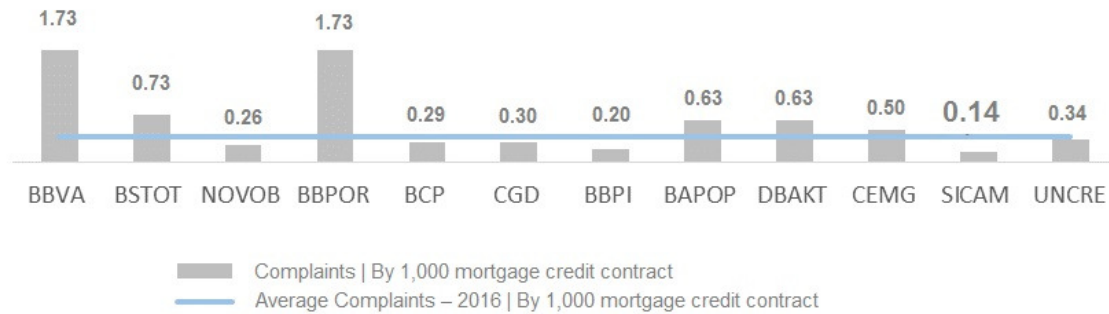
## Number of Complaints per 1,000 demand deposit accounts





Crédito Agrícola's performance is also the best of its sector with regard to the number of complaints per 1,000 mortgage loan contracts received in 2016 by Banco de Portugal, which has a performance of 0.14, below the average of 0.38.

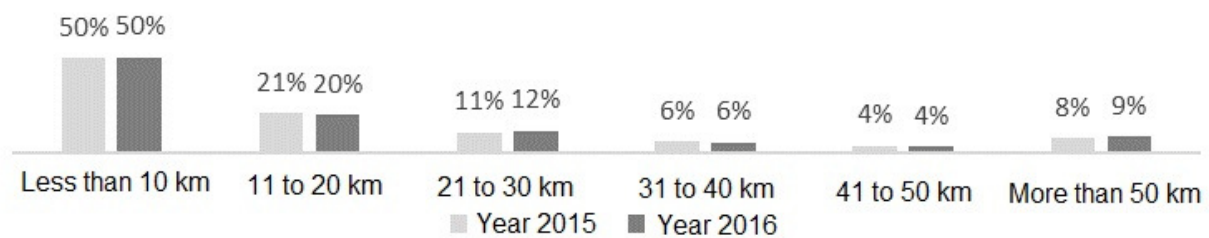
### Number of Complaints per 1,000 mortgage loan contracts



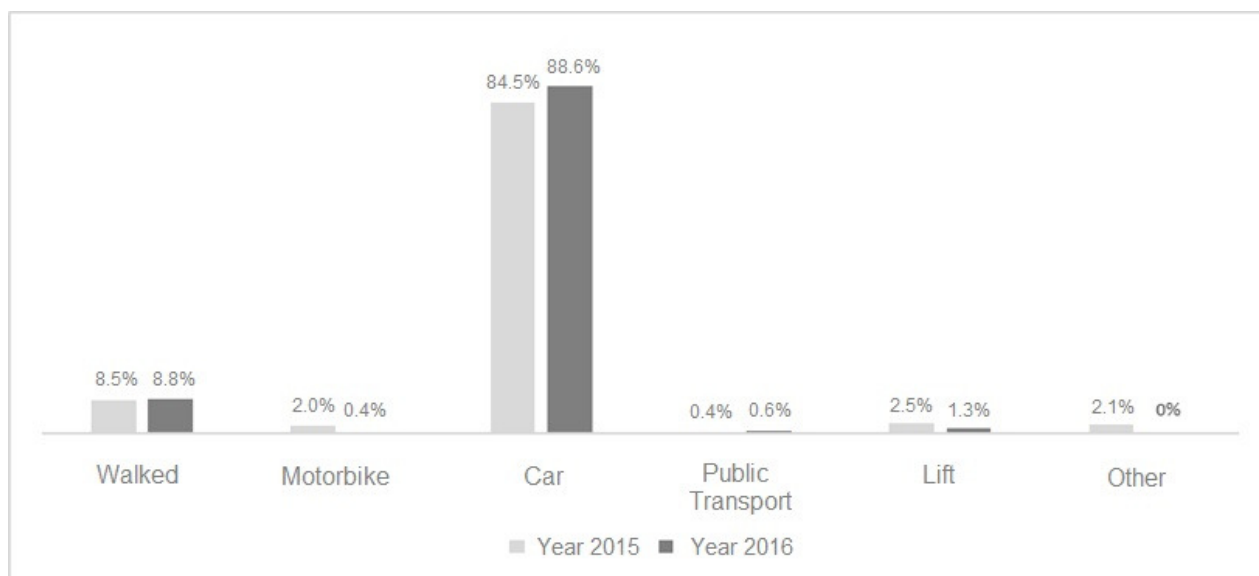
### e) Local employability

One of the impacts of CA's organisational structure is the creation of direct employment, especially in the interior and rural areas of the country. Of the total employees of the CCAM, 50% travel less than 10 km in their home-work-home journey and 8.8% of the employees of the Caixas walk from home to work and back.

### Home-work-home distance travelled by CCAM employees



## Means of transport used by CCAM employees



## f) Suppliers

The acquisition of products and services from local suppliers is an important indicator of sustainability. Not only because it reduces environmental impacts, namely the energy costs associated to the transport of goods or persons, but also due to its stimulation of the local economy, with the creation of employment and, consequently, the well-being of the community of each region. In 2016, 55% of the multi-annual contracts of the Caixas were concluded with local suppliers, where this figure excludes utility suppliers of electricity, water and gas. 24% of the value of the purchases in 2016 by the Caixas were made to local suppliers<sup>2</sup>.

## g) Mutual assistance in development

As a partner of local economic development, during 2016, CA continued to invest in a series of activities fostering entrepreneurial action and stimulating strategic economic sectors of the country's economy and financial system. Due to CA's support/sponsorship, in addition to enabling the holding of fairs and seminars that have played an important role in the dissemination of innovations, the debate of future opportunities and the promotion of the network between the key players 2016 was marked by the third edition of the CA Entrepreneurship and Innovation Award, accompanied by a new cycle of seminars dedicated to the agricultural, agri-industrial, forestry and sea sectors, and the "III Crédito Agrícola Wine Competition". As a whole, these initiatives embody CA's Sustainability Policy on matters of mutual assistance towards development.

<sup>2</sup> The information relative to local purchases covers 76% of CCAM for the number of multi-annual local contracts and 66% of CCAM for the indicator value of acquisitions from local suppliers.

## Cycle of Seminars on Innovation in “Agriculture, Agri-Industry, Forestry and Sea”

In partnership with Inovisa, the coordinating entity of the Inovar network, in 2016 CA continued to promote this cycle of seminars, fostering the debate and sharing of knowledge on the culture of innovation in strategic sectors of the Portuguese economy: agriculture, agri-industry, forestry and the sea. Directed at entrepreneurs, farmers, producers, associative structures and entities of the scientific and technological system, the 6 debates held in 2016 constituted a space of sharing on the future opportunities of these sectors, promoting entrepreneurship based on innovation.

Cycle of Seminars on Innovation in “Agriculture, Agri-Industry, Forestry and Sea”		
Indicators	2015	2016
Number of seminars held	6	6
Number of seminars held outside Lisbon and Porto	4	4
Participants	1,042	1,100
Speakers	70	53
Success cases/ participant companies	7	16
Work sessions with entrepreneurs	7	n.a.

## Crédito Agrícola Innovation Award – Agriculture, Agri-Industry, Forestry and Sea

The objective of the Crédito Agrícola Entrepreneurship and Innovation Award is to recognise merit and excellence, contributing in an effective manner, to the dissemination of a culture of entrepreneurial action and innovation in the agricultural, agri-industrial, forestry and sea sectors.

The award, public and with enrolment free of charge, distinguishes innovative projects on products, processes or services that are directly or indirectly related to these sectors, in 6 major categories. In the edition of 2016, the following projects were the winners, which can be seen in further detail at <http://www.premioinovacao.pt/vencedores/>

Crédito Agrícola Innovation Award – Agriculture, Agri-Industry, Forestry and Sea	
Categories	Winning projects in 2016
Production and Manufacturing	Black Bock, hybrid solar system for drying aromatic herbs, fruit, mushrooms and cork
Marketing and Internationalisation	Reserve Lots, project of Cantinho das Aromáticas, developed in partnership with the Faculty of Science of Universidade do Porto. Consists of the selective harvesting of the tips of certain plants for infusions.
Research and Technological Development	Biosubstratpot, a 100% biodegradable growing medium /planting substrate that enablees using plastic vases in plant production.
Rural Development	Porta do Mezio, a tourist project which promotes Peneda Gerês National Park, enabling the organisation of activities and tourist programmes in collaboration with companies of this sector.
Young Rural Entrepreneur	Quinta da Fornalha

High Potential Project, promoted by CA associates	Wine-producing project of Ervideira, Vinho da Água
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The winning projects of each category were awarded a cash prize of the value of 5,000 euros, and preferential conditions in financing lines and other financial products/services of Crédito Agrícola. The honourable mentions were awarded 2,500 euros and special conditions in CA services. The process of selection of the project or company involves assessment based on criteria such as degree of innovation, relevance, technical and economic feasibility, market potential and sustainability.

<b>Crédito Agrícola Innovation Award – Agriculture, Agri-Industry, Forestry and Sea</b>		
<b>Indicators</b>	<b>2015</b>	<b>2016</b>
Candidatures received	102	72
Elements	15	14
Prizes	8	10
Investment in the attributed prizes (euros)	32,500	40,000
Financing with advantageous conditions for the winning projects (number)	5	10

## Wine Competition

CA promoted, in partnership with the Association of Wine Waiters of Portugal, the third edition of the “Crédito Agrícola Wine Competition”. With this competition, which puts the quality of national wines to the test, Crédito Agrícola aims to support the wine-producing sector and the development of local economies. Among the over 200 white, red and sparkling wines put to the test offered by 121 national producers of the country’s different wine-producing regions, the selection panel distinguished 62 wines with the Tasting Cup of the Wine Waiters of Portugal, 27 with gold medals and 35 with silver medals.

## Sponsorships and Support to Fairs

In 2016, Crédito Agrícola one again became a partner of a series of events that played an important role in the stimulation of the different lines of the primary sector and boosting of entrepreneurship. The relevance of the support given by Crédito Agrícola is also justified by the partnerships that have been established in these events over the years. In 2016, special reference is made to the sponsorships and support given to the following events:

<b>Main sponsorships and support to fairs</b>
Agribusiness
National Agricultural Fair
Ovibeja (Beja Sheep and Agricultural Fair)
Campo Pequeno Markets (Christmas, Gourmet and Wines)

Olive Oil Competitions
AGRO – International Fair of Agricultural, Livestock and Food
Portugal Agro
National Pig Fair
Fruit Attraction and Fruit Logistic

## 2.2 RESPONSIBILITY TO COMMUNITIES

CA's citizenship model is characterised by the surgical action of each CCAM in response to the main problems and challenges faced by each local community. This model therefore assures a differentiated intervention of more standard formats, ensuring that CA is an agent that contributes to the solving of specific problems and needs of the local community in which it develops its activity, in coordination with the main institutions of the local social fabric.

CA's social responsibility is focused on supporting initiatives and institutions which develop their activities in 5 areas: culture; sports; social solidarity, seniors and education. In view of CA's local intervention, a further 6th category is identified, referred to as "other" which, in 2016, was the most important in terms of the number of institutions supported. The types of support granted are classified as monetary donations and/or donations of goods and equipment.

Indicator of Social Responsibility with the Local Community in 2016	
2.5	Millions of euros invested in the community in social responsibility actions
2,943	Institutions supported
30%	Weight of the total value of investment in the cultural area
3	Number of foundations created to be used as vehicle institution of the support to the community

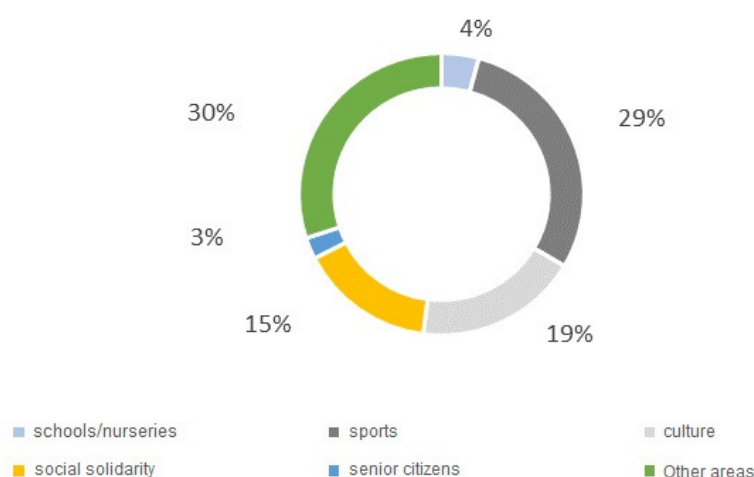
The investment in social responsibility in 2016 amounted to 2.5 million euros, 31% more than in 2015. This value includes donations and sponsorships.

### Investment in social responsibility in 2015 and 2016 (million euros)



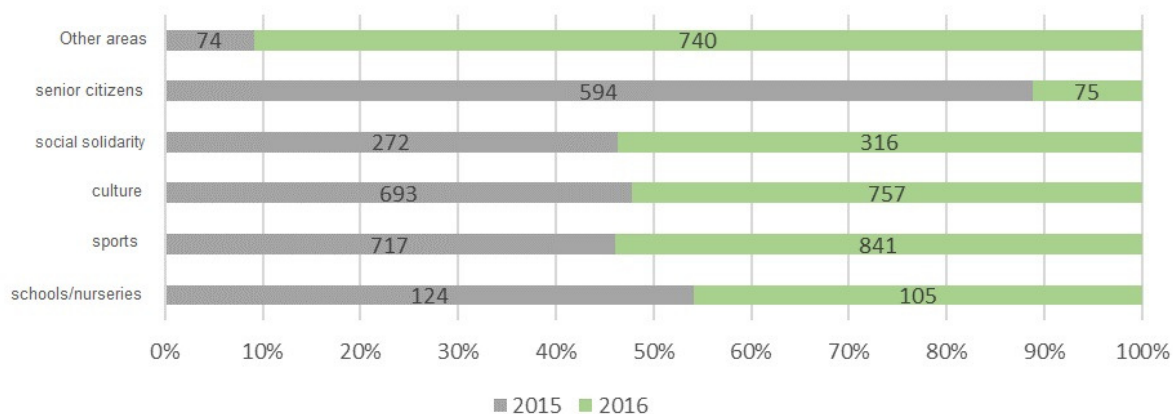
The distribution of CA's investment in social responsibility in 2016 remained similar to that of the previous year with the sports and cultural areas accounting for 29% and 19% of the total value. Not less important was the weight of the "other" category, which represents 30% of the total value of social investment, due to reflecting a social investment in specific causes and needs of each locality.

## Distribution of the investment in social responsibility in %



In 2016, a total of 2,834 institutions were supported, 15% more than in 2015. There was also a greater dispersion in the supported institutions (“other” category), reflecting the foundations of CA’s social support which guides its social action by response to the specific needs of each community. In the strategic areas of citizenship, the highest increase of the number of supported institutions occurred in the areas of sports and social solidarity, with 17% and 16% higher, respectively.

## Number of institutions supported in 2015 and 2016



## Culture

The CA Group supports cultural manifestations in various artistic and entertainment areas. Among the cultural initiatives supported in 2016, examples include:

- Customer sponsorship of CA Norte Alentejano, for the third consecutive year, of Crato Handicraft and Gastronomy Fair;
- Sponsorship of the 2016 edition of the Rádio Alfa Festival; and
- Support to the holding of Crato Festival by CA Norte Alentejano.

## Education

CA has performed an important role in attributing awards to students with the best school performance. These initiatives, which are held all over the country, are relevant as they encourage young people to pursue values that will determine the quality and well-being of their future life and that of the community in which they live.

- Under the Grade 20 Programme promoted for the entire CA Group, 120 students were awarded, from the 7th to the 12th year, for their achieved school grades. This initiative awards the 20 best students of each academic year with cash prizes between 100 and 1,000 euros, amounting to a total of 25 thousand euros, for deposit in saving accounts.
- In terms of the CCAM and for the fourth consecutive year, the Caixa Agrícola Foundation of the Northwest attributed, 5 Study Grants due to merit and economic vulnerability, of the value of 1000 euros each, to students of the district of Viana do Castelo and municipality of Barcelos.
- The CA of Coimbra gave prizes to the 20 most outstanding students of the Brilliant Minds project. This project, implemented under a protocol with the Foundation for Assistance, Development and Vocational Training, aims to enable the school community to have access to further education courses, in order to encourage the intellectual development of young people.
- The CA of Moravis sponsored the 6th River Museum Award – Young Scientist of the Year, which distinguished the researcher Rui Rivaes. The award was attributed in the context of the 9th anniversary of Mora River Museum, Europe's first major fresh water aquarium.
- The CA of Salvaterra de Magos awarded the best students of the science-humanities courses and vocational courses.
- CA Vale do Dão e Alto Vouga attributed the “CA Student of Excellence” award to the best students of each cycle, to the best vocational education student, of Mangualde School Group. Adapted sport practitioners were also distinguished.

## Sports

Supporting the values underlying sports and its associated well-being has been one of the hallmarks of CA's culture of responsibility. In this sphere, the Group has enabled various sports institutions to accomplish their mission, stimulating thousands of young people to actively participate in sports.

In 2016, the policy of continuing sponsorships in the following areas was maintained: off-road motorcycling, car racing, rally, cycling in various categories, among others. This policy of proximity which characterises the Group has also been applied in terms of the sponsorships and support granted at a national level, to the sports and socio/cultural sectors.

Main athletes/events/modalities of sports supported	
Motorcycling	Mário Patrão
Car racing	João Ruivo, Paulo Ramalho, Rui Ramalho and Rafael Lobato
Cycling	34th Round the Alentejo by Bicycle, Alcobaça Cycling Club
Surf and Bodyboard	Teresa Almeida, Kathleen Barrigão, Crédito Agrícola Junior Cup
Other sports	Triathlon, Kart Racing, Athletics

## Social Solidarity

Crédito Agrícola's support to initiatives of social nature is evident in the sample below. However, numerous other initiatives in this context are promoted by all the Caixas in view of their origin and close positioning among local populations.

- Support to the Mêda Voluntary Fire Brigade. Support for the acquisition of an ambulance, to assist in meeting local community needs offered by CA Douro e Coa.
- Donation for a new ambulance of the Estremoz Red Cross Delegation by the CA of Estremoz, Monforte e Arronches.
- Donation on the occasion of the one hundredth anniversary of the CCAM of Alcácer do Sal and Montemor-o-Novo, to two fire brigades.
- Donation to the local fire brigade by the CA of Albufeira.

## Other Support and Recognitions

### CA distinguished by Bucelas fire brigade

CA was distinguished by the Association of the Voluntary Fire-Fighters of Bucelas with the medal of distinctive services, Silver Degree, of the League of Portuguese Fire-Fighters. The distinction was attributed in gratitude for the collaboration of Caixa Central, through its temporary assignment of a warehouse in Bucelas, which it owns, during the remodelling works of the headquarters of this fire brigade.

### CA gives wings

The Foundation of Caixa Agrícola do Vale do Távora, in partnership with the local government of Moimenta da Beira and with Alvite Community Centre, financed the first aeroplane trip of a group of elderly people.

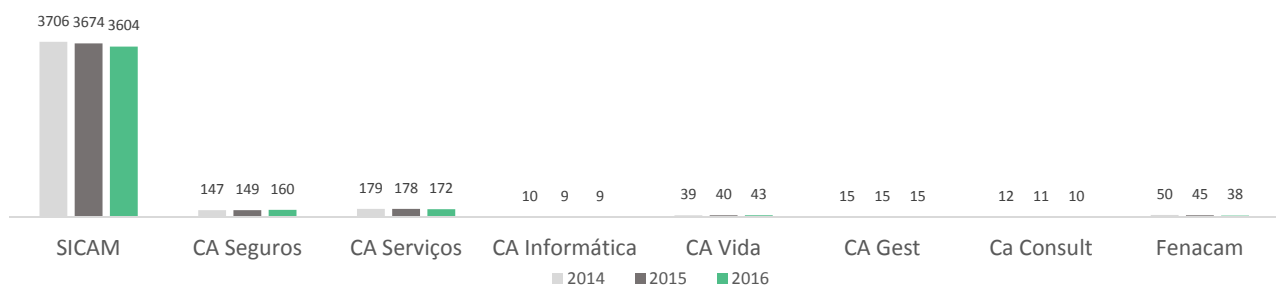


## 2.3 RESPONSIBILITIES WITH OUR EMPLOYEES

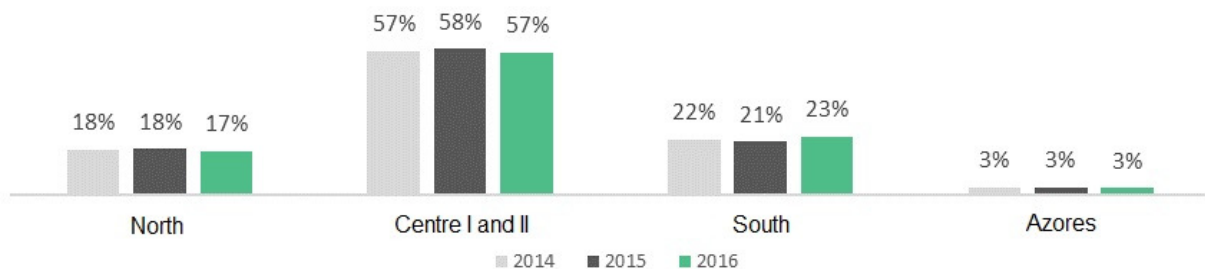
### CA Group Team

In 2016, the CA Group team of Employees showed a distribution similar to that of previous years among the Group's different companies:

#### Distribution of the Employees in SICAM, Participated Companies and FENACAM

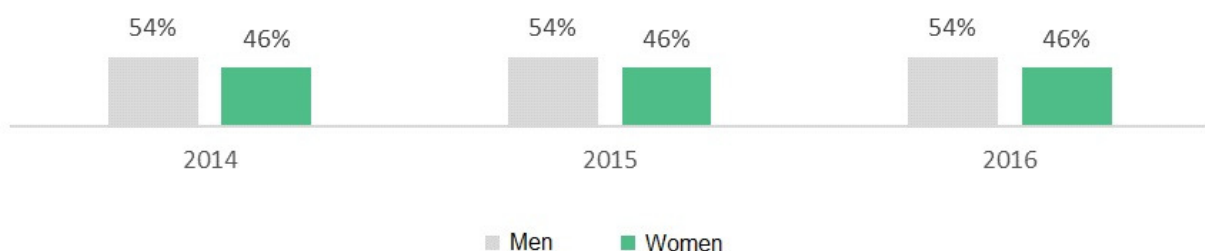


#### Geographic Distribution of the Employees

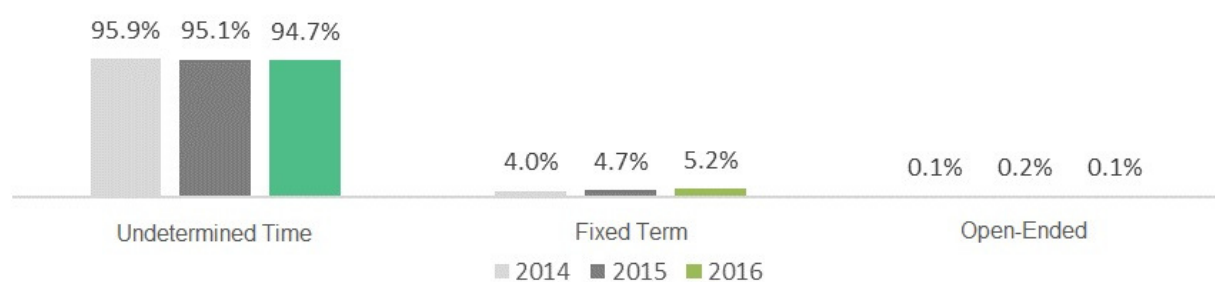


The team of employees is relatively balanced in terms of gender, as 54% of the employees are men and 46% are women. Around 94.7% of the employees have contracts for an indefinite period of time. The age structure of the team shows a pattern similar to 2015, with the age cohort of 40 to 49 years old accounting for 38% of the employees.

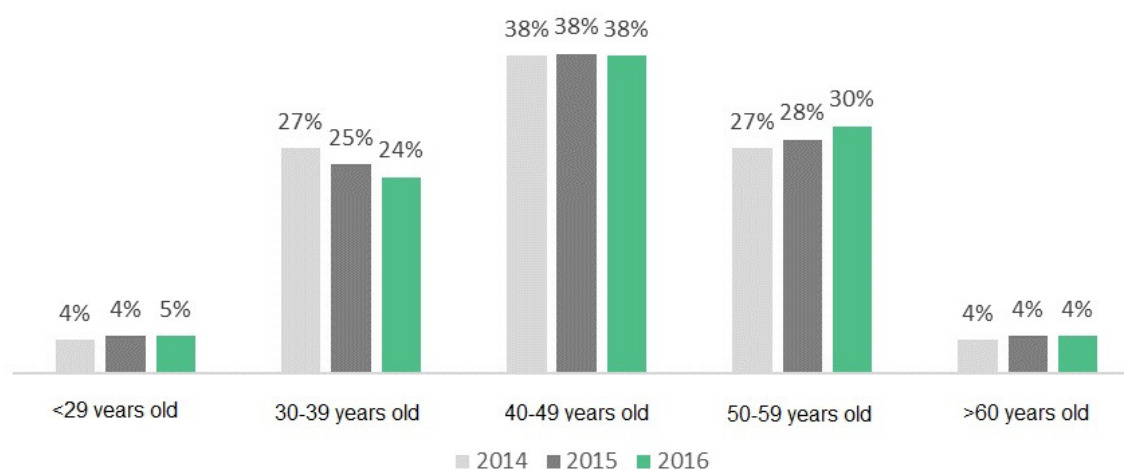
#### Employee distribution by gender



## Characterisation of the permanent employees by type of employment contract

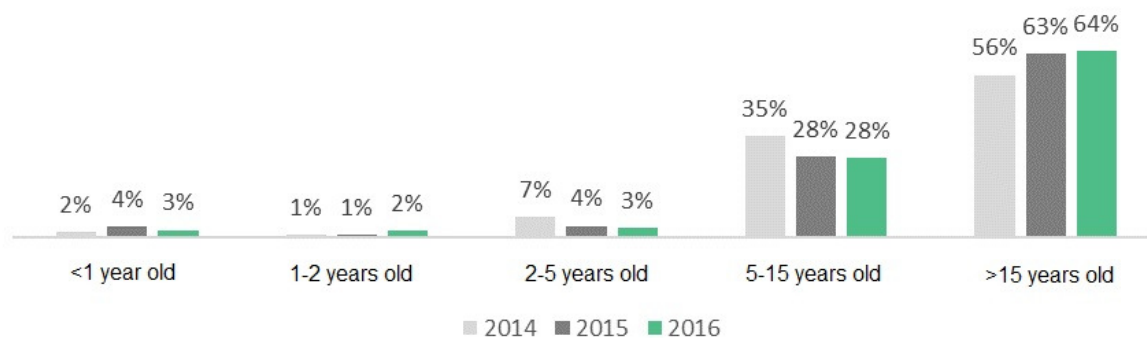


## Characterisation of the permanent employees by age cohort

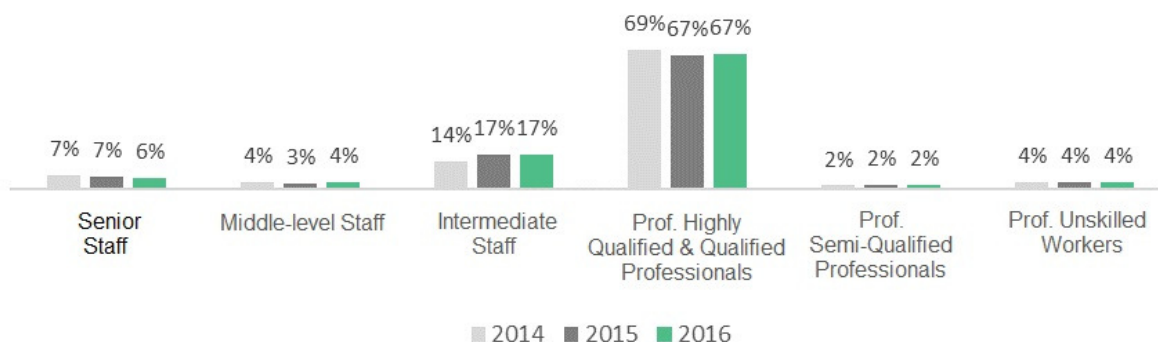


The CA Group reveals a strong capacity to retain its employees, expressed in the length of service of the employees, as 64% of the employees have worked at the Group for more than 15 years. Regarding functional distribution, 67% of the employees are included in the highly qualified or qualified professional category, and 17% are intermediate staff. In relation to academic qualifications, 48% have secondary education and 37% have a higher education degree.

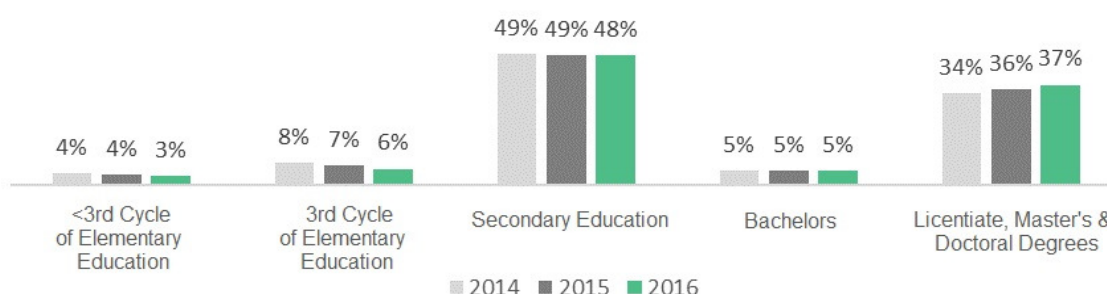
## Characterisation of the permanent employees by length of service



## Characterisation of the permanent employees by functional distribution



## Characterisation of the permanent employees by academic qualifications



## Training

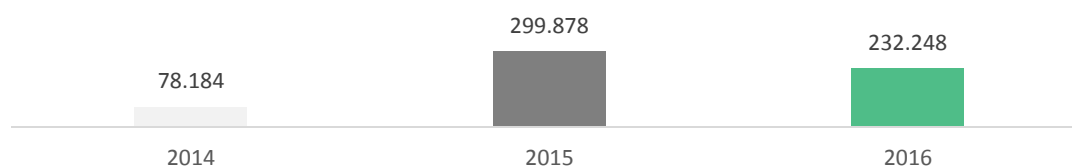
In 2016, a total of 232,248 training hours were ministered, 23% less than in 2015. In total, the training actions held in 2016 were attended by 9,606 participants. The number of participants decreased in the records of presential and e-learning training by 39.6% and 12.2%, respectively. However, there was a 24% increase in the number of participants in distance learning. The number of training hours of presential training increased by 73.3%, with that recorded in e-learning having fallen substantially, by 46.4%.

NUMBER OF PARTICIPANTS (1)	2016	2015	VAR.%
Presential	5,959	9,862	-39.6%
E-learning	3,571	4,067	-12.2%
Distance Learning	76	25	204.0%

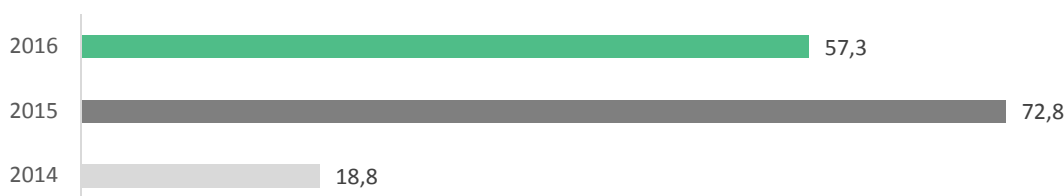
NUMBER OF HOURS	2016	2015	VAR.%
Presential	84,898	49,002	73.3%
E-learning	132,073	246,531	-46.4%
Distance Learning	15,277	4,345	251.6%

(1) The same employee could have attended various training sessions.

## Number of training hours



## Average hours of training per employee



## Benefits

The benefits attributed to the Employees are segmented in the 3 areas noted below, with the costs related to social protection paid by CA being stated at the end of this sub-chapter:

- Benefits related to health, training and family
- Credit
- Culture, Sports and Well-Being

### Health, training and family

In 2016, the CA Group attributed its Employees the benefits referred to below, in addition to those established in the banking legislation:

- Financing and support to the enhanced academic and specialised training of the Employees, which, in 2016 corresponded to an investment of 172 thousand euros;
- Investment in the development of Employee skills, to a total of 695 thousand euros;
- Collaboration with the IFB in the qualification of year students with 12th year of schooling, by receiving interns under a scheme of alternation and contribution of 17 thousand euros.

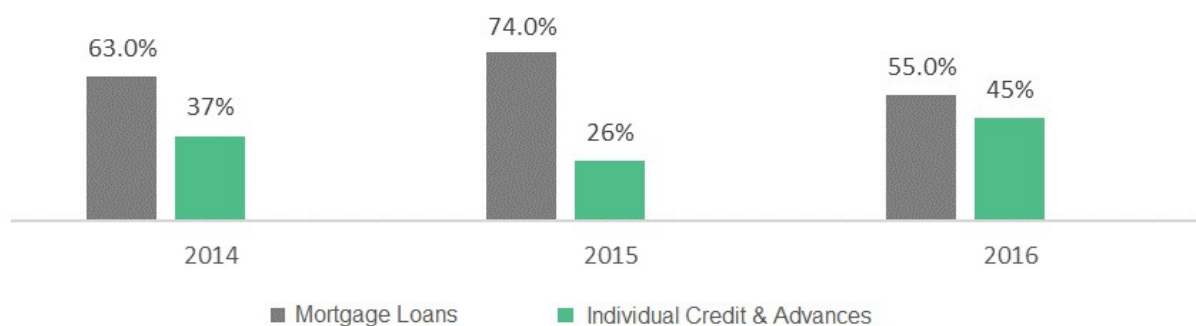
### Credit

The Employees of Crédito Agrícola benefit from special conditions in various financial products and services, namely:

- In the use of mortgage loans;
- In taking out various insurance policies;
- By lower maintenance expenses in the annuity of credit and debit cards;
- By lower maintenance expenses in the issue of cheques;
- By exemption of maintenance commission expenses in demand deposits;
- Credit for personal expenses at symbolic rates.

Of the credit to employees 2016, 55% involved mortgage loans and 45% individual credit and advances. The weight of mortgage loans decreased in relation to 2015, and individual credit increased in 2016 in relation to the previous year.

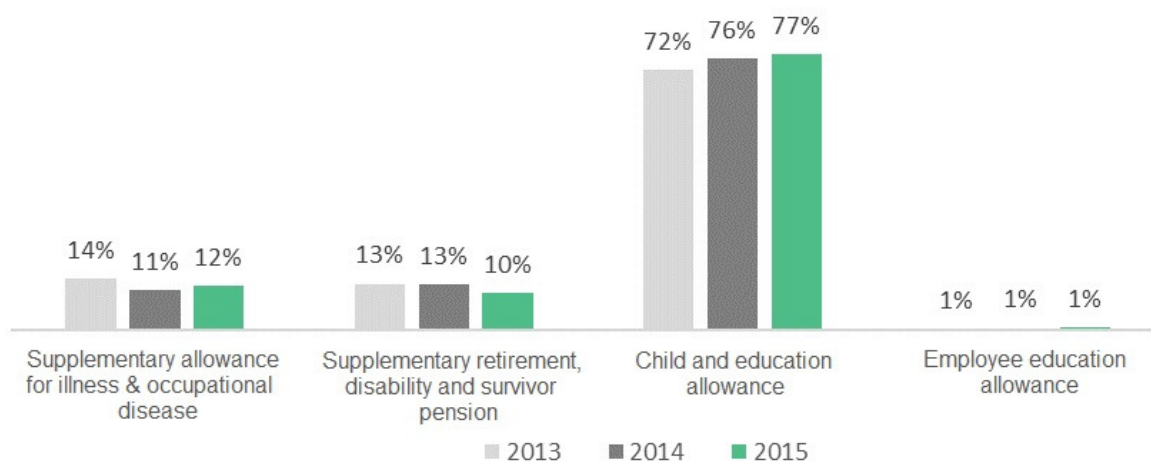
### Credit granted to Employees



### Social Protection

Among the social protection charges paid directly by the company, the allowance for children and education accounts for 77% of the value invested, corresponding to an increase of 2 p.p. in relation to 2015.

### Social protection charges paid directly by the company



Along with support to and relations with the community, internal social responsibility is an important dimension of the Social Responsibility Policy of the CA Group. In this sphere, initiatives are implemented aimed at the Group's employees and in some cases are extended to their families. Apart from activities in the areas of culture, sports and well-being, special note should be made of the Annual Meeting, always a great occasion gathering all the employees and their families together.

### Culture, Sports and Well-Being

Social responsibility embodies Credito Agrícola's values and positioning, which is not only reflected in terms of the community but also in an enormous series of initiatives aimed at the Group's employees, where we highlight the action of the Culture and Sports Centre of Crédito Agrícola (CCDCAM).

CCDCAM emerged with the ambition to promote the cultural, intellectual, physical and civic development of the employees of Crédito Agrícola Mútuo, aimed at fostering well-being and interpersonal relations.

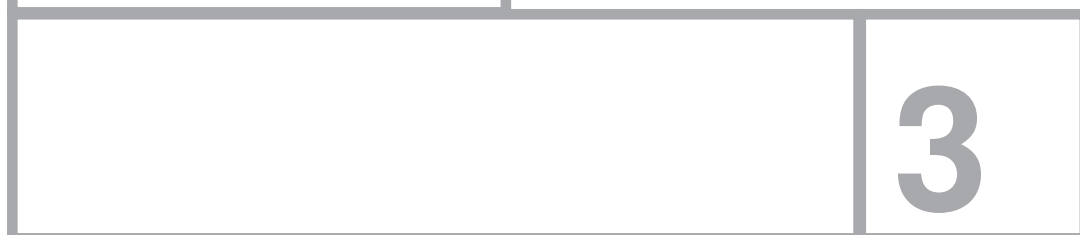
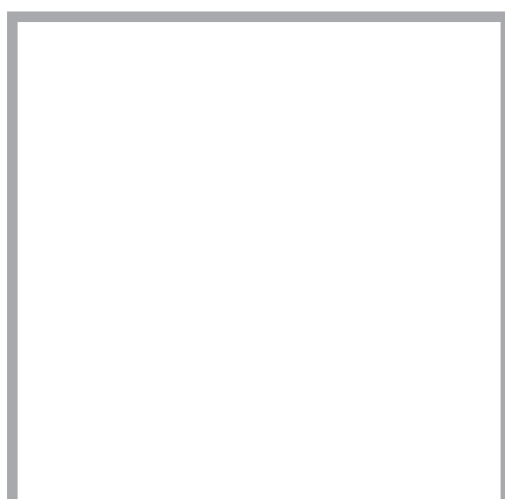
This association has, year after year, attracted a growing collaboration in its initiatives of a varied scope with social opportunities, dedicated in meeting the interests and expectations of its members, which was why a new institutional website was developed in order to promote better communication and disclosure of the different initiatives, namely in the context of:

- Sports activities: Athletics, Cycling, Hiking and Walking, Golf, Billiards, Motorcycling, Amateur Fishing and Triathlon;
- Cultural activities: protocols with discounts for the purchase of tickets for the zoo, performances, exhibitions and various cultural institutions;
- Promotion of works produced by the employees, namely painting, books and handicrafts;
- Organisation of trips, journeys and visits to a great variety of places of interest, both national and international, and an annual Rally Paper competition;
- Library with a diversified range of works, aimed at the promotion of reading among GCA's employees;
- Protocols with different entities with a view to obtaining discounts and provision of services in areas such as health, beauty, restaurants, education, parking, fuel and communications;

Reference should also be made of the Social Solidarity action promoted by CCDCAM's motorcyclists, such as, for example, the Father Christmas caravan aimed at delivering medication and basic items, among which 1,500 litres of milk, to Casa do Gaiato, raised in a solidarity campaign with the collaboration of Lactaçoeres.

## Annual Meetings

The holding of annual meetings of the employees is also promoted, with a view, among others, to their socialising, closeness, the sharing of experiences and cohesion, involving their families or not. In this context, we highlight the Christmas party and the annual meeting of employees which, as a rule, is highly attended (some 1,000 people) by the Employees and their families.

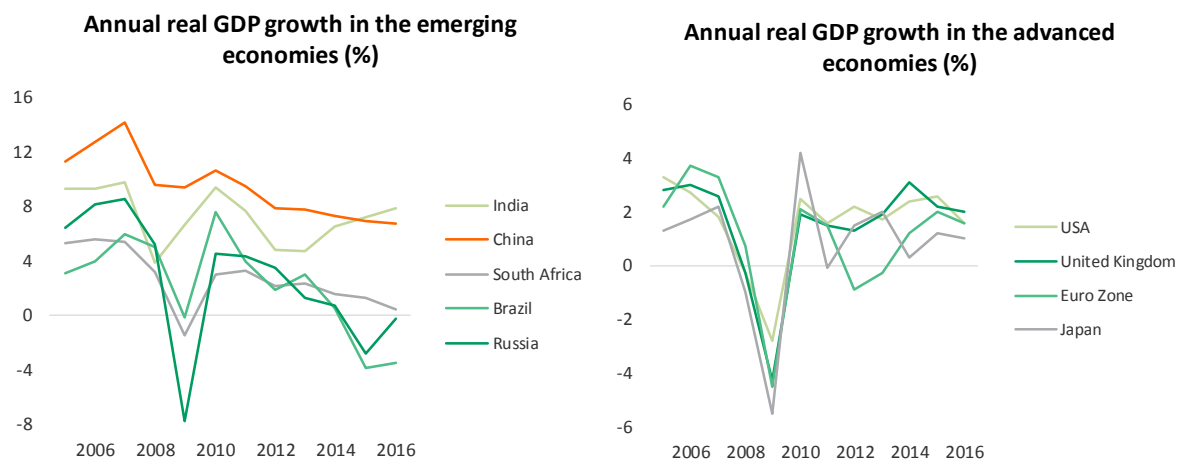


Economic environment

### III. ECONOMIC ENVIRONMENT

#### 3.1 INTERNATIONAL ECONOMY

The most recent estimate points to growth of world gross domestic product (GDP) of 3.1% in 2016, a figure below the 3.2% achieved in 2015. Should this expectation be confirmed, this will have been the weakest world growth on record since the worldwide recession of 2009.



Source: Bloomberg, January 2017

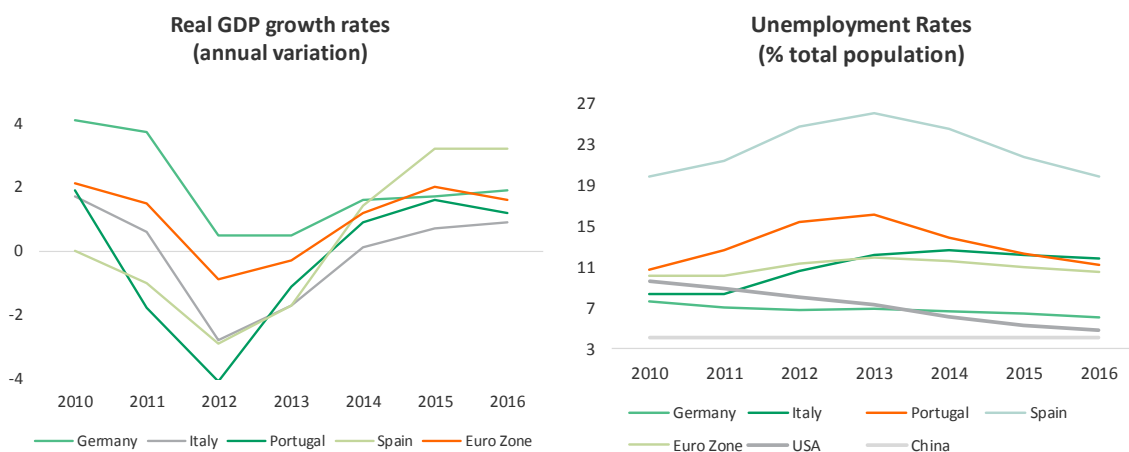
Before the financial crisis (2008), the emerging economies had progressively shown growth rates above 7.0%, while in more recent years (2008-2016) their growth has stood around 4.0%. Effectively, for 2016, the International Monetary Fund (IMF) forecasts the growth of the emerging economies as a whole at 4.2%, a value below the 4.4% recorded in 2015. Part of this forecast slowdown for the global economy in 2016 is explained by the evolution of the second largest economy of the world – China which, with an estimated variation of 6.7% of GDP for this year, records its lowest growth rate since 1990 (3.9%).

Even so, this figure contrasts with the growth rate of the developed economies, which is estimated to have undergone a slowdown from 2.1% in 2015 to 1.6% in 2016. The decline in the performance of the USA, whose annual growth fell from 2.6% in 2015 to 1.6% in 2016, is explained by the export component (which was hindered, among other factors, by the strengthening of the US dollar) and the investment component (constrained by the performance of oil prices that remained low during the year of 2016).

The economy of the euro zone accelerated moderately at the end of 2016 (1.6%), but the forecast growth is timid and below that recorded in 2015 (2.0%), which should contribute to a divergence of positions among those responsible for monetary policy regarding the end of stimulus in the single currency region.



The terrorist attacks had a strong negative impact on the performance of the tourism sector of France (the second largest economy of the euro zone). On the other hand, the IMF notes that, despite the advances registered in Greece, with GDP progressing from -0.2% in 2015 to +0.3% in 2016, the debts of Greece continue “unsustainable” in the long term (180% of GDP). In the medium term, the risks to economic growth in the euro zone are a legacy of the recent crisis<sup>3</sup>, represented by the United Kingdom’s voted decision to leave the European Union, potential disruptions to international trade and a tightening of monetary policy in the United States, which could have negative consequences on the emerging economies (some of which having strong trade relations with Europe).

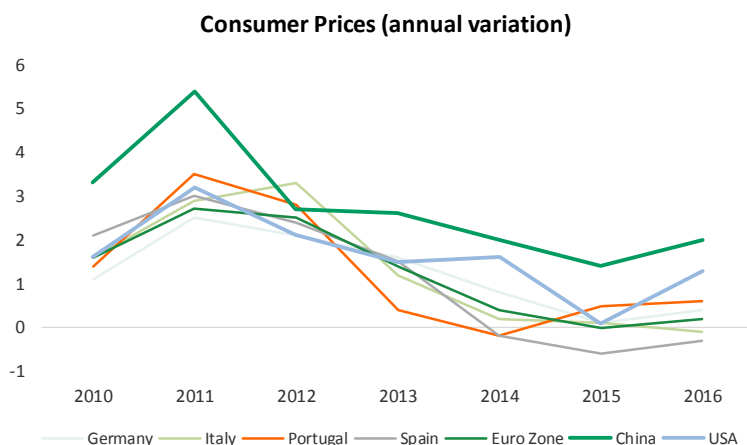


Source: Bloomberg, January 2017

The unemployment rate of the euro zone fell gradually over the year, having reached a forecast rate of 10.5% at the end of 2016, the lowest level since 2011 and which compares with 11.0% recorded at the end of 2015. Notwithstanding the reduction of the unemployment level over these past few years, it still continues at historically high levels.

In the USA, 2016 was a good year for the labour market, with American unemployment standing at 4.8%, showing minimum levels similar to those recorded in 2007. The average remuneration per hour increased by 2.9% in relation to December 2015, corresponding to the highest increase since 2009.

<sup>3</sup> With the public and private sectors showing high debt levels and deleveraging processes underway, the problems in the banking sector are not completely resolved and unemployment levels remain persistently high.



*Source: Bloomberg, January 2017*

Concerning inflation, at the end of the year only one of the 19 members of the euro zone still showed negative rates, the lowest number since February 2013, the last date when all the members of the euro zone presented positive inflation figures. A threatening sign of deflation in the euro zone which is dissipating.

In aggregate terms of the euro zone, the inflation forecast for 2016 was 0.2%, compared to the 0.0% recorded in 2015. This recovery, even so to a level below the target of 2.0% defined by the ECB, was greatly influenced by the combination of the increased price of energy and a modest economic recovery.

The European monetary authority extended the plan of purchasing assets in the public sector up to the end of the year, as a form of boosting inflation through incentives to the economy. However, with the rising prices progressively moving towards a rate deemed by BCE as suitable to assure economic stability, some senior persons consider the possibility of the early end of the quantitative easing programme.

Inflation also increased progressively throughout 2016 in the USA, primarily in the second half of the year, with it being estimated to stand at 1.3% in 2016, above the 0.1% recorded in 2015. This increase was underpinned by the end of the cycle of falling oil prices, implying that the energy sector no longer provided a negative contribution in 2016 and even started to contribute positively to the increase of consumer prices.

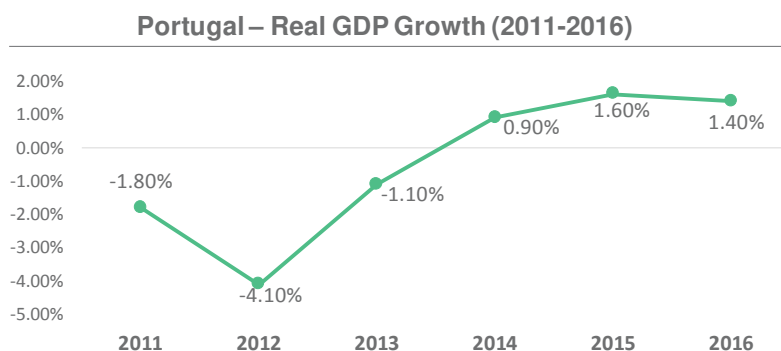
The year of 2016 was also marked by the occurrence of various political events with consequences that are potentially very disruptive.

In Europe, 2016 was decisively torn by the victory of the Brexit in the United Kingdom, an event which could constrain the economic situation and evolution of the markets according to the retreats and advances that shall take place during the negotiation process of the United Kingdom's exit from the European Union. Theresa May, the leader of the British government, promised to activate Article 50 before the end of March 2017. Hence, this issue will be an important topic in the political debate associated to the holding of elections in France and Germany and shall shape the future of the European Union over the next few years.

In the USA, Donald Trump won the presidential elections, constituting an unknown factor in the expected path of American policy, although it is certain that the current political discourse is markedly protectionist (limitations to the free circulation of people and goods) and of confrontation with conventional policy (rupture with the status quo).

## 3.2 NATIONAL ECONOMY

The Portuguese economy, penalised by the weak growth of investment and by the fragilities in terms of exports, in the first semester of 2016, maintained the trend of deceleration started in the last quarter of 2015, having grown by 0.9% year-on-year. Nevertheless, the acceleration shown in the second semester of 2016, greatly on account of the evolution of tourist activity and private consumption, led to annual growth of 1.4% in 2016<sup>4</sup>, a figure 2 p.p. below the growth in 2015 (1.6%).



Source: INE, February 2017

The performance of national exports was constrained by the occurrence of various factors, among which in particular the persistent precariousness of the economic situation in Angola (in year-on-year terms, between January and October, exports of goods to Angola declined by 41.9%), strongly affected by the low price of oil and by the fact that a refinery was temporarily stopped at the

<sup>4</sup> In this context, the European Commission upgraded its growth forecasts for 2017 and 2018, and now expects the economy to grow by 1.6% and 1.5%, respectively (in contrast to the autumn forecasts of GDP growth of 1.2% in 2017 and 1.4% in 2018).

beginning of the year (which implied that fuel exports fell by 29.1% until October). In the opposite direction, the tourism sector showed 9.2% growth in the export of services.

### Macroeconomic indicators (2014-2016)

		2014	2015	2016	
<b>External Demand</b>		<b>avr</b>	<b>4.6</b>	<b>3.8</b>	<b>2.0</b>
EUR/USD Exchange Rate (%)	avr	-11.97	-10.22	-3.18	
Price of Oil (%)	avr	-41.0	-27.6	57.0	
<b>Gross Domestic Product</b>		<b>avr</b>	<b>0.9</b>	<b>1.6</b>	<b>1.4</b>
Private Consumption	avr	2.1	2.6	2.1	
Public Consumption	avr	-0.7	0.8	1.0	
Gross Fixed Capital Formation	avr	2.3	4.5	-1.7	
Exports	avr	3.4	6.1	3.7	
Imports	avr	6.2	8.2	3.5	
Harmonised Consumer Price Index	avr	0.7	0.5	0.8	
Saving Rate (%)	aav	6.9	7.0	5.0	
Employment Rate	%	50.7	51.3	52.0	
Unemployment Rate	%	13.9	12.4	11.0	
Remuneration by Worker (private sector)	avr	-1.3	0.0	1.5	
Current and Capital Balance (% GDP)	avr	2.1	1.7	1.1	
Balance of Goods and Services (% GDP)	avr	1.1	1.8	2.2	
ECB Reference Rate (average)	%	0.16	0.05	0.00	
3-Month Euribor (average)	%	0.21	0.00	-0.30	
Yield of German 10 Y TBonds (average)	%	0.54	0.63	0.20	
Yield of Portuguese 10 Y TBonds (average)	%	2.69	2.52	3.76	

Source: Banco de Portugal (December 2016), European Central Bank (December 2016), Bloomberg (January 2017) and INE (February 2017)

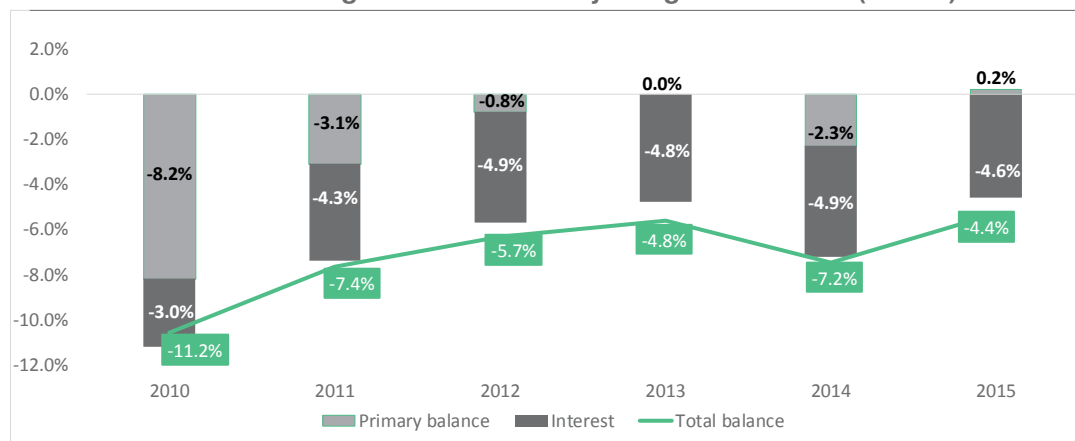
avr: Annual variation rate; aav: annual average variation

Private consumption grew by 2.1% in 2016 i.e. 5 p.p. below that observed in 2015. In turn, in 2016 investment interrupted its trend of gradual but constant recovery started at the end of 2013. Even so, gross fixed capital formation showed successively smaller year-on-year reductions in the first three quarters (-2.7%, -2.4% and -1.5%). The factors that most contributed to this scenario were the external uncertainties (market volatility at the beginning of the year) and domestic uncertainties (feasibility of the political solution and problems in the Portuguese banking system) which discouraged investors. Moreover, there was also a decline of public investment to historically low levels (up to September a reduction of 27.6% in gross fixed capital formation by public administrations was recorded).

In the labour market, after a period between June 2015 and March 2016 in which the unemployment rate increased from 11.9% to 12.4%, the second and third quarters of 2016 showed a trend of improvement, with the rate decreasing to 10.5% between July and September, the lowest figure since the end of 2009, which enabled closing the year with an unemployment rate of 11.0%.

In terms of price evolution, in 2016 the level recorded in the previous year remained practically unchanged as average inflation for 2016 should stand around 0.8%, slightly above the 0.5% recorded in 2015.

**Balance of the Portuguese state: Primary and global balance (%GDP)**



In 2016, Portuguese public debt amounted to 241.1 billion euros, corresponding to an increase of 9.5 billion euros in relation to 2015. This 4.1% increase was influenced by the net issues of securities, in particular the variable yield treasury issues (a new instrument which enabled capturing around 3.3 billion euros of household investments) and the issues of treasury certificates (which increased by 3.4 billion euros). In turn, loans fell by 5.6 billion euros, influenced by the early repayment of 4.5 billion euros granted by the IMF under the Economic and Financial Recovery Programme.

The Budget Support Technical Unit (UTAO) estimates that public debt should have risen to 130.2% of GDP as a whole for 2016. This estimate, should it be confirmed, implies a reduction, in relation to the value recorded at the end of the third quarter of 2016, from 133.4% of GDP, but it also implies an increase in relation to 2015 and a deviation from the figure forecast for the end of the year by the Ministry of Finance under the State Budget for 2017 (129.7%). This deviation was influenced by the increased deposits of the central administration from 13.3 billion euros at the end of 2015 to 17.3 billion euros, when the State Budget for 2017 foresaw a stabilisation.

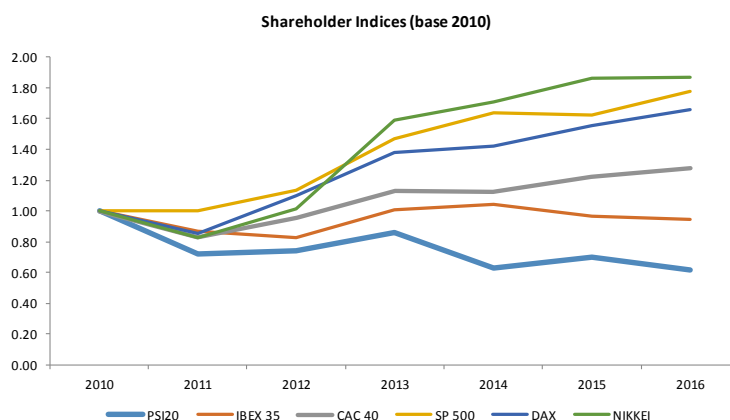
The UTAO estimates that net public debt (i.e. excluding the central administration's deposits) could reach 120.8% of GDP at the end of 2016, which would represent a decrease of 0.8 p.p. in relation to 2015. The European Commission, in its winter economic forecasts, estimates that Portuguese public debt, in the Maastricht perspective, should have risen to 130.5% of GDP in 2016.

In its winter forecasts, the European Commission also estimates that the Portuguese budget deficit should have fallen to 2.3% of GDP in 2016, standing below the target defined for the end of the process of sanctions (2.5%), however still revealing the fragility of national public finance. The collection of revenue was lower than that budgeted in 2016, with this effect having been partially offset by additional revenue (worth 0.25% of GDP, through the Special Programme of Reduction of State Debt) and by the curtailing of expenses. Hence, it is estimated that without the extraordinary measures, Portuguese public debt would have stood at 2.6% of GDP.

## 3.3 FINANCIAL MARKETS

### Stock markets

At the end of the first quarter of 2016, the overall feeling of risk aversion dampened. The ECB strengthened its accommodative monetary policy. China presented a new series of measures to stimulate and control the value of its currency. The USA disclosed promising economic data and the American Federal Reserve indicated that it would postpone a rise of interest rates. Even so, excluding the American and British indices, almost all the main stock market indices recorded losses above 10%, particularly relevant in the Asian markets. With devaluations of this magnitude, this was indeed the worst kick-off of the year for stock markets since 2008.



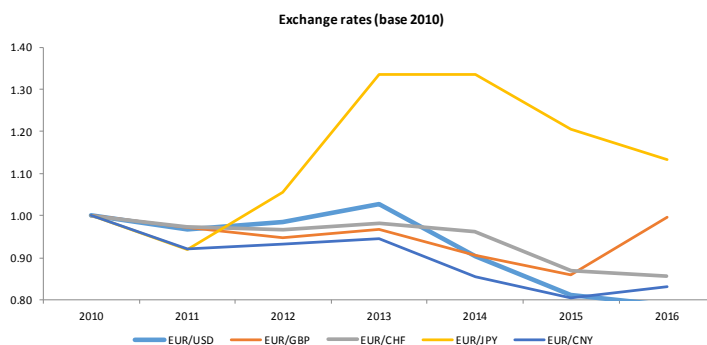
Source: Bloomberg, January 2017

At the end of the first half of the year, the outcome of the referendum held in the United Kingdom wiped out a record value of 3 billion US dollars from global markets in merely two days, leading to an abrupt drop in share price indices. In contrast, the outlook pointing to more expansionary policies in the USA with Trump's victory in the American elections, the recovery of oil prices and a resilient economic activity caused American indices to reach new historical maximum levels at the end of 2016, with the Dow Jones, S&P 500 and Nasdaq recorded annual variations of 15%, 12% and 9%, respectively.

The factors which affected Europe continuously throughout the year, combined with the rather unsurprising albeit positive economic data, led Europe's stock exchanges to show a more contained performance. In annual terms, the Stoxx 600 recorded a loss of 1.2%, but the German DAX showed a very positive evolution (+6.87%). The countries of the periphery were the most vulnerable to the developments in Europe, with the PSI 20 and the Italian reference index recording losses of 11.9% and 10.2%, respectively. In Spain, the decline was not as heavy (-2%).

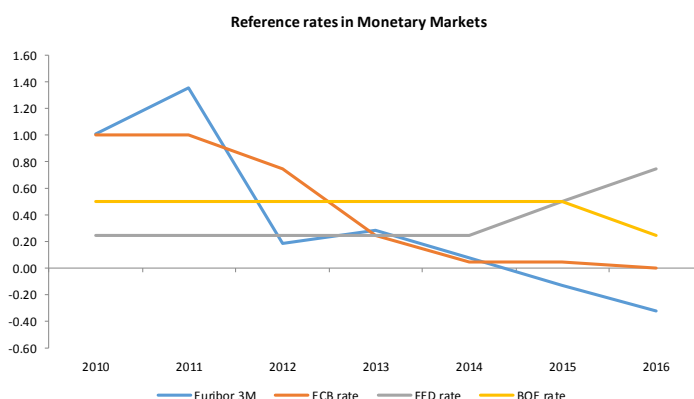
### Money markets - Exchange rates and reference interest rates

In 2016, declines of the euro (EUR) in relation to the dollar (USD) were recorded for the third consecutive year, which had not happened since the end of 2001. During a period marked by disparity between the monetary policies of the ECB and the FED, the Euro fell by 2.9% to 1.0539 USD at the end of the year, having reached the minimum trading figures of December 2002.



The outcome of the Brexit significantly affected the pound sterling, which experienced one of its worst performances in 2016, with the exchange rate having reached 1.2340 USD. In a context of high uncertainty, the Yen continued to represent its role as a refuge currency and, in 2016, the USD lost ground to the Yen, having fallen by 2.97% and with each USD worth 116.96 Yen at the end of the year.

Notwithstanding the devaluation in relation to the Yen, the USD, in relation to the reference index of the main world currencies (DXY), surpassed 103 points in December, a value that had not been recorded since the end of 2002 (giving 2016 the name of “the year of the green note”).

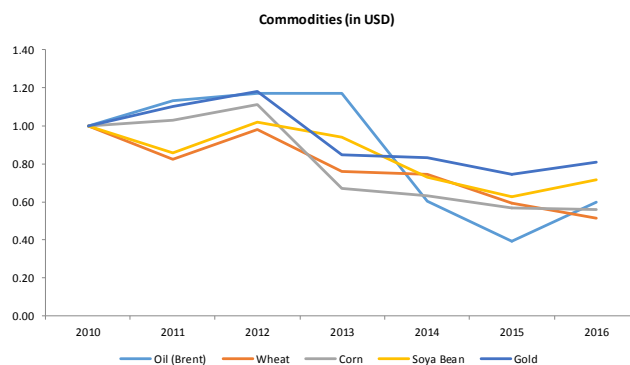


Source: Bloomberg, January 2017

Concerning the money market in the euro zone, throughout the year there was a progressive decrease of Euribor rates. At the end of the year, the one month Euribor rate stood at -0.368% and the Euribor at 1 year was -0.082%. In the USA, the LIBOR rates of the USD up to one year increased over the year, having presented the value of 1.686% at the end of 2016.

## Commodities

The first six months of the year were marked by an increase of the spot prices in commodity markets which rekindled the interest of investors. Gold, in particular, led the way, having appreciated by almost 20% in the first 6 months of the year. Oil prices increased from US\$39 by barrel at the end of March to almost US\$50 per barrel at the end of June. Agricultural products, such as soya beans, sugar, corn and cotton also showed gains in the second quarter.



Source: Bloomberg, January 2017

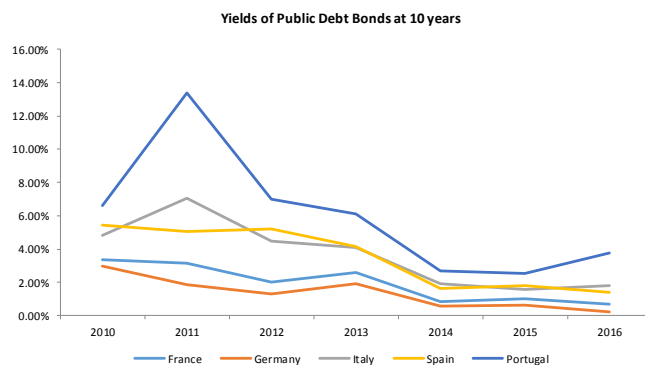
In the second half of 2016, a more moderate evolution was observed in the commodity prices. Brexit sent shock waves throughout all the world's markets, with investors having converged towards gold, as a refuge asset, which led to an appreciation of 8.2% in the weeks following the vote. After the American presidential elections, gold finally lost part of its value, having closed the year with an appreciation of 9.33% in 2016.

At the end of the third quarter, OPEC decided that crude production would be cut from January 2017 onwards, leading to a rise of the prices of oil. North Sea Brent recorded gains of 52% in the 12 months of the year, closing with a price of US\$56.82 per barrel. West Texas Intermediate showed an annual gain of 45%, closing the year at US\$53.72 per barrel.

## Bond market

Portuguese debt had one of the worst performances of the euro zone. In 2016, the rate of sovereign debt at ten years increased by 1.25 p.p., from 2.516% to 3.764%. The rise of the risk premium was even more accentuated, with the market, requiring a premium of 356 basis points in relation to German debt, the reference in the euro zone.

Italian bonds also underwent an annual increase of their yields, the first since the debt crisis in 2011. Italian sovereign debt at ten years increased from 1.592% at the beginning of the year to 1.812% at the end of the year (+ 22 basis points), in contrast to Spanish debt which, for the same maturity, decreased from 1.766% at the beginning of the year to 1.380% at the end of the year (-38.6 b.p.).



Source: Bloomberg, January 2017



German debt was one of the assets with best performance in 2016, as, for a maturity at 10 years, these securities started the year with a yield of 0.629% and ended the year with a yield of 0.208%, recording a variation of -42.1 basis points. Halfway through the year, the yield of German debt actually moved into negative ground, with the yield at 10 years reaching the value of -0.190%. On the other side of the Atlantic, in the USA, the yield of American sovereign debt bonds at 10 years started the year with a yield of 2.273% and closed the year with 2.446% (+17,3 basis points).

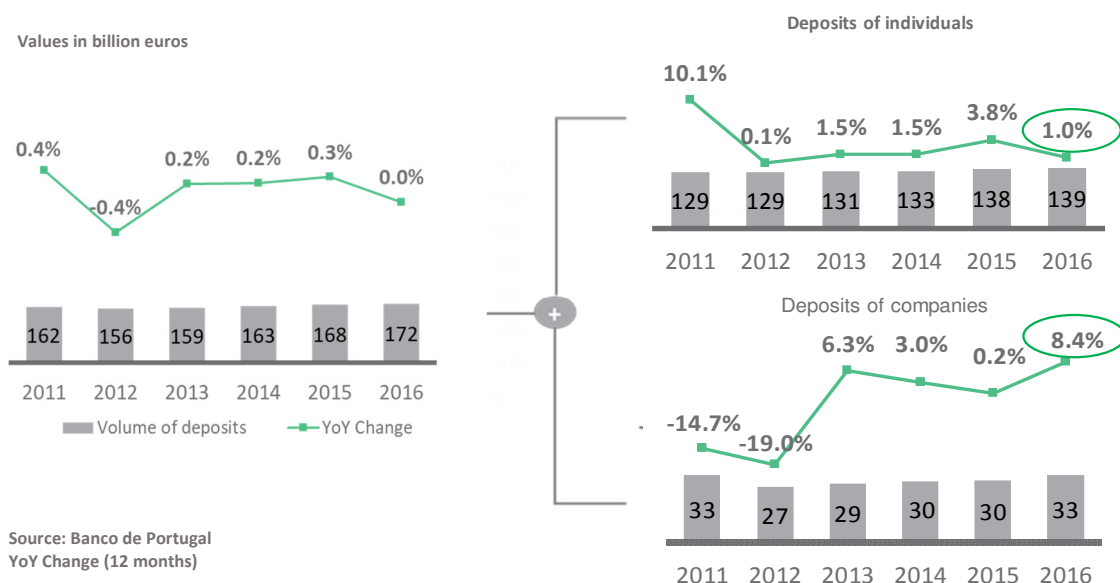
## 3.4 NATIONAL BANKING MARKET

### a) Relevant facts

The year of 2016 and the beginning of 2017 were marked by a significant restructuring of the main Portuguese banks and, in some cases, with changes in the management and shareholder control structures. In brief, 2016 was characterised by: the recapitalisation plan and appointment of a new management team for CGD (the bank of public capital); the entry and reinforcement of a new shareholder (Fosun) in BCP and the payment of a last tranche of 700 million euros of the debenture loan of convertible shares (which actually reached 3,000 million euros); the public takeover bid launched by the Catalan group CaixaBank on BPI's capital, which enabled it to acquire a position of 84.52% (a stake compared to the previous 45.5%); the Parliament's veto of the PCP/BE proposals to nationalise Novo Banco; the entry of BES in winding-up procedures; and the reinforcement of the negotiations between Banco de Portugal, the Resolution Fund and the candidates for the acquisition of Novo Banco (e.g. Lone Star Fund) for completion of this process.

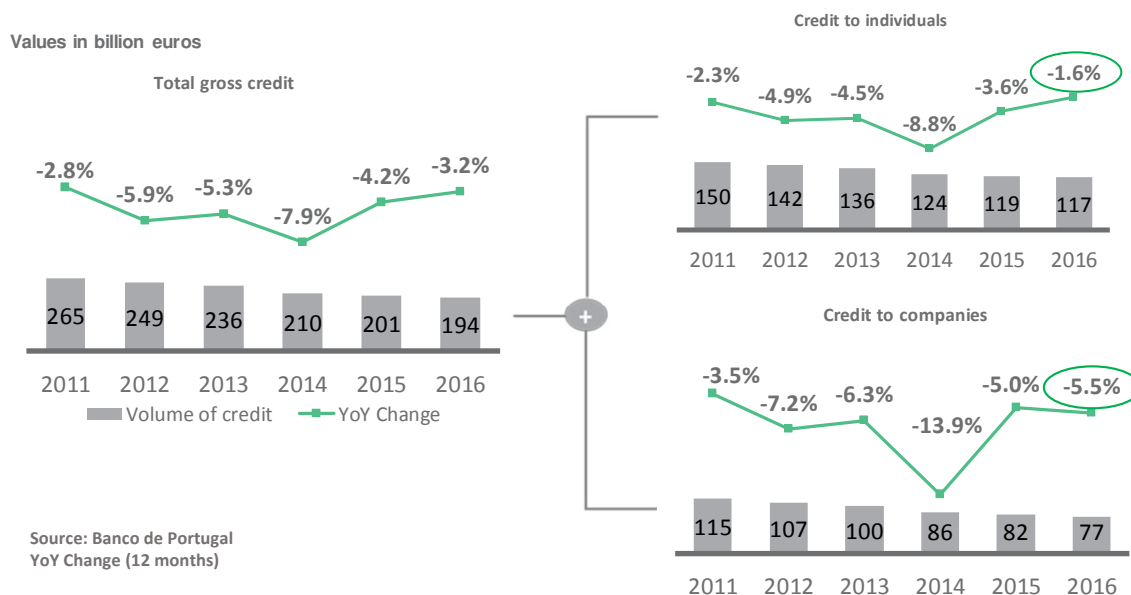
### b) Evolution of the national deposit market (2011 – 2016)

According to more recent information provided by Banco de Portugal relative to December 2016, the volume of deposits increased by 2.3% in December 2016 in relation to the same period of 2015. This evolution was influenced by the strong growth of company deposits of 8.4% (+8.2 p.p. more than in 2015) and minor growth in the deposits of individuals of 1.0% (-2.8 p.p. than in 2015).



## c) Evolution of the national credit market (2011 – 2016)

In contrast, the total gross credit granted to customers decreased by 3.2% in December 2016 in relation to that recorded at the end of 2015. The most significant decline occurred in credit to companies (-5.5%), although credit to individuals also declined (-1.6%), both in relation to December 2015.



According to the information disclosed by Banco de Portugal, total credit fell by 3.2% between December 2015 and December 2016, with the highest percentage decline (two-digit) being in the segment of companies in the autonomous regions and in the districts of Viana do Castelo, Setúbal and Portalegre. In Lisbon, credit to companies fell by 2.6 billion euros, which explains over 55% of the reduction recorded in the country.

**Evolution of total credit by region - Dec.2016**

	Credit			Total weight %	Var. Year-on-Year		
	Individuals	Companies	Total		Individuals	Companies	Total
Aveiro	5,598	2,834	8,432	4.3%	-3.9%	-5.1%	-4.3%
Beja	1,290	442	1,732	0.9%	-2.5%	-0.7%	-2.0%
Braga	6,293	3,467	9,760	5.0%	-2.8%	-8.9%	-5.1%
Bragança	903	264	1,167	0.6%	-2.3%	10.9%	0.4%
Castelo Branco	1,437	404	1,841	0.9%	-3.7%	-1.5%	-3.2%
Coimbra	3,833	1,291	5,124	2.6%	-3.6%	1.2%	-2.4%
Évora	1,676	897	2,573	1.3%	-4.1%	26.7%	4.8%
Faro	4,661	1,747	6,408	3.3%	-6.9%	1.5%	-4.7%
Guarda	879	272	1,151	0.6%	-2.9%	-5.2%	-3.4%
Leiria	4,121	2,489	6,610	3.4%	-4.4%	-1.5%	-3.3%
Lisbon	44,162	43,090	87,252	44.9%	1.7%	-5.8%	-2.1%
Portalegre	869	276	1,145	0.6%	-3.8%	-16.1%	-7.1%
Porto	17,168	12,246	29,414	15.1%	-3.0%	-4.1%	-3.4%
Santarém	4,024	1,507	5,531	2.8%	-3.7%	-0.4%	-2.8%
Setúbal	9,337	1,769	11,106	5.7%	-2.9%	-15.2%	-5.1%
Viana do Castelo	1,641	488	2,129	1.1%	-3.3%	-24.2%	-9.1%
Vila Real	1,337	346	1,683	0.9%	-2.5%	4.2%	-1.2%
Viseu	2,531	1,084	3,615	1.9%	-1.7%	6.3%	0.5%
Autonomous Reg. Azores	2,607	796	3,403	1.8%	-4.4%	-31.4%	-12.5%
Autonomous Reg. Madei	2,931	1,328	4,259	2.2%	-3.8%	-14.4%	-7.4%
<b>Total</b>	<b>117,296</b>	<b>77,037</b>	<b>194,335</b>	<b>100%</b>	<b>-1.6%</b>	<b>-5.5%</b>	<b>-3.2%</b>

Source: Banco de Portugal

Analysing credit to individuals in detail reveals that the reduction was essentially due to the decrease of mortgage loans (-3.0% in December 2016 in relation to the same period of 2015) which accounts for 80.8% of total credit to individuals. Overdue credit to individual customers stood at 3.9%, primarily exacerbated by credit for other purposes which, even so, has been falling in terms of its weight in total credit.

**Evolution of the market of credit to individuals by type - Dec.2016**

Type	Volume of credit (M€)	Var. Year-on-Year	Total weight %	Overdue credit %
Mortgage	94,780	-3.0%	80.8%	2.5%
Consumer	13,725	12.7%	11.7%	6.2%
Other purposes	8,792	-5.8%	7.5%	15.4%
<b>Total</b>	<b>117,297</b>	<b>-1.6%</b>	<b>100%</b>	<b>3.9%</b>

Source: Banco de Portugal

In the case of credit to companies, the 5.5% decrease was mainly due to the reduction of credit to companies of the construction sector, real estate activities, and water and sanitation. Only the sectors of agriculture and fisheries, accommodation, restaurants, health and social support, and mining activities showed an increase of the credit granted (5.0%, 2.7%, 1.4% and 0.8%, respectively).

Overdue credit to companies stood at 15.7%, with the sectors showing most non-performance continuing to be construction, trade, real estate activities and mining industries, which maintain high representativeness in total credit to companies.

**Evolution of the market of credit to companies by CAE - Dec.2016**

Economic activity	Var. Year-on-Year	Total Credit	Weight %	% Overdue Credit
Agriculture and Fisheries	5.0%	2,294	3.0%	5.9%
Mining Industries	0.8%	256	0.3%	10.5%
Manufacturing Industries	-0.3%	12,844	16.7%	10.1%
Energy	-8.1%	2,313	3.0%	0.7%
Water and Sanitation	-12.3%	1,358	1.8%	2.0%
Construction	-11.8%	11,343	14.7%	35.8%
Trade	-0.9%	12,127	15.7%	14.6%
Transport and Storage	-5.3%	6,837	8.9%	7.5%
Accommodation and Restaurants	2.7%	4,567	5.9%	10.4%
Real Estate Activities	-15.2%	9,508	12.3%	25.6%
Health and Social Support	1.4%	1,291	1.7%	4.7%
Other	-4.7%	12,298	16.0%	10.4%
<b>Total</b>	<b>-5.5%</b>	<b>77,037</b>	<b>100%</b>	<b>15.7%</b>

Source: Banco de Portugal

In 2016, SMEs were the companies which recorded the strongest reduction in credit raised in comparison to 2014. SMEs had been the primary commercial focus of banking institutions not only due to their relative weight (52% of the total) but also because of their lower incidence of overdue credit (10.5% and 13.6%, in medium and small enterprises respectively, compared to 26.6% of micro-enterprises).

Values in million euros

**Evolution of the market of credit to companies by size**

	2016	Weight % 2016	% Overdue Credit 2016
Micro-enterprises	24,802	34%	26.6%
Small enterprises	19,297	26%	13.6%
Medium-sized enterprises	19,412	26%	10.5%
Large enterprises	10,474	14%	4.4%
<b>Total</b>	<b>73,985</b>	<b>100%</b>	<b>16.1%</b>

Source: Banco de Portugal

Analysing the number of companies, there is a notable positive variation in the birth of new companies which, combined with the variation of the number of closed and insolvent companies, gave rise to the net creation of companies by 2.0 times in 2016 (i.e. business revitalisation), 7.3% above the figure observed in 2014.

**Evolution of the number of companies**

	2014	2015	2016	Variation 14/16
Openings	35,849	37,961	37,034	3.3%
Closures	14,992	16,638	15,505	3.4%
Insolvency	4,492	4,232	3,256	-27.5%
<b>Business Revitalisation*</b>	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>7.3%</b>

Source: Informa DB Barometer

\* Openings / Closures + Insolvency

## 3.5 MAIN RISKS AND UNCERTAINTIES FOR 2017

The evolution of the European economies and the political and economic instability, due to the future elections in France and Holland, and the implementation of Brexit constitute the major focus points of concern for 2017. The election of extremist and/or anti-European governments in the aforesaid countries combined with the accomplishment of United Kingdom's exit from the European Union could imply, according to some analysts, the end of the European Union, with countless risks for the economies of its member countries. Added to this external factor is another related to the election of Donald Trump as President of the USA, which has created a new source of international tension and geopolitical instability that could bring in heightened uncertainty as to worldwide economic evolution over the next few years.

2017 will be yet another year marked by regulations and various requirements imposed on the financial system for European banking through the European Central Bank (ECB), Banco de Portugal (BdP) and European Banking Authority (EBA).

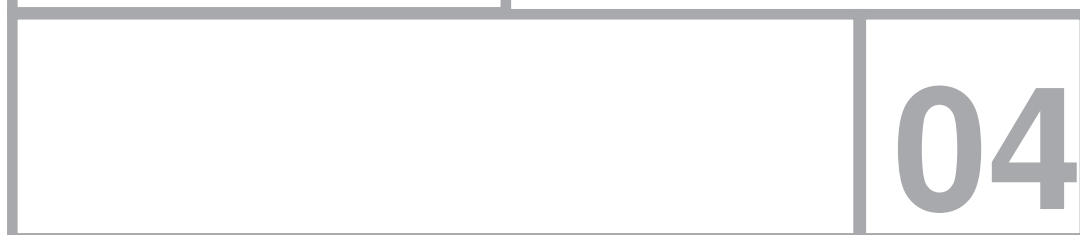
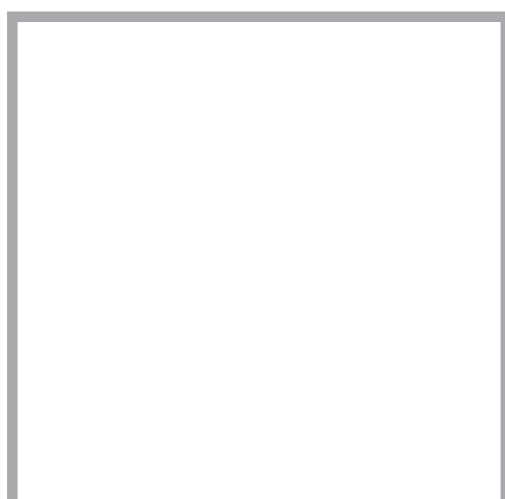
In early 2017, Banco de Portugal pointed to four major challenges which the national banking system is currently facing, which are:

- i. the sustained improvement of its profitability;
- ii. adaptation to the new regulatory requirements and assurance of their compliance;
- iii. introduction of changes in the governance model and organisational culture so as to enable recovering the trust of the stakeholders; and
- iv. investment in innovation in operational terms and regarding the provision of services to customers.

In the immediate term, the strengthening of bank profitability is the primordial challenge to generate internal capital and attract external capital, thus creating the conditions to enable the implementation of strategies to:

- i. reduce the weight of non-productive assets (credit and real estate) on the balance sheet;
- ii. review business models with a view to making them more efficient (elimination of over-banking), adjusted to the new paradigm of digital banking; and
- iii. cultural and behavioural change aimed at recovering the trust and stability of all the stakeholders.

In addition to the regulators mentioned above, credit institutions and financial companies are also covered by the regulations issued by the regulatory authorities of the capital market and investment activities (e.g. ESMA and CMVM), in this context being covered by new requirements and regulations, under national implementation and consultation, which naturally includes Grupo Crédito Agrícola.



Financial review

04

## IV. FINANCIAL REVIEW

### 4.1 GRUPO CRÉDITO AGRÍCOLA

The consolidated financial statements of Grupo Crédito Agrícola reflect the net worth of SICAM (Sistema Integrado de Crédito Agrícola Mútuo), formed by Caixa Central and Associated Caixas, which with the rest of the affiliate and associate companies constitute the Financial Group of Crédito Agrícola Mútuo.

#### a) Evolution of the key indicators

##### Evolution of GCA

Values in million euros

	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.
Customer Funds (on and off-balance sheet)	10,406	11,048	10,910	10,923	11,463	11,801	12,655	13,212	14,060
deposits	9,528	9,965	9,939	9,821	10,113	10,123	10,537	10,910	11,726
of which funds and capitalisation insurance a)	878	1,083	971	1,102	1,350	1,678	2,118	2,302	2,334
Gross Credit to Customers	8,300	8,781	8,534	8,507	8,301	8,136	8,099	8,373	8,651
Net Credit to Customers	7,926	8,366	8,041	7,914	7,660	7,472	7,261	7,555	7,941
Net Assets	12,122	12,948	14,224	14,241	15,113	14,621	15,051	14,936	16,699
Net Worth	987	1,075	1,108	1,142	1,100	1,141	1,211	1,205	1,244
Net Interest Income	425	341	335	381	367	307	307	310	327
Net Commissioning	81	82	93	97	102	101	101	98	105
Insurance Technical Margin	14	9	5	10	-4	-9	-21	20	14
Operating Income	537	457	478	505	493	486	577	515	467
Net Income	121	52	36	55	45	-3	27	54	58
Ratio of Credit Overdue > 90 days b)	3.8%	4.1%	4.9%	5.8%	6.8%	7.7%	8.0%	7.8%	6.2%
Ratio of Coverage of Overdue Credit - %	136.0%	127.4%	127.8%	119.8%	114.2%	121.0%	122.9%	122.5%	129.8%
Core Tier 1 - GCA - %	12.2%	12.1%	12.7%	12.5%	11.6%	11.9%	n.a.	n.a.	n.a.
Common equity tier 1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.1%	13.0%	13.6%
Tier 1 - GCA - % c)	12.0%	11.8%	12.5%	12.3%	11.1%	11.4%	13.1%	13.0%	13.6%
Total Solvency Ratio - GCA - %	13.3%	12.7%	13.4%	12.7%	10.9%	10.8%	13.1%	13.5%	14.4%
Cost-to-Income Ratio - GCA - %	56.8%	68.8%	68.3%	65.4%	67.0%	68.2%	57.5%	63.8%	73.1%
Return on Equity (ROE) - %	12.2%	4.9%	3.2%	4.8%	4.1%	-0.3%	2.2%	4.5%	4.7%
Return on Assets (ROA) - %	1.0%	0.4%	0.2%	0.4%	0.3%	0.0%	0.2%	0.4%	0.3%
Number of employees d)	4,326	4,392	4,365	4,335	4,296	4,212	4,158	4,121	4,054

Notes:

The values for 2010 were calculated in accordance with the standards approved by the European Union, which entered in force from 1 January 2010 onwards; the values for 2009 and 2008 were restated for purposes of comparability.

a) The values refer exclusively to the Associated Caixas of SICAM.

b) The values presented for the period 2008-2011 refer to SICAM.

c) From 2014 onwards, the values correspond to common equity tier 1 - phased in (Basel III).

d) The values refer to employees with open-ended/indefinite employment contracts and with fixed/non-fixed term contracts (positions at year end).

The consolidated net assets of Grupo Crédito Agrícola recorded a value of 16,699 million euros in 2016, representing growth of 11.8% in relation to the 14,936 million euros achieved in 2015. This was essentially the result of the increased financial assets of the Group, classified as investments held to maturity and financial assets available for sale, which as a whole increased by approximately 1.6 billion euros in 2016. This increased assets was also influenced by the increased gross credit of around 280 million euros.

Consolidated total liabilities increased by 12.6%, having shifted from 13,731 million euros in 2015 to 15,455 million euros in 2016, where particular note should be made, in this context, of the year-on-year growth recorded in customer funds on the balance sheet (+816.3 million euros in 2016). The consolidated total equity of Grupo Crédito Agrícola reached 1,244 million euros in 2016, corresponding to an increase of 39.5 million euros (+3.3%), primarily explained by the share capital increase of 36.7 million euros (+3.7%).

The net income of Grupo Crédito Agrícola stood at 58.3 million euros in 2016, corresponding to an increase of 4.2 million euros in relation to 2015. This increase was primarily influenced by the growth of net interest income by 17.7 million euros (+5.7%) and a significantly lower level of constitution of provisions and impairments that amounted to 31.0 million euros (81.9 million euros less than the value recorded in the same period of 2015), which more than offset the fall in the earnings of financial assets, that recorded a decline of 65.5 million euros (-59.7%).

## b) Capital ratios

In December 2016, Grupo Crédito Agrícola's own funds reached 1,277 million euros, representing a reinforcement of 85 million euros in relation to the same period of the previous year. Own fund requirements to cover credit (which includes requirements of own funds for risk of adjustment of credit valuation) and operational risk increased as a whole by 0.8% when compared to the position at the end of 2015.

### OWN FUNDS AND SOLVENCY RATIO - GRUPO CRÉDITO AGRÍCOLA

<i>In million euros</i>	2012	2013	2014	2015	2016	Δ 16/15
<b>Total Own Funds <sup>(a)</sup></b>	<b>992</b>	<b>913</b>	<b>1,048</b>	<b>1,142</b>	<b>1,227</b>	<b>7.4%</b>
Core tier 1	1,052	1,012				
Main Own Funds - Level 1 (Common equity tier 1)			1,048	1,105	1,163	5.2%
Level 1 Own Funds (Tier 1)	1,011.0	967.0	1,048	1,105	1,163	5.2%
<b>Position at risk of assets and equivalent</b>	<b>15,825</b>	<b>13,505</b>	<b>15,301</b>	<b>14,245</b>	<b>17,203</b>	<b>20.8%</b>
<b>Own fund requirements</b>	<b>9,088</b>	<b>8,495</b>	<b>7,985</b>	<b>8,479</b>	<b>8,544</b>	<b>0.8%</b>
Credit <sup>(b)</sup>	8,096	7,487	6,919	7,377	7,426	0.7%
Operational	992	1,008	1,066	1,099	1,118	1.7%
<b>Solvency ratios <sup>(c)</sup></b>						
Core Tier 1	11.6%	11.9%				
Common equity tier 1 - phased in			13.1%	13.0%	13.6%	0.57 p.p.
Tier 1	11.1%	11.4%	13.1%	13.0%	13.6%	0.57 p.p.
Total	10.9%	10.8%	13.1%	13.5%	14.4%	0.88 p.p.

(a) Including net income for the year.

(b) Including own fund requirements for adjustment risk of credit assessment.

(c) Up to December 2013 the ratios were calculated pursuant to Banco de Portugal Notices 5/2007 and 6/2010, after which the rules of Directive 2013/36/EU (CRD IV - Capital Requirements Directive) and Regulation (EU) 575/2013 (CRR - Capital Requirements Regulation) are applied.



In this context, the common tier 1 and total solvency ratios calculated for 2016 based on application of the transitional provisions (phased-in) and full application (fully implemented) of the rules established in Regulation (EU) 575/2013, are comfortably above the regulatory minimum stipulated by Banco de Portugal.

- CET1:
  - phased-in: 13.6%
  - fully implemented: 12.3%
- Total solvency:
  - phased-in: 14.4%
  - fully implemented: 13.4%

#### OWN FUNDS AND SOLVENCY RATIO 2016 - GRUPO CRÉDITO AGRÍCOLA

<i>In million euros</i>	CRD IV transitional definition (1)	CRD IV fully definition (2)	Δ 2/1
Capital Common equity tier 1	1,163	1,040	-10.6%
Total own funds	1,227	1,134	-7.5%
Own fund requirements	8,544	8,466	-0.9%
<b>Solvency ratios</b>			
<i>Common equity tier 1</i>	13.6%	12.3%	-1.4 p.p.
<i>Total</i>	14.4%	13.4%	-0.9 p.p.

## c) Income Statement

In a context in which the financial sector is once again under pressure due to the historically low rates of the Euribor, the process of deleveraging of economic agents and the growing capital requirements under the regulations of Basel III and Solvency II, Grupo Crédito Agrícola presented earnings of 58.3 million euros. This figure corresponds to an increase of 7.8% in relation to 2015, explained by the increased net interest income (+17.7 million euros) and the lower constitution of provisions/impairments (-81.9 million euros) in relation to 2016, which offset the reduction of net operating income of the value of 48.3 million euros (namely affected by the decline in net trading income of 65.5 million euros).

### Income Statement

In thousand euros	2014	2015	2016	Variation	
				Abs.	%
Interest and similar income	531,548	486,032	496,551	10,518	2.2%
Interest and similar costs	224,609	176,385	169,168	-7,217	-4.1%
<b>Net Interest Income</b>	<b>306,940</b>	<b>309,647</b>	<b>327,383</b>	<b>17,735</b>	<b>5.7%</b>
Technical margin of insurance activity	-21,497	19,661	13,855	-5,806	-29.5%
Net commissions	100,601	98,280	105,143	6,863	7.0%
Earnings of financial transactions*	211,182	109,680	44,211	-65,469	-59.7%
Other net operating income:	-20,667	-22,056	-23,693	-1,636	-7.4%
Earnings from assets and liabilities at fair value	564	-15,466	13,442	28,908	n.a.
Earnings of divestment of other assets	-7,560	-6,669	-21,255	-14,586	-218.7%
Other net operating income	-13,671	79	-15,879	-15,958	n.a.
<b>Operating Income</b>	<b>576,559</b>	<b>515,212</b>	<b>466,899</b>	<b>-48,313</b>	<b>-9.4%</b>
Structural Costs	331,578	328,916	341,343	12,427	3.8%
Staff costs	192,135	193,296	201,091	7,795	4.0%
General administrative overheads	107,300	108,147	112,685	4,538	4.2%
Amortisation	32,144	27,473	27,567	95	0.3%
Provisions and impairments	179,320	112,942	30,999	-81,943	-72.6%
Earnings of holdings in associates (equity method)	-100	-227	304	531	n.a.
<b>Earnings before tax</b>	<b>65,560</b>	<b>73,128</b>	<b>94,861</b>	<b>21,733</b>	<b>29.7%</b>
Taxes	38,582	18,755	36,420	17,665	94.2%
Non-controlling interests	-95	-260	-117	144	55.2%
<b>Net Income</b>	<b>26,883</b>	<b>54,112</b>	<b>58,325</b>	<b>4,212</b>	<b>7.8%</b>

(\*) Sum of income from equity instruments, earnings of financial assets available for sale and foreign exchange revaluation.

## d) Balance Sheet Structure

Net assets recorded the value of 16.7 billion euros, showing growth of 1.76 billion euros in relation to 2015, largely as a result of the increased credit to customers (+386 million euros), the increased investments held to maturity (+3,664 million euros) and the reduction of investments in securities (-2,078 million euros), partly as a result of a change of the investment strategy.

### BALANCE SHEET AS AT 31 DECEMBER

In thousand euros	2014	2015	2016	Variation	
				Abs.	%
<b>Net</b>					
Cash balances	501,660	421,807	415,873	-5,934	-1.4%
Investments in Credit Institutions	3,194	95,128	6,035	-89,093	-93.7%
Credit to Customers (net)	7,261,441	7,555,017	7,940,905	385,889	5.1%
Investments in Securities (net)	5,856,848	5,449,820	3,371,613	-2,078,207	-38.1%
Investments held to maturity	0	0	3,663,616	3,663,616	n.a.
Non-current assets held for sale	667,990	668,752	619,506	-49,247	-7.4%
Investment properties	94,835	82,583	69,946	-12,637	-15.3%
Invest. Affiliates, Tangibles and Intangibles	335,393	321,608	309,835	-11,773	-3.7%
Deferred tax assets	150,357	170,524	161,966	-8,558	-5.0%
Other Assets	179,122	170,520	140,096	-30,423	-17.8%
<b>Total Assets</b>	<b>15,050,841</b>	<b>14,935,759</b>	<b>16,699,391</b>	<b>1,763,632</b>	<b>11.8%</b>
<b>Liabilities</b>					
Funds of central banks and other credit institutions	1,116,382	625,817	1,578,903	953,086	152.3%
Customer Funds	10,536,609	10,910,086	11,726,366	816,280	7.5%
Insurance contract technical provisions	1,516,614	1,611,507	1,573,475	-38,033	-2.4%
Subordinated Liabilities	142,534	120,409	116,534	-3,876	-3.2%
Other Liabilities	527,777	463,136	459,849	-3,287	-0.7%
<b>Total Liabilities</b>	<b>13,839,915</b>	<b>13,730,955</b>	<b>15,455,126</b>	<b>1,724,170</b>	<b>12.6%</b>
<b>Equity</b>	<b>1,210,925</b>	<b>1,204,804</b>	<b>1,244,266</b>	<b>39,462</b>	<b>3.3%</b>
<b>Total Equity + Liabilities</b>	<b>15,050,841</b>	<b>14,935,759</b>	<b>16,699,391</b>	<b>1,763,632</b>	<b>11.8%</b>

## e) Quality of the Credit Portfolio

An analysis of the quality of the credit portfolio reveals that the credit overdue by more than 90 days fell by 117 million euros (-18%). This reduction was influenced by the transfer to credit written off from the assets (fully provisioned) of around 100 million euros (of which 58 million were sold under Cassiopeia 2), as well as by the efforts that have been developed towards improving credit risk analysis, and the initiatives and tools developed to standardise the credit monitoring and recovery processes in the context of the CA Group, which contributed to improve the respective ratio by 1.6 p.p. to 6.2% recorded in December 2016.

### EVOLUTION OF OVERDUE CREDIT

In million euros	2013	2014	2015	2016	Δ 16/15	Δ % 16/15
Credit overdue < 90 days	29.8	27.5	17.8	13.9	-3.9	-22%
Credit overdue > 90 days	627.6	644.1	650.3	533.3	-117.0	-18%
<b>Total overdue credit</b>	<b>657.5</b>	<b>671.6</b>	<b>668.1</b>	<b>547.2</b>	<b>-120.9</b>	<b>-18%</b>
<b>Ratio of credit overdue &gt; 90 days</b>	<b>7.7%</b>	<b>8.0%</b>	<b>7.8%</b>	<b>6.2%</b>	<b>-1.6 p.p.</b>	

The level of provisioning for coverage of the portfolio of overdue credit stood at 129.8%, maintaining conservative coverage levels in comparison to those recorded in the market.

#### OVERDUE CREDIT AND IMPAIRMENTS AS AT 31.DEC.2016

In million euros

	Total gross credit	Overdue credit	Overdue credit / Total credit	Provisions for credit risk	Coverage level
<b>Companies and Public Administration</b>	<b>4,393</b>	<b>337</b>	<b>7.7%</b>	<b>450</b>	<b>133.5%</b>
<b>Individuals</b>	<b>4,263</b>	<b>210</b>	<b>4.9%</b>	<b>261</b>	<b>123.9%</b>
Mortgage	2,577	43	1.7%	35	80.2%
Consumer and other purposes	1,686	167	9.9%	226	135.3%
<b>Total</b>	<b>8,651</b>	<b>547</b>	<b>6.3%</b>	<b>710</b>	<b>129.8%</b>

The segment of Companies and Public Administration recorded a containment of overdue credit with the overdue credit ratio standing at 7.7% in December 2016 (10.1% in 2015). Credit granted to individual customers also followed the reduction of the overdue credit ratio, standing at 4.9% in December 2016, in other words, 0.9 p.p. below the 5.8% recorded in 2015.

The ratio of non-performing credit, calculated under the terms of Banco de Portugal Instruction 24/2012, fell in relation to the previous year, having reached 6.5% in December 2016 and the ratio of net default remained at -1.8%.

#### DEFAULT RATIOS (\*)

	2013	2014	2015	2016
Non-performing credit / Total credit	8.4%	8.5%	8.1%	6.5%
Net non-performing credit / Net total credit	-0.2%	-1.8%	-1.8%	-1.8%

(\*) Ratios calculated pursuant to the definition in Banco de Portugal Instruction 24/2012, which amended Instruction 22/2011.

The ratio of credit at risk, which includes the total value in debt of credit overdue by 90 days or more and restructured credit also overdue for this same period where there has not been full payment of interest and charges and full reinforcement of guarantees, showed a variation of 1.8 p.p. in comparison to the previous year, reaching 9.4% and, in net terms, corresponds to a year-on-year reduction, standing at 1.3%.

#### CREDIT AT RISK RATIOS (\*)

	2013	2014	2015	2016
Credit at risk / Total credit	11.3%	11.8%	11.2%	9.4%
Net credit at risk / Net total credit	3.0%	1.8%	1.6%	1.3%

(\*) Ratios calculated pursuant to the definition in Banco de Portugal Instruction 24/2012, which amended Instruction 22/2011.

The ratio of restructured credit, calculated under the terms of Banco de Portugal Instruction 32/2013, reached 13.8% (an increase of 0.8 p.p. compared to 2015) and the ratio of restructured credit not included in credit at risk stood at 11.9% (remaining at the same value of the previous year).

#### RESTRUCTURED CREDIT RATIOS (\*)

	2013	2014	2015	2016
Restructured credit / Total credit	10.8%	10.7%	13.0%	13.8%
Restructured credit not included in Credit at risk / Total credit	10.2%	9.7%	11.9%	11.9%

(\*) Ratios calculated pursuant to the definition in Banco de Portugal Instruction 32/2013.

## 4.2 BANKING BUSINESS

### a) Evolution of the key indicators

At the end of December 2016, Crédito Agrícola presented an increase of the net income of the banking business (SICAM) of 16 million euros in relation to 2015 (72,1 million euros compared to 56.3 million euros), which was positively influenced by the increased gross credit (+3.4%) and lesser need to reinforce provisions and impairments (-55.8%), although this effect was attenuated by the lower net trading income (-52.4%).

#### KEY INDICATORS

In thousand euros

	2014	2015	2016	Var. 16/15	
				Abs.	%
Total assets	13,266,600	13,059,792	14,880,614	1,820,822	13.9%
Financial assets available for sale and held to maturity	4,277,583	3,729,604	5,311,976	1,582,371	42.4%
Gross credit to customers	8,147,371	8,429,644	8,713,284	283,640	3.4%
Total liabilities	12,098,264	11,887,166	13,653,239	1,766,073	14.9%
Customer funds	10,620,337	10,969,821	11,770,738	800,917	7.3%
Funds of other credit institutions and ECB	1,116,382	625,817	1,578,903	953,086	152.3%
Equity	1,168,335	1,172,626	1,227,375	54,749	4.7%
Net interest income	248,225	245,129	276,013	30,884	12.6%
Operating income	554,378	502,756	474,532	-28,225	-5.6%
Structural costs	300,475	300,838	313,331	12,493	4.2%
Provisions / impairments	200,507	126,902	56,123	-70,778	-55.8%
Net Income	24,505	56,311	72,057	15,746	28.0%
Return on equity (ROE)	2.10%	4.8%	5.9%	n.a.	1.1 p.p.
Cost-to-income ratio	54.2%	59.8%	66.0%	n.a.	6.2 p.p.

### b) Income Statement

After 3 years of economic depression in Portugal, between 2011 and 2013, the year of 2016 came to confirm the phase of recovery and growth initiated in 2014, with GDP growth having reached 1.4% in 2016, albeit demonstrating a deceleration in relation to the growth recorded in 2015 of 1.6%. Despite the dynamics observed in domestic demand, there was a reduction of the leverage level of households and non-financial companies reflected directly in the reduction of credit (volume of settlement not offset by new credit concessions) of 3.2%, specifically of -1.6% in households and -5.5% in companies<sup>5</sup>.

The banking activity of Grupo Crédito Agrícola, which includes Caixa Central and the Associated Caixas (SICAM) was distinguished in the market in a remarkable manner, having recorded a 3.4% year-on-year increase of credit granted to customers, underpinned by the 3.8% growth in credit to companies and 2.9% growth in credit to individuals.

<sup>5</sup> In Portugal, in the segment of credit to non-financial companies, credit concession has been particularly penalised by the negative dynamics of credit to the construction and real estate sectors, with a weight above 25%. Credit to agriculture and fisheries, accommodation and restaurants, and health and social support are the areas which recorded positive year-on-year variations. Source: Credit by economic activity sector, BPStat, Feb.2017

At the end of December 2016, Crédito Agrícola presented net income of the banking business (SICAM) of 72.1 million euros, which corresponds to a positive variation of 15.7 million euros relative to 2015.

Overall, the net income was marked by: i) the improvement of net interest income by 12.6%; ii) the 52.4% decrease in net trading income derived from the earnings obtained in the portfolio of securities; iii) the decrease of other net operating income of 53.6% (-13.6 million euros); and iv) the reduction of provisions and impairments constituted during the year which shifted from 126.9 million euros in 2015 to 56.1 million euros (-55.8%) in 2016.

#### Income Statement

<i>In thousand euros</i>					
	2014	2015	2016	Variation	
				Abs.	%
Interest and similar income	457,014	400,181	396,270	-3,912	-1.0%
Interest and similar costs	208,789	155,052	120,256	-34,795	-22.4%
<b>Net Interest Income</b>	<b>248,225</b>	<b>245,129</b>	<b>276,013</b>	<b>30,884</b>	<b>12.6%</b>
Net commissions	128,522	130,193	138,192	7,999	6.1%
Net trading income	171,767	101,989	48,509	-53,480	-52.4%
Other net operating income	5,864	25,445	11,818	-13,628	-53.6%
<b>Operating Income</b>	<b>554,378</b>	<b>502,756</b>	<b>474,532</b>	<b>-28,225</b>	<b>-5.6%</b>
<b>Structural Costs</b>	<b>300,475</b>	<b>300,838</b>	<b>313,331</b>	<b>12,493</b>	<b>4.2%</b>
Staff costs	164,986	166,516	175,410	8,895	5.3%
<i>of which non-recurrent*</i>	2,297	3,386	2,204	-1,182	-34.9%
General administrative overheads	121,298	121,152	124,682	3,530	2.9%
<i>of which non-recurrent*</i>	477	0	116	116	n.a.
Amortisation	14,190	13,170	13,238	68	0.5%
Provisions and impairments	200,507	126,902	56,123	-70,778	-55.8%
<b>Earnings before tax</b>	<b>53,397</b>	<b>75,017</b>	<b>105,078</b>	<b>30,060</b>	<b>40.1%</b>
Taxes, after correction and deferred	28,891	18,706	33,020	14,314	76.5%
<b>Net Income</b>	<b>24,505</b>	<b>56,311</b>	<b>72,057</b>	<b>15,746</b>	<b>28.0%</b>

(\*) Costs related to early retirement, indemnities and consulting (reorganisation of the Group in 2014 and DFOA in 2016).

### i. Net Interest Income

SICAM's net interest income increased by 12.6%, having shifted from 245 million euros in 2015 to 276 million euros in 2016.

2016 was once again marked by the ECB's expansionary policy, with a view to increasing the inflation levels in the euro zone which, in turn, was marked by the injection of liquidity in the economy through the quantitative easing programme and, on the other hand, by the low reference rate, with impact on the level of Euribor rates that, for some maturities, reached negative values.

## NET INTEREST INCOME

in thousand euros

Variables	2015			2016		
	Average capital	Average rate (%)	Income / Costs	Average capital	Average rate (%)	Income / Costs
Credit to customers	8,288,507	3.6%	296,278	8,571,464	3.2%	270,342
Securities and other investments*	4,492,008	0.9%	40,677	5,003,912	0.9%	43,421
<b>Financial assets</b>	<b>12,780,516</b>	<b>2.6%</b>	<b>336,955</b>	<b>13,575,376</b>	<b>2.3%</b>	<b>313,764</b>
Customer deposits	10,795,079	0.8%	87,253	11,370,280	0.3%	34,330
Funds of Central Banks and other liabilities	1,002,571	0.5%	4,573	1,220,832	0.3%	3,420
<b>Financial liabilities</b>	<b>11,797,650</b>	<b>0.8%</b>	<b>91,826</b>	<b>12,591,111</b>	<b>0.3%</b>	<b>37,750</b>
<b>Net interest income</b>		<b>1.9%</b>	<b>245,129</b>		<b>2.0%</b>	<b>276,013</b>
Intermediation margin**		2.8%			2.9%	
Average Euribor rate (6 months)		0.06%			-0.17%	

(\*) Income net of costs related to premium amortisation

(\*\*) Average rate of credit to customers - customer deposits

The increase of net interest income was largely influenced by: i) the price effect, via the reduction of the average interest rate of deposits from 0.8% to 0.3% which was higher than the reduction of the average interest rate in credit to customers from 3.6% to 3.2%, essentially explained by the decreased Euribor rate; and ii) the volume effect, via the increased credit granted to customers.

## ii. Operating Income

Although SICAM's net income was higher than in the previous year, operating income, in the opposite direction, fell by 5.6%, as a result of the lower contribution of the earnings of financial assets available for sale, which, with respect to the capital gains generated by the portfolio of securities, decreased by 60.7 million euros in 2016 (from 99.4 million euros in 2015 to 38.6 million euros in 2016), representing a reduction of 61%. The justification for this outcome resides in the stabilisation of the European bond market, in particular of the public debt market of the southern countries of the euro zone.

## iii. Net Commissions

In 2016, net commissions increased by 6.1%, reaching 138.2 million euros, compared to the 130.1 million euros recorded in 2015. This effect was the result of:

- i) the 10.9% increase of commissions of credit operations (+2.8 million euros), brought about by the growth of gross credit;
- ii) the increase of commissions related to placement and marketing of retail products in the areas of insurance and asset management of 7.9% (+2.6 million euros) as a result of the Group's focus on reinforcing the sale of products supplementary to the banking business offered by CA Gest, CA Seguros and CA Vida entities outside the Group.

## COMMISSIONS

In thousand euros

	2014	2015	2016	Variation	
				Abs.	%
<b>Commissions received</b>	<b>138,214</b>	<b>140,430</b>	<b>149,219</b>	<b>8,789</b>	<b>6.3%</b>
Guarantees provided	5,382	4,838	4,213	-625	-12.9%
Open documentary credit	85	82	65	-16	-20.1%
Commitments to third parties	7,894	7,726	8,221	495	6.4%
Deposit and custody of values	3,345	3,649	3,621	-29	-0.8%
Collection of values	927	877	793	-84	-9.6%
Transfer of values	2,882	2,298	2,321	22	1.0%
Credit operations	24,905	25,552	28,343	2,791	10.9%
Cards	24,849	24,630	25,894	1,264	5.1%
Interbank	366	389	430	41	10.5%
Placement and marketing	28,989	32,922	35,507	2,585	7.9%
Other commissions received	38,589	37,466	39,811	2,345	6.3%
<b>Commissions paid</b>	<b>9,692</b>	<b>10,237</b>	<b>11,028</b>	<b>790</b>	<b>7.7%</b>
<b>Total net commissions</b>	<b>128,522</b>	<b>130,193</b>	<b>138,192</b>	<b>7,999</b>	<b>6.1%</b>

The stronger activity of the participated companies was reflected in higher remuneration of Caixa Central and the Associated Caixas as placement agents. This increase was particularly due to the net income of CA Seguros which generated commissions of around 17.9 million euros, corresponding to an increase of 11.3% in relation to 2015.

## PLACEMENT AND MARKETING COMMISSIONS

In thousand euros

	2014	2015	2016	Variation	
				Abs.	%
CA Gest	870	1,145	763	-381	-33.3%
CA Seguros	12,197	16,117	17,945	1,828	11.3%
CA Vida	11,710	11,211	11,903	692	6.2%
<b>Sub-total</b>	<b>24,777</b>	<b>28,473</b>	<b>30,612</b>	<b>2,139</b>	<b>7.5%</b>
Other placement/marketing commissions	4,212	4,449	4,895	446	10.0%
<b>Total</b>	<b>28,989</b>	<b>32,922</b>	<b>35,507</b>	<b>2,585</b>	<b>7.9%</b>

## iv. Net Trading Income

Net trading income reached 48.5 million euros in 2016, reflecting a reduction of 53.5 million euros in comparison to 2015 (-52%).

## NET TRADING INCOME

In thousand euros

	2014	2015	2016	Variation	
				Abs.	%
Financial assets available for sale	169,130	99,365	38,643	-60,722	-61%
Sovereign public debt	184,616	80,711	26,067	-54,644	-68%
Other debt instruments	-7,820	15,510	422	-15,088	-97%
Equity instruments	-7,666	3,144	12,154	9,010	287%
Income from equity instruments	341	339	8,181	7,842	2316%
Currency conversion	847	2,739	1,768	-971	-35%
Other net income	1,449	-453	-82	371	n.a.
<b>Total net trading income</b>	<b>171,767</b>	<b>101,989</b>	<b>48,509</b>	<b>-53,480</b>	<b>-52%</b>

The stabilisation of the bond market, namely of the public debt in the euro zone, gave rise to a reduction of the capital gains generated by the portfolio of securities, which reached only 26.1 million euros in 2016, corresponding to a decrease of 68% in relation to 2015 (-54.6 thousand euros).



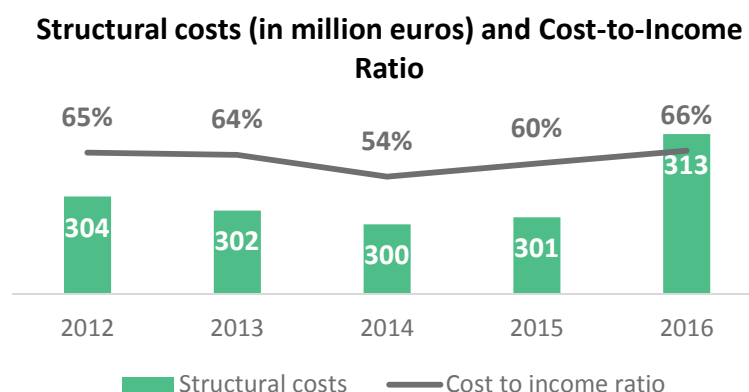
## v. Structural Costs

Structural costs grew to 313 million euros, having increased by around 12.5 million euros. This evolution is explained by the increased staff costs which shifted from 167 million euros in 2015 to 175 million euros in 2016. This variation (+8.9 million euros) is primarily explained (i) by the re-composition of employees in management and supervisory positions for the term of office of 2016-2018 in compliance with the regulations on requirements of adequacy of the employees holding these positions, and (ii) by the increased costs related to the pension fund. In turn, general administrative overheads increased by 3.5 million euros particularly due to the recognition of costs related to judicial services and litigation (+0.4 million euros), namely associated to the large number of processes of credit written off from the assets, costs related to specialised services of SIBS (+1.7 million euros) and costs related to advertising and the commercial incentive system (+0.7 million euros). There was also a minor increase of the amortisation for the year of 0.5%.

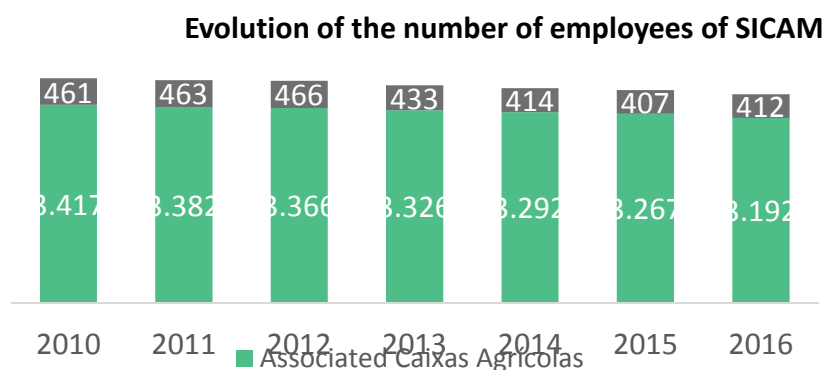
Structural costs				Variation	
	2014	2015	2016	Absolute	Relative
<i>In thousand euros</i>					
Operating costs	286,284	287,668	300,093	12,425	4.3%
Staff costs	164,986	166,516	175,410	8,895	5.3%
<i>of which non-recurrent*</i>	2,297	3,386	2,204	-1,182	-34.9%
General administrative overheads	121,298	121,152	124,682	3,530	2.9%
<i>of which non-recurrent*</i>	477	0	116	116	<i>n.a.</i>
Amortisation	14,190	13,170	13,238	68	0.5%
<b>Structural costs</b>	<b>300,475</b>	<b>300,838</b>	<b>313,331</b>	<b>12,493</b>	<b>4.2%</b>
Non-recurring costs*	2,774	3,386	2,320	-1,066	-31.5%
<b>Structural costs excluding non-recurring costs</b>	<b>297,701</b>	<b>297,452</b>	<b>311,011</b>	<b>13,559</b>	<b>4.6%</b>
<b>Cost to income ratio</b>	<b>54%</b>	<b>60%</b>	<b>66%</b>	<b>6.2 p.p.</b>	<b>-</b>

\* Costs related to early retirement, indemnities and consulting of Caixa Central

The efficiency ratio (cost-to-income) grew from 60% in 2015 to 66% in 2016, as a result of the 5.6% decline in net operating income and the 4.2% increase in structural costs.



## vi. Evolution of the employees of SICAM



The number of employees of SICAM declined from 3,674 to 3,604 in 2016 (-70 employees),

## vii. Provision/Impairment Levels

Over the last few years, the requirements in the reinforcement of provisions/impairments was clearly reflected in the balance sheets of Portuguese financial institutions, where SICAM was no exception, having reinforced its provisions/impairments between 2012 and 2015 by more than 600 million euros.

The provisions/impairments recorded at SICAM reached 56 million euros in 2016, portraying a slowdown in relation to 2013 and 2015, primarily explained by:

- the reduction of overdue credit from 7.8% in 2015 to 6.3% (-1.5 p.p.) in 2016 due to the transfer of overdue credit to written-off from the assets, which was fully provisioned, of around 100 million euros. This evolution is not unrelated to the guidelines issued by the Tax Authority in May 2016, that there are no tax implications when institutions remove from their balance sheet credit in arrears for more than 24 months and which has been recognised and accepted for tax purposes as an impairment loss of the value equal to the credit; and
- better risk assessment in the concession and renewal of credit, sustained by a growing normalisation of processes and a more enriched and cautious risk analysis.

The distribution of the provisions and impairments for the year was as follows:

- i) the provisions for overdue credit and bad debt (regulatory and exceptional) fell from 76 million euros in 2015 to a net reversal of 8 million euros in 2016, essentially explained by the write-off of credit from the assets;
- ii) the impairments of other financial assets, in particular of the participation units and real estate investment funds, which maintained the same level of reinforcement recorded in 2015, of around 32 million euros.

The ratio of coverage of overdue credit stood at 129.8%, with Crédito Agrícola having continued with its healthy and prudent management with respect to this matter.

Additionally, with respect to the real estate properties received in lieu of repayment due to default, the reinforcement of impairments increased significantly from 9.6 million euros recorded in 2015 to 21.5 million euros observed in 2016.

#### PROVISIONS / IMPAIRMENTS

In thousand euros	2014	2015	2016	Variation	
				Abs.	%
Provisions for overdue credit and bad debt	155,001	75,883	-8,033	-83,916	n.a.
Impairment of other financial assets	29,256	32,692	31,553	-1,139	-3.5%
Impairment of other assets	11,130	12,332	32,155	19,823	160.7%
<i>of which real estate properties due to credit recovery</i>	9,242	9,616	21,501	11,885	123.6%
Other provisions / impairments	5,119	5,996	449	-5,547	-92.5%
<b>Total</b>	<b>200,507</b>	<b>126,902</b>	<b>56,123</b>	<b>-70,778</b>	<b>-55.8%</b>

## viii. Profitability

Banking activity, reflected in the gross commercial margin, increased slightly by 0.11 p.p. in 2016 in relation to 2015, as a result of the higher average profitability of net interest income (+0.12 p.p.).

#### BREAKDOWN OF PROFITABILITY

	2014	2015	2016	Variation
+ Rate of financial assets	3.11%	2.64%	2.31%	-0.33 p.p.
- Rate of financial liabilities	1.16%	0.72%	0.28%	-0.44 p.p.
<b>= Net Interest Income</b>	<b>1.95%</b>	<b>1.92%</b>	<b>2.03%</b>	<b>0.12 p.p.</b>
+ Yield of commissions	1.01%	1.02%	1.02%	0.00 p.p.
<b>= Gross Commercial Margin</b>	<b>2.96%</b>	<b>2.94%</b>	<b>3.05%</b>	<b>0.11 p.p.</b>
+ Net trading income and other	1.40%	1.00%	0.44%	-0.55 p.p.
<b>= Business Margin</b>	<b>4.36%</b>	<b>3.93%</b>	<b>3.50%</b>	<b>-0.44 p.p.</b>
- Effect of structural costs	2.36%	2.35%	2.31%	-0.05 p.p.
- Effect of provisions and taxes	1.80%	1.14%	0.66%	-0.48 p.p.
<b>= Return on financial assets</b>	<b>0.19%</b>	<b>0.44%</b>	<b>0.53%</b>	<b>0.09 p.p.</b>
x Financial assets / Net assets	0.96	0.98	0.91	
<b>= Return on assets (ROA)</b>	<b>0.18%</b>	<b>0.43%</b>	<b>0.48%</b>	<b>0.05 p.p.</b>
x Net assets / Equity	11.36	11.14	12.12	
<b>= Return on equity (ROE)</b>	<b>2.10%</b>	<b>4.80%</b>	<b>5.87%</b>	<b>1.07 p.p.</b>

The profitability achieved in trading activity declined by 0.55 p.p. in relation to 2015. However, this was more than offset by the positive effect of the increased gross commercial margin (+0.11 p.p.) and by the positive effect of the lower reinforcement of provisions and taxes (-0.48 p.p.), leading to an increase in the return on equity by 1.07 p.p., which shifted from 4.8% in 2015 to 5.9% in 2016.

## c) Balance Sheet Structure

### Balance Sheet as at 31 December

In thousand euros

	2014	2015	2016	Variation	
				Abs.	%
<b>Assets</b>					
Cash balances	501,641	421,057	415,824	-5,233	-1.2%
Investments in Credit Institutions	191	94,827	6,035	-88,792	-93.6%
Credit to Customers (net)	7,309,837	7,577,775	7,997,636	419,860	5.5%
<i>Credit to Customers (gross)</i>	<i>8,147,371</i>	<i>8,429,644</i>	<i>8,713,284</i>	<i>283,640</i>	<i>3.4%</i>
<i>Impairments</i>	<i>837,534</i>	<i>851,869</i>	<i>715,648</i>	<i>-136,221</i>	<i>-16.0%</i>
Investments in Securities (net)	4,277,583	3,729,604	5,311,976	1,582,371	42.4%
Non-current assets held for sale	429,010	445,441	395,045	-50,396	-11.3%
Invest. Affiliates, Tangibles and Intangibles	323,123	330,958	320,780	-10,178	-3.1%
Other Assets	425,215	460,129	433,319	-26,810	-5.8%
<b>Total Assets</b>	<b>13,266,600</b>	<b>13,059,792</b>	<b>14,880,614</b>	<b>1,820,822</b>	<b>13.9%</b>
<b>Liabilities</b>					
Funds of central banks and other credit institutions	1,116,382	625,817	1,578,903	953,086	152.3%
Customer Funds	10,620,337	10,969,821	11,770,738	800,917	7.3%
Subordinated Liabilities	142,534	120,409	116,534	-3,876	-3.2%
Other Liabilities	219,011	171,118	187,064	15,946	9.3%
<b>Total Liabilities</b>	<b>12,098,264</b>	<b>11,887,166</b>	<b>13,653,239</b>	<b>1,766,073</b>	<b>14.9%</b>
Equity	1,168,335	1,172,626	1,227,375	54,749	4.7%
<b>Total Equity + Liabilities</b>	<b>13,266,600</b>	<b>13,059,792</b>	<b>14,880,614</b>	<b>1,820,822</b>	<b>13.9%</b>

In 2016, total assets stood at 14,881 million euros, corresponding to a 13.9% Growth relation to 2015, due to the following factors:

- the 5.5% increase of net credit to customers (+420 million euros), as a result of SICAM's commercial performance and the better quality of the credit portfolio;
- the 42.4% increase in the value of investments in securities as a result of the increased funds of central banks and other credit institutions and the increased customer funds on the balance sheet which were not transformed into credit, having been invested in securities.

Reference is also made, in 2016, to the reduction of investments in credit institutions of 88.8 million euros.

Total liabilities accompanies the trend of total assets, with an increase of 14.9%, to stand at 13,653 million euros, corresponding to growth of 1,766 million euros. This increase of the liabilities is related to the aforesaid increased funds of central banks and other credit institutions and customer funds.

It is important to note that, notwithstanding the observed growth of credit, the net loan-to-deposit ratio stood at 67.9%, significantly below the recommended maximum threshold for the loan-to-deposit ratio (120%) and the values recorded in the banking system as a whole.

Equity grew by 55 million euros (+4.7%), to stand at 1,227 million euros, as a result of:

- the increased share capital of 37 million euros through new associates and reinforcement of the equity stock of the existing associates;
- the strengthening of retained earnings by 27 million euros;
- the increased net income for the year of 16 million euros;
- the fact that the aforesaid effects offset the net decline in reserves of 25 million euros, namely the reduction in revaluation reserves (-27 million euros).

## i. Financial Assets Available for Sale

SICAM's portfolio of financial assets is managed by Caixa Central as the entity responsible for SICAM's treasury and liquidity management of the system. Reference is made to the change in the mix of the portfolio of investments with the transfer of a significant portion of the financial assets available for sale to financial assets held to maturity.

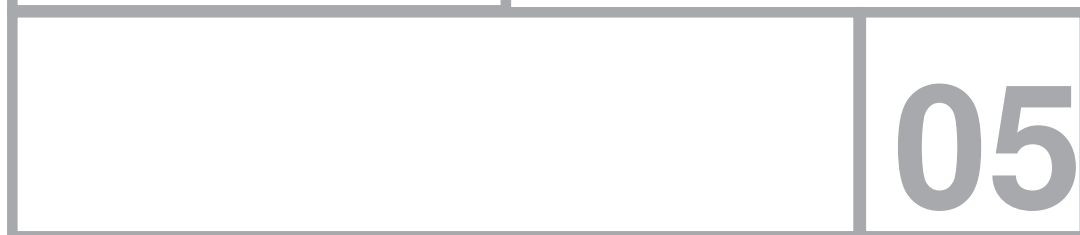
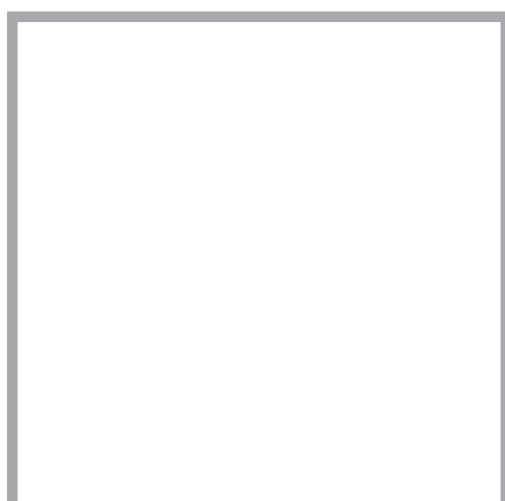
It is important to mention in this context that:

- i) Portuguese public debt securities now account for more than 40% of the portfolio of financial assets (41.3% in 2016 compared to 33.9% in 2015);
- ii) public debt securities of foreign issuers continue to account for a considerable amount of the portfolio of financial assets (45%), with this percentage having stabilised in relation to the previous period.

Overall, the portfolio of financial assets grew to stand at 5,312 million euros at the end of 2016, compared to the 3,730 million euros recorded at the end of 2015 (+42.4%).

### Financial assets available for sale, held to maturity and for trading

In thousand euros	2015		2016		Δ 2016/ 2015
	Value	% of total	Value	% of total	
<b>Portfolio of assets</b>					
<b>Financial assets available for sale</b>	<b>3,586,461</b>	<b>96.2%</b>	<b>1,647,949</b>	<b>31.0%</b>	<b>-54.1%</b>
Treasury bills and other Portuguese debt securities	1,123,606	30.1%	614,559	11.6%	-45.3%
Bonds of other resident issuers	280,846	7.5%	109,466	2.1%	-61.0%
Bonds of foreign public issuers	1,676,546	45.0%	559,540	10.5%	-66.6%
Bonds of other foreign issuers	168,301	4.5%	60,408	1.1%	-64.1%
Shares of national companies and PUs	327,832	8.8%	291,435	5.5%	-11.1%
Shares of foreign companies and PUs	9,330	0.3%	12,541	0.2%	34.4%
<b>Investments held to maturity</b>	<b>142,920</b>	<b>3.8%</b>	<b>3,663,616</b>	<b>69.0%</b>	<b>2463%</b>
Bonds of other national public issuers	0	0.0%	0	0.0%	
Bonds of other resident issuers	0	0.0%	82,361	1.6%	n.a.
Bonds of foreign public issuers	0	0.0%	1,852,343	34.9%	n.a.
Bonds of other foreign issuers	0	0.0%	81,779	1.5%	n.a.
Other non-detailed	3,553	0.1%	66,366	1.2%	1768%
<b>Financial assets held for trading</b>	<b>224</b>	<b>0.0%</b>	<b>411</b>	<b>0.0%</b>	<b>83.7%</b>
<b>Total</b>	<b>3,729,604</b>	<b>100.0%</b>	<b>5,311,976</b>	<b>100.0%</b>	<b>42.4%</b>



05

Risk management

## V. RISK MANAGEMENT

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### 5.1 GOVERNANCE OF RISK MANAGEMENT

#### a) Organisational structure

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The risk management at Grupo Crédito Agrícola seeks to assure, at an individual and consolidated level, the effective application of the risk management system, through the ongoing monitoring of its adequacy and efficacy, namely through definition of the respective risk profile and its monitoring over time, as well as the adequacy and efficacy of the measures taken to correct any flaws of this system. In this context, the risk management function confers support to the management bodies and assumes an important position in the structure defending the institution's financial solidity.

The organisational model established for Crédito Agrícola is underpinned by a function that tends to follow corporate lines undertaken by the structural bodies of Caixa Central in close articulation with each Caixa Agrícola, namely in the identification, assessment, reporting and control of risks, with the objective of minimising the activity's risk. The executive management of the Caixas Agrícolas is involved in the definition and implementation of risk models, the definition of the policies and objectives in commercial terms, of credit risk, human and financial resources, in accordance with the guidelines issued by Caixa Central, and the monitoring of compliance with the guidelines and objectives. In this regard and, notwithstanding the activities developed in this area over the last few years, a process is currently underway to assure the evolution of the supporting resources, including data models, that enable supporting the risk function at the Caixas Agrícolas in a systematic manner.

The Risk Committee plays a crucial role in supporting the definition and implementation of the Group's risk and capital management policies. This Committee is a collegiate body that collaborates in the overall supervision of the risk management policies applied by the members of GCA and involves the presence of Caixas Agrícolas. The Risk Committee is generally responsible for supporting the definition of the overall objectives and issuing guidelines concerning the management of the different risks, seeking to assure their application and transposition to current activity. In performing this mission, the body is responsible for assuring the appropriate integration of the different aspects, functional perspectives and elements involved in the activity and which are reflected in their operating practices.

GCA's asset and liability management function includes all the initiatives aimed at identifying, quantifying and managing the risks inherent to financial intermediation activity, coordinating this with all the rest of the functional dimensions that are relevant in this regard. And, on this issue, the Asset and Liability Committee (ALCO) is the collegiate body entrusted with the preparation, decision-making and subsequent monitoring of the implementation of the measures defined in terms of asset and liability management.

In line with best practices, each component entity of SICAM has a series of bodies that intervene transversally in the governance of risk, in particular concerning credit aspects, such as Credit Boards which aim to assure the quality of the portfolio through decision-making on operations or limits placed within each of the levels of delegation of competence, as well as Credit Monitoring and Recovery Boards.

## Risk profile

The risk profile corresponds to the risk level that Grupo Crédito Agrícola is willing to accept, pursuant to the Group's strategic positioning, structural features and degree of acceptance of risk. The process that are adopted with a view to the prudent management of the business and appropriate assessment of risk reflect GCA's risk profile at any given moment. Its definition (and continuous readjustment) is considered necessary to maintain the desired relationship between risk and return.

The methodology underlying the definition of the risk profile is based on the accomplishment of the strategic objectives, proposed by the Executive Board of Directors and endorsed at the General Meeting, in terms of indicators and limits of exposure to risk, which should be incorporated in daily business activity.

In view of the particularities of the cooperative system, namely the corporate and commercial autonomy of the Caixas Agrícolas and their involvement on the local economy and in the communities in work they are situated, the risk profile of the entities of SICAM follow a reference profile within the limits established for the purpose and act according to the identification of any measures to adjust capital or liquidity levels.



## 5.2 CREDIT, MARKET, INTEREST RATE, LIQUIDITY AND OPERATIONAL RISK

### a) Credit risk

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#### Strategy and Guiding Principles

Credit risk constitutes the most relevant risk of the activity of Grupo Crédito Agrícola in view of its legal nature and the particularities of the Group's business strategy.

The objective of credit risk management is to maximise the income per unit of risk taken, maintaining the exposure to this risk at acceptable levels in relation to the business development objectives and, ultimately, always respecting the regulatory requirements.

The credit risk strategy and policies are defined, reviewed and approved at least once a year, assuring that they cover all the activities in which there is significant exposure to this type of risk.

Grupo Crédito Agrícola applies the same standards in determining own fund requirements for credit risk, as established by the Basel prudential requirements, with this value having reached 7.4 billion euros as at 31 December 2016.

In order to reduce losses on granted credit, GCA applies a series of measures which seek to enhance the control over customers and operations, strengthen analytical capacity, improve decision-making on granting credit and reinforce the monitoring of customers to assure preventive action.

- **Process of credit risk analysis**

The procedures associated to credit risk analysis enable controlling its conformity, efficacy and efficiency, following a series of fundamental principles, such as, the appraisal of the borrower's repayment capacity through an informed vision of the borrower's activity and consolidated banking relationship; the gaining of thorough knowledge about the customer, derived from experience of relations and collection of information about the customer; the application of homogenous methods, criteria and practices in risk assessment; the appropriate separation of duties; risk assessment conducted in a manner that is independent, impartial, rigorous and pursuant to the ethical and professional criteria governing GCA and pursuant to the defined policies and procedures, respecting the prudential regulations to which the Group is subject.

- **Decision-making process**

In order to reconcile the commercial interests with suitable management of the underlying credit risk, a number of variables are identified that, as a whole, define the risk level of the customer and operation, being sustained by analytical models supporting the decision-making process. In this regard, we highlight the scoring models intended for the segment of individual customers and sole proprietorships, and the rating models that assess the credit risk of business customers.

– **Monitoring process**

The credit portfolio monitoring process is substantiated by a tool which aims to monitor and systematise the credit throughout the pre-recovery phase, and also includes a series of monitoring procedures. These procedures enable keeping the credit portfolio in line with the defined strategy on limits of exposure, diversification and coverage by guarantees and provisions and credit impairments, and the individual monitoring of each operation, customer or group of customers. The objective is to monitor the evolution of the probability of receiving expected future cash flow and the adoption of measures aimed at minimising the probability of occurrence of losses derived from an adverse development of the customers' financial situation.

In this regard, the process of calculating credits impairments plays an important role in the monitoring activities.

– **Recovery process**

In the event of situations of default, the customer's liabilities are managed by a specific and autonomous area which appraises the potential recovery of these liabilities through renegotiation, the calling of the existing guarantees or other means involving litigation. Supporting this process, the Group has a specialised computer tool that enables enhancing the flexibility of the associated tasks, such as organising the information in extrajudicial and judicial case files, distributing the case files to the personnel of the recovery area, creating draft documents and providing timely information on the state of each case.

## **Analytical Models of Credit Risk Assessment**

The internal model of attributing ratings to company customers, the scoring models (application and performance) directed at the segment of individual customers, including sole proprietorships, the system of management and control of economic groups and risk groups, the system of management and control of credit limits, the credit workflow, the tools supporting the credit monitoring and recovery processes, and the management tool for guarantees and collateral received, aim to achieve a significant improvement in the field of credit risk management at Grupo Crédito Agrícola, not only through the enhanced quality of the supporting information, but also due to the dynamism and robustness this fosters, contributing to the efficient monitoring of the credit portfolio.

The internal rating model adopted by Crédito Agrícola, as the tool underlying the decision-making and monitoring of the portfolio of credit to customers with economic activity, seeks to standardise and summarise the risk rating of these customers, with the primary objective of its mitigation and resulting in a scale of solvency associated to the different risk profiles.

In order to quantify the risk at the time of the acceptance of credit to the segment of individual customers, application (reactive) scoring models are used for each segment, which enable estimating the probability of default, which is also based on a scale of solvency correlated with the risk profile of the customer/operation. In some segments, with specific features, credit limits are presented of indicative nature associated to each risk category.

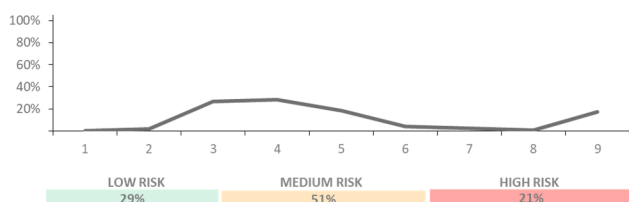
In line with this, the performance scoring models enable achieving the regular and automatic updating of the risk rating, the permanent assessment of the customers and contracts, and the periodic monitoring of the credit granted to individual customers, especially through the weighting of internal performance information.

## Assessment of Exposure

The credit granted to customers of the Group had increased by 3.4% year-on-year, to stand at 8,655 million euros in December 2016.

The analysis of the portfolio of credit to customers with economic activity, according to its relative distribution over the different risk categories, enables identifying a strong concentration in the low and medium risk profile, which accounts for 29% and 51% of the amount of exposure, respectively.

**RATING**  
RELATIVE FREQUENCY OF THE VOLUME OF EXPOSURE

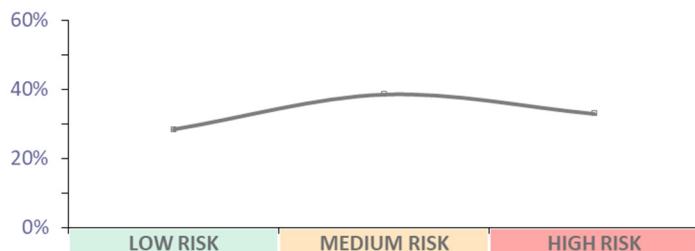


Rating	Description of the customer's risk profile
1	Extremely Solid
1.5	Very Solid
2	
2.5	Solid
3	
3.5	
4	Reasonable
4.5	
5	
5.5	Moderately Vulnerable
6	
6.5	
7	Vulnerable
7.5	
8	Very Vulnerable
8.5	
9	Excessively Vulnerable

Concerning the segment of individual customers, mortgage loans also show a concentration in the medium risk profile, representing 39% of the amount of credit granted.

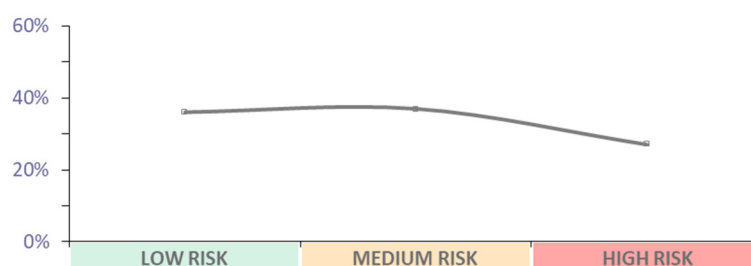
With regard to consumer credit and credit for other purposes, the geographic analysis of relative frequency indicates a downward trend of the volume with increased risk level, with a strong incidence in the low and medium risk profile, corresponding to 36% and 37% of the amount of credit granted, respectively.

**MORTGAGE LOANS**  
RELATIVE FREQUENCY OF THE AMOUNT OF EXPOSURE



Risk categories	Level of risk
1	
2	Low
3	
4	
5	Medium
6	
7	
8	High

**CONSUMER CREDIT AND FOR OTHER PURPOSES**  
RELATIVE FREQUENCY OF THE AMOUNT OF EXPOSURE

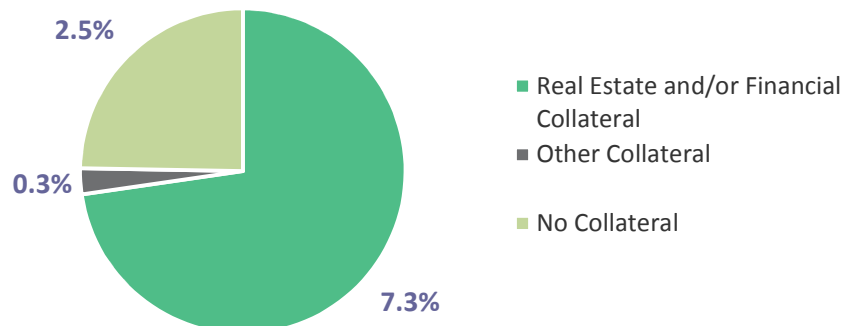


### Credit concentration risk

The indicators of credit granted by customer or economic group and risk group enable estimating the 10 largest exposures of Grupo Crédito Agrícola, without considering Banks and Sovereign States.

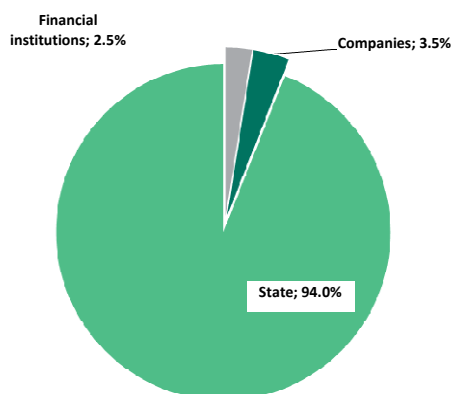
Customer/ Group of customers	Weight of the Exposure in total portfolio (%)
Group A	1.4%
Group B	0.6%
Group C	0.4%
Group D	0.4%
Group E	0.3%
<b>Total 5 largest</b>	<b>3.0%</b>
Group F	0.3%
Group G	0.2%
Group H	0.2%
Group I	0.2%
Group J	0.2%
<b>Total 6-10 largest</b>	<b>1.1%</b>
<b>Total 10 largest</b>	<b>4.2%</b>
<b>Total 50 largest</b>	<b>9.1%</b>

The portfolio of guarantees received to cover credit to customers continues to show its usual composition, with real estate and financial collateral representing the greatest preponderance, reaching 73% of the volume of credit in December 2016.

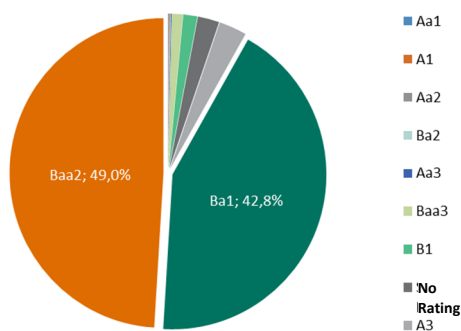


### Portfolio of Debt Securities

The portfolio of securities held reveals a high concentration in instruments issued by the State or backed by the State, in addition to a remaining portion associated to financial institutions and companies.



The analysis of the degree of concentration of the portfolio based on the rating of the counterpart presents the distribution indicated below.



## **b) Interest rate risk**

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Interest rate risk reflects the probability of occurrence of negative impacts on net income or capital, due to adverse movements in interest rates, as a result of mismatches of maturities or interest rate repricing periods (repricing), alterations of the slope of interest rate curves (curve risk), the lack of a perfect correlation between the rates received and paid in the different instruments (base risk) of the balance sheet, or the existence of embedded options in financial instruments of the balance sheet or off-balance sheet items (optional risk).

Alterations of interest rate constrain net income by affecting not only net interest income, but also other items of operating income that are sensitive to interest rates. The latter includes, for example, the value of public debt securities subject to revaluation at market value. The underlying value of the assets, liabilities, off-balance sheet items, and consequently, equity, are likewise affected in view of the necessary review of the present value of the future cash flow generated by these components (and in many cases the review of the actual cash flow).

### **Strategy and Guiding Principles**

Interest rate risk is an important risk in the activity developed by the Group and, therefore, is identified, measured, monitored and controlled not only on an individual basis but also on an individual basis at the level of Caixa Central and the Associated Caixas. The policy on the management of interest rate risk is defined and monitored by the Asset and Liability Committee (ALCO) pursuant to the guidelines stipulated by the Executive Board of Directors. The results of the assessments of exposure to interest rate risk and any risk coverage strategies are also followed up by the ALCO and informed to the Executive Board of Directors.

With the definition of suitable measurements and methodologies of assessment of interest rate risk and the stipulation of limits of exposure to this risk, GCA seeks to assure that it does not develop situations that place in question the stability of its profit and loss account or, ultimately, its solvency.

### **Assessment of Exposure**

GCA uses a broad set of measurements to determine exposure to interest rate risk, and defines a supplementary set of limits that seeks to minimise the risk of occurrence of losses associated to variations of interest rates both in the short and the medium and long term.

The monthly assessment of its exposure to interest rate risk is carried out through a methodology based on the grouping of the different assets and liabilities that are sensitive in time intervals according to the respective rate review dates, with the incoming and outgoing cash flow, for each interval, and the corresponding gap sensitive to interest rate risk being calculated. Based on the obtained results, an assessment is made of the impact of these gaps on the evolution of net interest income and on the economic value of the entity in various scenarios of interest rate evolution.

Furthermore, various types of internal reports are drawn up, such as macroeconomic reviews, analyses of the financial statements, balance sheet risk assessment, duration and economic value gap, projected assessment of net interest income, analysis of the contribution of the different balance sheet items to net interest income, scenarios of evolution of interest rates, stress tests, margins of net worth, and evolution of net interest income associated to the different items of net worth. These indicators enable the areas involved in the ALCO and top management to monitor these situations and take decisions in due time.

As at 31 December 2016, the exposure of the balance sheet to interest rate risk according to its maturity or repricing date, excluding derivatives, is as follows:

Values in thousand euros

	Repricing Dates / Maturity Dates							Total
	Sight	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Indefinite	
<b>Assets</b>								
Cash and deposits at Central Banks	340,132	0	0	0	0	0	0	340,132
Cash balances at other credit institutions	75,691	0	0	0	0	0	0	75,691
Financial assets held for trading		0	0	0	0	0	1,009	1,009
Other financial assets at fair value through profit or loss	0	0	0	27	0	0	0	27
Financial assets available for sale	0	600,549	324,338	297,822	31,207	12,499	137,701	1,404,116
Investments in credit institutions	0	1,622	4,378	0	0	0	35	6,035
Credit to customers (gross balance)	35,533	4,231,857	3,649,697	122,243	114,791	173,595	327,607	8,655,322
Investments Held to Maturity	0	75,054	8,099	209,369	2,251,947	1,082,734	36,413	3,663,616
<b>Total</b>	<b>451,356</b>	<b>4,909,082</b>	<b>3,986,513</b>	<b>629,461</b>	<b>2,397,944</b>	<b>1,268,828</b>	<b>502,764</b>	<b>14,145,948</b>
<b>Liabilities</b>								
Funds of central banks	0	37,960	0	0	1,285,200	0	0	1,323,160
Financial liabilities held for trading	0	0	0	0	0	0	234	234
Funds of other credit institutions	3,476	112,771	131,612	0	0	0	11,055	258,914
Customer funds and other loans	17,204	6,973,507	4,222,653	144,868	11,157	32,279	330,302	11,731,970
Instruments representing equity	0	0	0	0	0	0	1,515	1,515
Other subordinated debt	0	16,672	42,350	10,671	45,368	0	1,473	116,533
<b>Total</b>	<b>20,680</b>	<b>7,140,910</b>	<b>4,396,615</b>	<b>155,539</b>	<b>1,341,724</b>	<b>32,279</b>	<b>344,580</b>	<b>13,432,326</b>
<b>Net Exposure</b>	<b>430,676</b>	<b>-2,231,828</b>	<b>-410,102</b>	<b>473,922</b>	<b>1,056,220</b>	<b>1,236,549</b>	<b>158,184</b>	<b>713,622</b>

The sensitivity analysis for the interest rate risk to which GCA was exposed as at 31 December 2016, based on a simulation involving assets and liabilities sensitive to variations in references rates of -100 basis points up to +100 basis points shows the following results:

Impact derived from variation of the reference interest rate				
Values in thousand euros	-100 p.b.	-50 p.b.	+50 p.b.	+100 p.b.
<b>Assets</b>				
Cash and deposits at Central Banks	-237	-118	118	237
Cash balances at other credit institutions	0	0	0	0
Financial assets held for trading	0	0	0	0
Other financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	-10,506	-5,253	5,253	10,506
Investments in credit institutions	-27	-14	14	27
Credit to customers (gross balance)	-41,975	-20,987	20,987	41,975
Investments Held to Maturity	-137,627	-68,813	68,813	137,627
<b>Total</b>	<b>-190,372</b>	<b>-95,186</b>	<b>95,186</b>	<b>190,372</b>
<b>Liabilities</b>				
Funds of central banks	-46,536	-23,268	23,268	46,536
Funds of other credit institutions	-796	-398	398	796
Customer funds and other loans	-36,115	-18,057	18,057	36,115
Other subordinated debt	-1,147	-574	574	1,147
Financial liabilities held for trading	0	0	0	0
<b>Total</b>	<b>-84,593</b>	<b>-42,297</b>	<b>42,297</b>	<b>84,593</b>
<b>Impact on economic value</b>	<b>-105,779</b>	<b>-52,890</b>	<b>52,890</b>	<b>105,779</b>

The table on sensitivity analysis shows the variation of the theoretical market value of various headings of the Assets and Liabilities under different scenarios of variation of market interest rates (i.e. +50 bp, +100 bp, -50 bp, -100 bp), based on the updating of the cash flow associated to each operation in the different market scenarios considered.

The variation of Residual Value in absolute terms (Assets minus Liabilities) can be interpreted as the Impact on the Economic Value of the Group's Equity and Net Interest Income, respectively.

## c) Liquidity risk

Liquidity risk reflects the probability of occurrence of negative impacts on net income or capital, derived from the institution's inability, at any given time, to have on hand the cash required to meet its financial liabilities, as they fall due, in view of the existing capacity to manage the settlement of assets under reasonable price conditions and periods of time. Therefore, the aim is to finance the assets and meet the required liabilities on the due dates without incurring exaggerated losses, and for such limiting the existence of potential difficulties of settlement of positions in portfolio.

## Strategy and guiding principles

GCA's liquidity management policy is defined and monitored in conformity with the guidelines defined by the Executive Board of Directors, while its management is the responsibility of the specialised areas. Surplus funds of the Group are channelled to Caixa Central, where they are centrally invested in assets of high credit and liquidity quality, namely public debt of euro zone countries and short-term investment in renowned credit institutions, both domestic and international.



The Group and Caixa Central monitor the liquidity ratios from a prudential perspective, calculated according to the rules issued by Banco de Portugal. On this issue, it should be noted that the Group maintains a conservative policy reflected in a loan-to-deposit ratio which is below the average of the sector.

Concerning liquidity management, the Group seeks to maintain financing lines, guaranteed or not by securities, at national and international credit institutions, which are regularly tested, launch debt products which contribute to maintaining the standards of permanence of funds, and control any concentration of commercial funds which, if this were to develop, could lead to a more permeable portfolio, thus reducing its stability and permanence.

Moreover, GCA maintains an updated liquidity contingency plan at all times, identifying the actions to be developed and the updating responsibilities in the case of the materialisation of stress scenarios, and also uses in the process of definition of pricing of the commercial offer and assessment of performance, mechanisms that consider the implicit liquidity costs in each product.

### Assessment of exposure

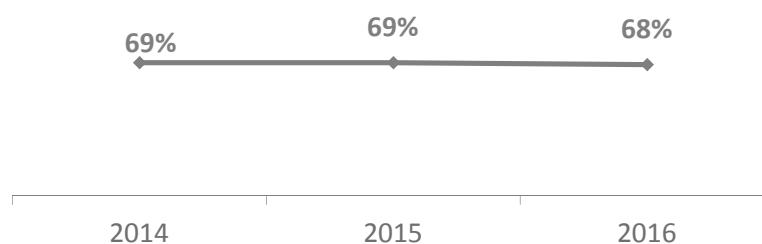
GCA uses a broad set of measurements to determine exposure to liquidity risk, and defines a supplementary set of limits that seeks to minimise the risk of occurrence of losses associated to situations of lack of liquidity both in the short and the medium and long term.

The analysis of exposure to liquidity risk is based on various methodologies aimed at assessing, on the one hand, the immediate liquidity, through the Liquidity Coverage Ratio (LCR), the minimum ratios of liquidity at one week and at one month considering the degree of coverage of an abrupt reduction of customer demand and term deposits (currently, SICAM's sole source of structural liquidity) without relevant impediments to early withdrawal, by high quality liquid assets (convertible into cash, due to maturity, sale or use in financing operations backed by securities, in a practically immediate form and without relevant loss of value). On the other hand, the assessment of structural liquidity involves calculation of the static and dynamic liquidity gaps (incorporating the budgeted evolution of the activity), with the aggregation of all the cash flow (payment of interest and repayment of principal) generated by the contracted operations, both lending and borrowing (on and off the balance sheet), as well as the Net Stable Funding Ratio (NSFR).

GCA also foresees the development of mechanisms to calculate additional measurements for liquidity monitoring, namely: maturity time profile (contractual and performance) of assets and liabilities, concentration of financing by type of liability and counterpart, concentration of the portfolio of liquid assets with potential settlement, costing of the different types of available financing, profile of renewal of the different types and financing used.

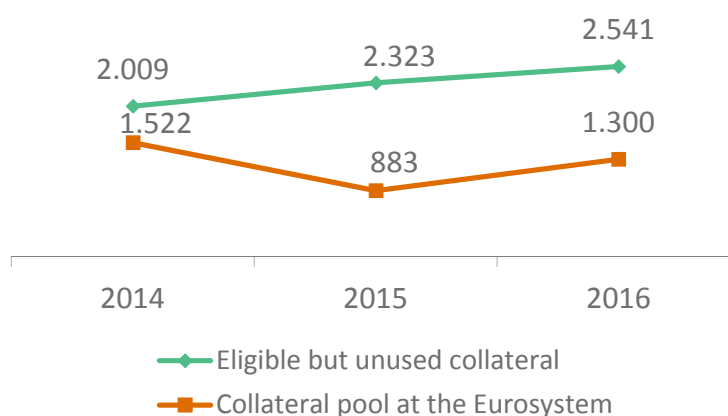
Grupo Crédito Agrícola presents a comfortable liquidity position, reflected in a solid customer fund base (GCA's main source of funding) and a loan-to-deposit ratio at levels below those observed, as a rule, in the financial system.

## Loan-to-deposit ratio (net)



Funding from the ECB has increased after a retraction in recent periods, having reached 1,000 million euros in December 2016, where it should be noted that the assets eligible for this type of operation amounted to 2.5 billion euros on the same date.

## Refinancing at the Eurosystem



### d) Operational risk

Operational risk is defined as the risk of occurrence of events derived from the inadequate or negligent application of in-house procedures, personal conduct, inadequacy or flaws of information systems or external causes, where these events can give rise to a negative impact on net income and equity.

On this matter, the Group has been expanding its catalogue of processes, including the respective risks and controls, for subsequent close coordination with the operational risk infrastructure. This catalogue is characterised by incremental goals with a view to evolution, in particular with respect to the matrix of risk events and overall process of recording of events and losses.

The method for calculation of the internal capital for operational risk, called the Adjusted Basic Indicator, is based on questionnaires, distributed to qualified members of the institution, which enable appraising the level of conformity of GCA's operational risk model with the minimum practices established by the Basel Committee and with all the other best practices found in the financial sector. These questionnaires are independent (by type of risk), in other words, each questionnaire individually assesses each type of risk subject to assessment: operational, compliance and information systems.

The Group applies an enormous set of measures to mitigate operational risk, including in particular the existence and permanent updating of a business continuity plan, in-house information security regulations, automation of the accounting processes, especially those associated to the credit portfolio, the separation of duties in the accomplishment and accounting of transactions, the existence of in-house rules on physical security of the premises and the existence of insurance (e.g. buildings, theft, etc.).

Own fund requirements to cover operational risk are calculated in accordance with the basic indicator established by Basel, which stood at 1.1 billion euros at as at 31 December 2016.

### **e) Real estate risk**

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Real estate risk strictly consists of the loss arising from the adverse variation of the price of real estate assets resident on the balance sheet, in particular relative to properties acquired during the repayment of specific credit. This takes on a supplementary nature to the intrinsic real estate risk.

The methodology of assessment of real estate risk at Grupo Crédito Agrícola assumes the quantification of the potential loss arising from the variation of the price of the real estate assets recorded in the balance sheet, considering the entire value of the real estate properties in portfolio on the reporting date, under previously established scenarios, taking into account the particularities of the different segments (residential, commercial and agricultural/ agricultural land). Real estate risk naturally assumes an expected devaluation of the price of the real estate properties recorded on the balance sheet (non-current assets held for sale) and in real estate funds.

### **f) Market risk and exchange rate risk**

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Market risk reflects any losses derived from an adverse change in the market value of a financial instrument as a consequence of variations in interest rates, exchange rates, share prices, commodity prices, credit spreads or other equivalent variables.

In the context of the strategy and activity developed by Grupo Crédito Agrícola, market risk is not classified as materially relevant, in particular due to the nonexistence of a trading portfolio at this stage.

In order to mitigate the risks incurred, a policy has been implemented of separation of duties between the execution of market transactions and the control of the risk, at any time.

Apart from the portfolio of securities of Caixa Central, the portfolio of securities of CA Vida is entirely managed by CA Gest, with a defined investment benchmark, according to the risk that is intended to be taken and the desired yield, for each security. This portfolio is valued on a monthly basis, or weekly during periods of major market volatility, based on reports produced by CA Gest.

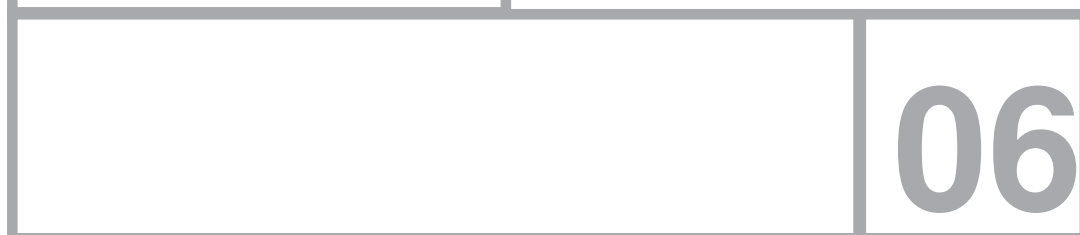
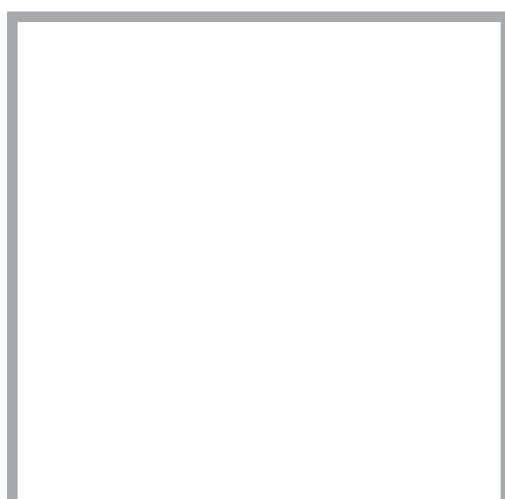
The portfolios under the management of CA Gest are monitored, namely, through the regular assessment of their composition, average duration, profitability and risk, in this case through VaR (Value at Risk) analyses, where this is a matter of the ALCO's responsibility.

Foreign exchange risk occurs as a result of changes in exchange rates for currencies whenever there are open positions in these currencies, Similarly to market risk, this is not considered a materially relevant risk for Crédito Agrícola.

The profile defined for foreign exchange risk is very conservative and embodied in the coverage policy followed. The negotiated operations have underlying commercial substantiation, with foreign exchange activity being directed at their coverage within very conservative limits of exposure.

Control and assessment of foreign exchange risk are carried out on a daily basis, individually for each branch and in consolidated terms.

At GCA, foreign exchange risk management is centralised and subject to approved limits.



Financial  
Statements

# VI. FINANCIAL STATEMENTS

## GRUPO CRÉDITO AGRÍCOLA

### CONSOLIDATED BALANCE SHEET AS AT 31 December 2016 AND 2015

(Amounts in euros)

ASSETS	Notes	2016		2015		LIABILITIES AND EQUITY	Notes	2016	2015
		Net assets	Provisions, impairment & amortisation	Net assets	Net assets				
Cash and deposits at central banks	6	340,138,054	-	340,138,054	354,214,212	Funds of central banks	23	1,323,160,110	385,809,900
Cash balances at other credit institutions	7	75,735,013	-	75,735,013	67,592,683	Financial liabilities held for trading	12	234,003	3,945
Financial assets held for trading	8	24,910,337	-	24,910,337	35,304,739	Funds of other credit institutions	23	255,743,193	240,007,012
Other financial assets at fair value through profit or loss	9	85,444,410	-	85,444,410	68,203,609	Customer funds and other loans	24	11,726,365,591	10,910,085,663
Financial assets available for sale	10	3,263,869,582	(2,611,396)	3,261,258,186	5,346,311,852	Provisions	25	11,992,870	11,326,053
Investments in credit institutions	11	6,035,157	-	6,035,157	95,128,432	Insurance contract technical provisions	21	1,573,474,610	1,611,507,323
Credit to customers	13	8,651,322,913	(710,417,574)	7,940,905,339	7,555,016,699	Current tax liabilities	20	6,441,971	7,872,979
Investments held to maturity	14	3,663,616,201	-	3,663,616,201	-	Deferred tax liabilities	20	6,612,225	8,264,917
Non-current assets held for sale	15	743,694,111	(124,188,404)	619,505,707	668,752,364	Instruments representing equity	26	1,515,030	1,634,295
Investment properties	16	69,945,836	-	69,945,836	82,583,185	Other subordinated debt	27	116,533,500	120,409,349
Other tangible assets	17	543,736,183	(299,850,630)	243,885,553	255,279,451	Other liabilities	28	433,052,446	434,033,836
Intangible assets	18	259,600,924	(196,195,124)	63,405,800	61,212,319	Total Liabilities		15,455,125,549	13,730,955,272
Investments in affiliates, associates and joint ventures	19	2,543,738	-	2,543,738	5,116,010	Capital	30	1,033,901,361	997,212,651
Current tax assets	20	13,224,273	-	13,224,273	24,969,273	Revaluation reserves	31	(1,953,106)	26,023,329
Deferred tax assets	20	161,965,757	-	161,965,757	170,523,652	Other reserves and retained earnings	31	152,353,797	125,750,495
Other assets	22	154,036,492	(27,164,514)	126,871,978	145,550,462	Profit for the year	32	58,324,971	54,112,494
								1,242,627,023	1,203,098,969
						Non-controlling interests	33	1,638,767	1,704,701
						Total Equity		1,244,265,790	1,204,803,670
Total Assets		18,059,818,981	(1,360,427,642)	16,699,391,339	14,935,758,942	Total Liabilities and Equity		16,699,391,339	14,935,758,942

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GRUPO CRÉDITO AGRÍCOLA  
CONSOLIDATED INCOME STATEMENT  
FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(Amounts in euros)

HEADING	Notes	2016	2015
Interest and similar income	34	496,550,591	486,032,472
Interest and similar costs	35	(169,168,029)	(176,385,404)
<b>Net interest income</b>		<u>327,382,562</u>	<u>309,647,068</u>
Technical margin of insurance activity	44	<u>13,855,291</u>	<u>19,661,279</u>
Income from equity instruments	36	1,204,139	2,005,267
Income from services and commissions	37	122,849,535	116,346,647
Costs related to services and commissions	38	(17,706,146)	(18,066,289)
Earnings from assets and liabilities measured at fair value through profit or loss	39	13,441,556	(15,466,270)
Earnings from financial assets available for sale	40	41,239,042	104,937,606
Earnings from currency revaluation	41	1,767,512	2,736,781
Earnings from divestment of other assets	42	(21,255,061)	(6,668,755)
Other net operating income	43	(15,879,252)	78,612
<b>Operating income</b>		<u>466,899,178</u>	<u>515,211,946</u>
Staff costs	45	(201,090,912)	(193,295,889)
General administrative overheads	46	(112,684,857)	(108,147,126)
Amortisation for the year	16 & 17	(27,567,387)	(27,472,751)
Provisions net of write-backs and annulments	25	(1,818,880)	(5,843,438)
Correction of the value associated to customer credit and amounts receivable from other debtors (net of write-backs and annulments)	25	8,033,300	(75,882,584)
Impairment of other financial assets net of reversals and recoveries	25	(961,600)	555,027
Impairment of other assets net of reversals and recoveries	25	(36,251,796)	(31,770,729)
Net income of holdings in associates and joint ventures (equity method)	32	304,292	( 226,596)
<b>Earnings before tax and non-controlling interests</b>		<u>94,861,338</u>	<u>73,127,860</u>
Taxes			
current	20	(24,274,928)	(27,355,287)
deferred	20	(12,144,872)	8,600,283
<b>Earnings after tax and before non-controlling interests</b>		<u>58,441,538</u>	<u>54,372,856</u>
Non-controlling interests	32 & 33	(116,567)	(260,362)
<b>Consolidated net income for the year</b>		<u>58,324,971</u>	<u>54,112,494</u>

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**GRUPO CRÉDITO AGRÍCOLA**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEARS ENDED ON 31 December 2016 AND 2015**

(Amounts in euros)

	Notes	2016	2015
<b>OPERATING ACTIVITIES</b>			
Operating flow before variations in assets and liabilities			
Interest, commissions and other equivalent income received		621,799,181	602,379,119
Interest, commissions and other equivalent costs paid		(200,861,461)	(194,451,693)
Payments to employees and suppliers		(306,600,823)	(300,736,615)
Payment and contributions to pensions funds		(4,337,065)	(706,400)
Income tax (payments)/revenue		(13,163,685)	(88,548,023)
Other (payments)/revenue relative to operating activity		20,865,458	45,074,409
		<u>117,701,605</u>	<u>63,010,797</u>
(Increase) decrease in operating assets:			
Credit to customers		380,446,519	369,539,060
Financial assets held for trading and other assets at fair value through profit or loss		(6,595,157)	9,879,651
Financial assets available for sale		(2,096,134,775)	(402,446,165)
Investments in credit institutions		(89,082,631)	91,934,431
Investments held to maturity		3,663,616,201	
Other assets		1,053,364	(4,253,097)
		<u>1,853,303,521</u>	<u>64,653,880</u>
Increase (decrease) in operating liabilities:			
Funds of other credit institutions and central banks		954,119,627	(490,565,210)
Customer funds and other loans		829,233,977	373,476,811
Financial liabilities held for trading and hedge derivatives		230,058	(192,891)
Other liabilities		(44,786,126)	65,208,110
		<u>1,738,797,536</u>	<u>(52,073,180)</u>
Net cash from operating activities		<u>3,195,620</u>	<u>(53,716,263)</u>
<b>INVESTMENT ACTIVITIES</b>			
Dividends		1,204,139	2,005,267
Divestment (Acquisition) of affiliates and associates, net of divestment		2,572,272	47,973
Acquisition of tangible assets, intangibles and investment properties, net of divestment		(24,718,604)	(14,558,371)
Net cash from investment activities		<u>(20,942,193)</u>	<u>(12,505,131)</u>
<b>FINANCING ACTIVITIES</b>			
Issue of subordinated liabilities, net of redemption		(3,875,849)	(22,124,616)
Non-controlling interests		(65,934)	163,675
Share capital increase (decrease)		15,754,528	8,329,065
Net cash from financing activities		<u>11,812,745</u>	<u>(13,631,876)</u>
Net increase (decrease) of cash and cash equivalents		(5,933,828)	(79,853,270)
Cash and cash equivalents at the beginning of the year		421,806,895	501,660,165
Cash and cash equivalents at the end of the year		415,873,067	421,806,895
Cash and cash equivalents at the end of the year includes:			
Cash and deposits at central banks	6	340,138,054	354,214,212
Cash balances at other credit institutions	7	75,735,013	67,592,683
		<u>415,873,067</u>	<u>421,806,895</u>

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**GRUPO CRÉDITO AGRÍCOLA**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015**  
(Amounts expressed in euros)

Notes	Capital	Revaluation reserves	Other reserves and retained earnings			Consolidated net income for the year	Sub-total	Non-controlling interests	Total
			Other reserves	Retained earnings	Total				
<b>Balance as at 31 December 2014</b>	<b>965,798,891</b>	<b>95,497,848</b>	<b>309,064,960</b>	<b>(187,860,896)</b>	<b>121,204,064</b>	<b>26,883,471</b>	<b>1,209,384,274</b>	<b>1,541,026</b>	<b>1,210,925,300</b>
Appropriation of the net income for 2014:									
Transfer to reserves and retained earnings	-	-	29,379,857	(2,496,386)	26,883,471	(26,883,471)	-	-	-
Distribution of net income to members	-	-	(3,467,387)	-	(3,467,387)	-	(3,467,387)	-	(3,467,387)
Increased share capital by incorporation of reserves	30	23,084,695	(23,084,695)	-	(23,084,695)	-	-	-	-
Increased share capital by entry of new members	30	14,107,280	-	-	-	-	14,107,280	-	14,107,280
Decreased share capital by reimbursement of members	30	(5,778,215)	-	-	-	-	(5,778,215)	-	(5,778,215)
Increased non-controlling interests		-	-	-	-	-	-	424,037	424,037
Transfers		(4,662,947)	-	4,662,947	4,662,947	-	-	-	-
Other changes in equity		-	-	(447,905)	(447,905)	-	(447,905)	-	(447,905)
Net Income	32	-	-	-	-	54,112,494	54,112,494	(260,362)	53,852,132
Consolidated comprehensive income for 2015:		(64,811,572)	-	-	-	-	(64,811,572)	-	(64,811,572)
<b>Balance as at 31 December 2015</b>	<b>997,212,651</b>	<b>26,023,329</b>	<b>311,892,735</b>	<b>(186,142,240)</b>	<b>125,750,495</b>	<b>54,112,494</b>	<b>1,203,098,969</b>	<b>1,704,701</b>	<b>1,204,803,670</b>
Appropriation of the net income for 2015:									
Transfer to reserves and retained earnings	-	-	28,607,855	25,504,639	54,112,494	(54,112,494)	-	-	-
Distribution of net income to members	-	-	(6,760,205)	-	(6,760,205)	-	(6,760,205)	-	(6,760,205)
Increased share capital by incorporation of reserves	30	20,934,182	(20,934,182)	-	(20,934,182)	-	-	-	-
Increased share capital by entry of new members	30	19,541,488	-	-	-	-	19,541,488	-	19,541,488
Decreased share capital by reimbursement of members	30	(3,786,960)	-	-	-	-	(3,786,960)	-	(3,786,960)
Increased non-controlling interests		-	-	-	-	-	-	50,633	50,633
Other changes in equity		-	-	185,195	185,195	-	185,195	-	185,195
Net Income	32	-	-	-	-	58,324,971	58,324,971	(116,567)	58,208,404
Consolidated comprehensive income for 2016:		(27,976,435)	-	-	-	-	(27,976,435)	-	(27,976,435)
<b>Balance as at 31 December 2016</b>	<b>1,033,901,361</b>	<b>(1,953,106)</b>	<b>312,806,203</b>	<b>(160,452,406)</b>	<b>152,353,797</b>	<b>58,324,971</b>	<b>1,242,627,022</b>	<b>1,638,767</b>	<b>1,244,265,789</b>

THE HEAD OF THE ACCOUNTS DEPARTMENT

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**GRUPO CRÉDITO AGRÍCOLA**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED ON 31 December 2016 AND 2015**

(Amounts in euros)

	Notes	2016	2015
<b>Consolidated net income for the year</b>		58,324,971	54,112,494
Net variation of the fair value of financial assets available for sale		(25,986,375)	(38,067,588)
Variation of the real estate revaluation reserve		6,111,050	585,483
Transfer to net income due to divestment		(9,321,008)	(44,668,581)
		(29,196,333)	(82,150,686)
Tax impact:			
Revaluation of financial assets available for sale	20	6,036,920	23,169,631
Remunerations relative to pension benefit plans	48	(4,817,022)	(5,830,517)
<b>Total other comprehensive income</b>		(27,976,435)	(64,811,572)
<b>Consolidated comprehensive income</b>		30,348,536	(10,699,078)
<b>Attributable to the Group</b>		30,414,470	(10,862,753)
<b>Attributable to non-controlling interests</b>		(65,934)	163,675

THE HEAD OF THE ACCOUNTS DEPARTMENT  
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SICAM - SISTEMA INTEGRADO DO CRÉDITO AGRÍCOLA MÚTUO  
CONSOLIDATED BALANCE SHEET AS AT 31 December 2016 AND 2015

(Amounts in euros)

ASSETS	2016		2015		LIABILITIES AND EQUITY	2016	2015
	Gross assets	Impairment, and amortisation provisions	Net assets	Net assets			
Cash and deposits at central banks	340,132,832	-	340,132,832	354,210,218	Funds of central banks	1,323,160,110	385,809,900
Cash balances at other credit institutions	75,691,479	-	75,691,479	66,847,243	Financial liabilities held for trading	234,003	3,945
Financial assets held for trading	410,910	-	410,910	223,738	Funds of other credit institutions	255,743,193	240,007,012
Other financial assets at fair value through profit or loss	-	-	-	-	- Customer funds and other loans	11,770,737,978	10,969,821,411
Financial assets available for sale	1,781,480,420	(133,531,628)	1,647,948,792	3,586,461,091	Provisions	10,292,662	10,793,774
Investments in credit institutions	6,035,157	-	6,035,157	94,827,185	Current tax liabilities	4,862,564	6,147,905
Credit to customers	8,713,283,755	(715,647,999)	7,997,635,756	7,577,775,385	Deferred tax liabilities	1,333,389	600,038
Investments held to maturity	3,663,616,201	-	3,663,616,201	142,919,607	Instruments representing equity	1,515,030	1,634,295
Non-current assets held for sale	491,116,404	(96,071,885)	395,044,519	445,440,763	Other subordinated debt	116,533,500	120,409,349
Investment properties	126,304	-	126,304	-	- Other liabilities	168,826,261	151,938,141
Other tangible assets	471,921,465	(242,288,600)	229,632,865	239,784,837	Total Liabilities	13,653,238,690	11,887,165,770
Intangible assets	15,058,815	(14,474,293)	584,522	736,855			
Investments in affiliates, associates and joint ventures	90,564,146	(128,288)	90,435,858	90,436,314	Capital	1,033,901,361	997,212,651
Current tax assets	11,224,633	-	11,224,633	24,551,810	Revaluation reserves	(23,535,709)	(901,979)
Deferred tax assets	157,571,905	-	157,571,905	164,014,467	Other reserves and retained earnings	144,952,301	120,004,446
Other assets	287,090,211	(22,567,907)	264,522,304	271,562,490	Profit for the year	72,057,394	56,311,115
					Total Equity	1,227,375,347	1,172,626,233
Total Assets	16,105,324,637	(1,224,710,600)	14,880,614,037	13,059,792,003	Total Liabilities and Equity	14,880,614,037	13,059,792,003

THE HEAD OF THE ACCOUNTS DEPARTMENT  
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THE EXECUTIVE BOARD OF DIRECTORS  
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Unaudited Financial Statements.

SICAM - SISTEMA INTEGRADO DO CRÉDITO AGRÍCOLA MÚTUO

INCOME STATEMENT

FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(Amounts expressed in euros)

HEADING	2016	2015
Interest and similar income	396,269,562	400,181,082
Interest and similar costs	(120,256,373)	(155,051,726)
<b>Net interest income</b>	<b>276,013,189</b>	<b>245,129,356</b>
Income from equity instruments	8,180,537	338,585
Income from services and commissions	149,219,500	140,430,253
Costs related to services and commissions	(11,027,677)	(10,237,332)
Earnings from assets and liabilities measured at fair value through profit or loss	(82,118)	(452,991)
Earnings from financial assets available for sale	38,642,646	99,364,534
Earnings from currency revaluation	1,767,820	2,738,542
Earnings from divestment of other assets	(1,213,115)	(2,274,979)
Other net operating income	13,030,835	27,720,398
<b>Operating income</b>	<b>474,531,617</b>	<b>502,756,366</b>
Staff costs	(175,410,286)	(166,515,710)
General administrative overheads	(124,682,292)	(121,152,066)
Amortisation for the year	(13,238,183)	(13,169,813)
Provisions net of write-backs and annulments	(449,200)	(5,995,724)
Correction of the value associated to customer credit and amounts receivable from other debtors (net of write-backs and annulments)	8,033,300	(75,882,584)
Impairment of other financial assets net of reversals and recoveries	(31,552,836)	(32,691,514)
<b>Income before taxes</b>	<b>105,077,510</b>	<b>75,017,171</b>
Taxes		
current	(21,092,933)	(23,916,520)
deferred	(11,927,183)	(5,210,464)
<b>Net income for the year</b>	<b>72,057,394</b>	<b>56,311,115</b>

THE HEAD OF THE ACCOUNTS DEPARTMENT

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THE EXECUTIVE BOARD OF DIRECTORS

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Unaudited Financial Statements.

CAIXA CENTRAL DE CRÉDITO AGRÍCOLA MÚTUO. C.R.L.

BALANCE SHEET AS AT 31 December 2016 AND 2015

(Amounts in euros)

ASSETS	Notes	2016		2015		LIABILITIES AND EQUITY	Notes	2016	2015
		Gross assets	Impairment, and amortisation provisions	Net assets	Net assets				
Cash and deposits at central banks	5	260,599,408	-	260,599,408	275,341,617	Funds of central banks	19	1,323,160,110	385,809,900
Cash balances at other credit institutions	6	14,539,593	-	14,539,593	15,729,949	Financial liabilities held for trading	10	234,003	3,945
Financial assets held for trading	7	410,910	-	410,910	223,738	Funds of other credit institutions	20	5,718,419,329	4,915,165,444
Financial assets available for sale	8	1,659,767,944	(128,610,704)	1,531,157,240	3,487,629,911	Customer funds and other loans	21	600,625,020	376,947,030
Investments in credit institutions	9	1,057,635,885	-	1,057,635,885	631,288,282	Provisions	22	14,516,826	17,932,207
Credit to customers	11	1,408,944,387	(143,503,106)	1,265,441,281	1,264,561,817	Current tax liabilities	17	-	-
Investments held to maturity	12	3,497,943,034	-	3,497,943,034	-	Deferred tax liabilities	17	-	34,104
Non-current assets held for sale	13	45,256,263	(6,369,148)	38,887,115	41,935,610	Other subordinated debt	23	20,218,342	20,218,342
Other tangible assets	14	21,035,141	(16,628,432)	4,406,709	4,619,164	Other liabilities	24	57,222,803	51,759,425
Intangible assets	15	7,064,808	(6,757,404)	307,404	488,586	Total Liabilities		7,734,396,433	5,767,870,397
Investments in affiliates, associates and joint ventures	16	62,506,484	(6,484)	62,500,000	62,500,500	Capital	26	303,198,380	302,809,465
Current tax assets	17	3,491,342	-	3,491,342	23,130,612	Revaluation reserves	27	(28,130,252)	(11,689,383)
Deferred tax assets	17	53,345,877	-	53,345,877	51,162,725	Other reserves and retained earnings	27	(36,390,725)	(41,103,514)
Other assets	18	174,406,614	(1,277,156)	173,129,458	164,235,918	Profit for the year	27	(9,278,580)	4,961,464
						Total Equity		229,398,823	254,978,032
Total Assets		8,266,947,690	(303,152,434)	7,963,795,256	6,022,848,429	Total Liabilities and Equity		7,963,795,256	6,022,848,429

THE HEAD OF THE ACCOUNTS DEPARTMENT  
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THE EXECUTIVE BOARD OF DIRECTORS  
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CAIXA CENTRAL DE CRÉDITO AGRÍCOLA MÚTUO, C.R.L.

INCOME STATEMENT

AS AT 31 DECEMBER 2016 AND 2015

(Amounts in euros)

HEADING	Notes	2016	2015
Interest and similar income	28	152,041,371	134,133,288
Interest and similar costs	29	(132,119,420)	(152,499,588)
<b>Net interest income</b>		<u>19,921,951</u>	<u>(18,366,300)</u>
Income from equity instruments	30	8,116,583	61,821
Income from services and commissions	31	28,956,302	28,823,871
Costs related to services and commissions	32	(7,711,800)	(7,111,871)
Earnings from assets and liabilities measured at fair value through profit or loss	33	(42,886)	(452,991)
Earnings from financial assets available for sale	34	35,395,476	98,729,278
Earnings from currency revaluation	35	1,385,774	2,337,917
Earnings from divestment of other assets	36	(1,203,338)	(1,704,047)
Other net operating income	37	(6,344,432)	(2,683,404)
<b>Operating income</b>		<u>78,473,630</u>	<u>99,634,274</u>
Staff costs	38	(25,838,443)	(25,801,891)
General administrative overheads	39	(21,055,973)	(18,973,636)
Amortisation for the year	14 and 15	(871,452)	(843,476)
Provisions net of write-backs and annulments	22	3,310,932	(4,197,007)
Correction of the value associated to customer credit and amounts receivable from other debtors (net of write-backs and annulments)		(11,728,771)	(8,754,970)
Impairment of other financial assets net of reversals and recoveries	22	(27,373,529)	(32,108,090)
Impairment of other assets net of reversals and recoveries	22	(1,443,797)	1,017,051
<b>Income before taxes</b>		<u>(6,527,403)</u>	<u>9,972,255</u>
Taxes			
current	17	(236,236)	(3,616,863)
deferred	17	(2,514,941)	(1,393,928)
<b>Net income for the year</b>		<u>(9,278,580)</u>	<u>4,961,464</u>

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THE EXECUTIVE BOARD OF DIRECTORS

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CAIXA CENTRAL DE CRÉDITO AGRÍCOLA MÚTUO, C.R.L.

CASH FLOW STATEMENT

FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(Amounts expressed in euros)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>Cash flow from operating activities</b>			
Interest and commissions received		181,319,898	162,957,159
Interest and commissions paid		(150,885,896)	(159,611,459)
Payments to staff and suppliers		(46,095,672)	(44,753,836)
Pensions fund contributions		(46,036)	(21,691)
Corporate income tax (payment)/revenue		19,403,033	(51,687,470)
Other revenue/(payments) relative to operating activity		<u>(4,958,658)</u>	<u>(345,487)</u>
Net operating income before the changes in operating assets		<u>(1,263,331)</u>	<u>(93,462,784)</u>
<b>(Increase) / decrease of operating assets:</b>			
Financial assets held for trading and other assets at fair value		230,058	(192,328)
Financial assets available for sale		(1,943,794,378)	(596,557,847)
Investments in credit institutions		426,339,656	574,251,942
Credit to customers		13,133,730	109,923,379
Investments held to maturity		3,497,943,034	-
Other assets		<u>7,984,724</u>	<u>13,674,921</u>
		<u>2,001,836,824</u>	<u>101,100,067</u>
<b>Increase /(decrease) of operating liabilities:</b>			
Financial liabilities held for trading and hedge derivatives		230,058	(192,891)
Funds of other credit institutions		814,103,753	660,740,030
Customer funds and other loans		223,293,143	63,694,285
Other liabilities		<u>942,077,327</u>	<u>(613,377,593)</u>
		<u>1,979,704,281</u>	<u>110,863,831</u>
<b>Net cash from operating activities</b>		<u>(23,395,874)</u>	<u>(83,699,020)</u>
<b>Cash flow from investment activities</b>			
Acquisition of tangible and intangible assets, net of divestments and write-offs		(1,042,689)	(4,780,939)
Dividends received		8,116,583	61,821
Variation of holdings in affiliated and associates		500	-
<b>Net cash from investment activities</b>		<u>7,074,394</u>	<u>(4,842,760)</u>
<b>Cash flow from financing activities</b>			
Share capital increase		388,915	313,760
Variation of subordinated liabilities		-	-
<b>Net cash from financing activities</b>		<u>388,915</u>	<u>313,760</u>
<b>Increase / (decrease) of cash and cash equivalents</b>		<u>(15,932,565)</u>	<u>(78,542,500)</u>
Cash and cash equivalents at the beginning of the year		<u>291,071,566</u>	<u>369,614,066</u>
Cash and cash equivalents at the end of the year		<u>275,139,001</u>	<u>291,071,566</u>
<b>Cash and cash equivalents at the end of the year includes:</b>			
Cash and deposits at central banks	5	260,599,408	275,341,617
Cash balances at other credit institutions	6	<u>14,539,593</u>	<u>15,729,949</u>
		<u>275,139,001</u>	<u>291,071,566</u>

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CAIXA CENTRAL DE CRÉDITO AGRÍCOLA MÚTUO, C.R.L.

BALANCE SHEET AS AT 31 December 2016 AND 2015

(Amounts in euros)

ASSETS	Notes	2016		2015		LIABILITIES AND EQUITY	Notes	2016	2015
		Gross assets	Impairment, and amortisation provisions	Net assets	Net assets				
Cash and deposits at central banks	5	260,599,408	-	260,599,408	275,341,617	Funds of central banks	19	1,323,160,110	385,809,900
Cash balances at other credit institutions	6	14,539,593	-	14,539,593	15,729,949	Financial liabilities held for trading	10	234,003	3,945
Financial assets held for trading	7	410,910	-	410,910	223,738	Funds of other credit institutions	20	5,718,419,329	4,915,165,444
Financial assets available for sale	8	1,659,767,944	(128,610,704)	1,531,157,240	3,487,629,911	Customer funds and other loans	21	600,625,020	376,947,030
Investments in credit institutions	9	1,057,635,885	-	1,057,635,885	631,288,282	Provisions	22	14,516,826	17,932,207
Credit to customers	11	1,408,944,387	(143,503,106)	1,265,441,281	1,264,561,817	Current tax liabilities	17	-	-
Investments held to maturity	12	3,497,943,034	-	3,497,943,034	-	Deferred tax liabilities	17	-	34,104
Non-current assets held for sale	13	45,256,263	(6,369,148)	38,887,115	41,935,610	Other subordinated debt	23	20,218,342	20,218,342
Other tangible assets	14	21,035,141	(16,628,432)	4,406,709	4,619,164	Other liabilities	24	57,222,803	51,759,425
Intangible assets	15	7,064,808	(6,757,404)	307,404	488,586	Total Liabilities		7,734,396,433	5,767,870,397
Investments in affiliates, associates and joint ventures	16	62,506,484	(6,484)	62,500,000	62,500,500	Capital	26	303,198,380	302,809,465
Current tax assets	17	3,491,342	-	3,491,342	23,130,612	Revaluation reserves	27	(28,130,252)	(11,689,383)
Deferred tax assets	17	53,345,877	-	53,345,877	51,162,725	Other reserves and retained earnings	27	(36,390,725)	(41,103,514)
Other assets	18	174,406,614	(1,277,156)	173,129,458	164,235,918	Profit for the year	27	(9,278,580)	4,961,464
						Total Equity		229,398,823	254,978,032
Total Assets		8,266,947,690	(303,152,434)	7,963,795,256	6,022,848,429	Total Liabilities and Equity		7,963,795,256	6,022,848,429

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THE EXECUTIVE BOARD OF DIRECTORS  
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CAIXA CENTRAL DE CRÉDITO AGRÍCOLA MÚTUO, C.R.L.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED ON 31 December 2016 AND 2015

(Amounts in euros)

	Other reserves and retained earnings				Net income for the year	Total
	Capital	Revaluation reserves	Other reserves	Retained earnings		
<b>Balance as at 31 December 2014</b>	<b>302,495,705</b>	<b>39,863,830</b>	<b>1,210,563</b>	<b>(78,301,759)</b>	<b>(77,091,196)</b>	<b>301,878,374</b>
Appropriation of the net income for 2014						
Transfer to retained earnings	-	-	-	36,610,035	36,610,035	(36,610,035)
Increased share capital (note 26)	313,760	-	-	-	-	313,760
Other changes in equity	-	-	-	(373,679)	(373,679)	(373,679)
Comprehensive net income for 2015	-	(51,553,213)	-	(248,674)	(248,674)	4,961,464
<b>Balance as at 31 December 2015</b>	<b>302,809,465</b>	<b>(11,689,383)</b>	<b>1,210,563</b>	<b>(42,314,077)</b>	<b>(41,103,514)</b>	<b>254,978,032</b>
Appropriation of the net income for 2015						
Transfer to retained earnings	-	-	-	4,961,464	4,961,464	(4,961,464)
Increased share capital (note 26)	388,915	-	-	-	-	388,915
Other changes in equity	-	-	-	-	-	-
Comprehensive net income for 2016	-	(16,440,869)	-	(248,675)	(248,675)	(9,278,580)
<b>Balance as at 31 December 2016</b>	<b>303,198,380</b>	<b>(28,130,252)</b>	<b>1,210,563</b>	<b>(37,601,288)</b>	<b>(36,390,725)</b>	<b>229,398,823</b>

THE HEAD OF THE ACCOUNTS DEPARTMENT  
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THE EXECUTIVE BOARD OF DIRECTORS  
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CAIXA CENTRAL DE CRÉDITO AGRÍCOLA MÚTUO, C.R.L.

COMPREHENSIVE INCOME STATEMENT

FOR THE YEARS ENDED ON 31 DECEMBER 2016 AND 2015

(Amounts in euros)

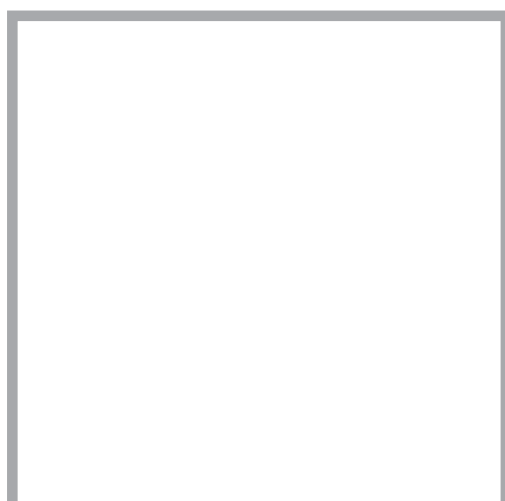
	<u>2016</u>	<u>2015</u>
<b>Net income for the year</b>	(9,278,580)	4,961,464
Reserves of revaluation of financial assets available for sale:		
Revaluation of financial assets available for sale	(26,584,255)	(26,262,927)
Tax impact	6,174,805	8,270,428
Transfer to net income due to divestment	5,904,408	(44,668,581)
Tax impact	<u>(1,446,580)</u>	<u>11,837,174</u>
	(15,951,622)	(50,823,907)
Annual amortisation of the transition impact of pensions	(248,675)	(248,674)
Recognition of comprehensive income under IAS 19 Revised	(493,208)	(729,306)
Recognition of the amortisation comprehensive income revaluated tangible assets	3,961	
<b>Earnings not recognised in the income statement</b>	<u>(16,689,544)</u>	<u>(51,801,887)</u>
<b>Comprehensive income for the year</b>	<u>(25,968,124)</u>	<u>(46,840,423)</u>

THE HEAD OF THE ACCOUNTS DEPARTMENT

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THE EXECUTIVE BOARD OF DIRECTORS

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07

Opinion of the  
Advisory Board

## VII. OPINION OF THE ADVISORY BOARD

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The Advisory Board of Caixa Central de Crédito Agrícola Mútuo hereby issues its opinion on the Consolidated Annual Report of Grupo Crédito Agrícola Mútuo for the financial year of 2016.

Having reviewed the management report and accounts relative to the financial year of 2016, which shall be submitted to discussion and approval at the Ordinary General Meeting of 27 May, the members of the Advisory Board issue the following opinion.

During 2016, the Advisory Board held periodic meetings with the Chairman of the General and Supervisory Board and with the Chairman of the Executive Board of Directors of Caixa Central who provided the information deemed necessary in relation to the activity of the banking area and the companies, enabling us to effectively monitor the evolution of the business.

The Management Report and Accounts underlines the variations that occurred in the main areas of activity and the balances at the end of the year, which in our opinion unequivocally reflect the work developed by all the personnel employed at Grupo Crédito Agrícola, revealing the good performance of the Caixas Agrícolas that indisputably contributed to the achieved results.

The presented document highlights, in a very comprehensive form, the most important issues that took place during 2016, both concerning the Group's structure and the activities developed in pursuit of the achievement of the established objectives, bearing in mind the mission and values that have always guided Crédito Agrícola.

Therefore, the Advisory Board proposes that the General Meeting should approve the Consolidated Annual Report of Grupo Crédito Agrícola relative to 2016.

Lisbon, 5 May 2017

The Advisory Board

*[Illegible Signature]*

Caixa de Crédito Agrícola de Alenquer (President)

**Hélio José Lemos Rosa**

*[Illegible Signature]*

Caixa de Crédito Agrícola do Alentejo Central

**José Luís Tirapicos Nunes**

*[Illegible Signature]*

Caixa de Crédito Agrícola do Alto Cávado e Basto

**José Lopes Gonçalves Barbosa**

*[Illegible Signature]*

Caixa de Crédito Agrícola de Estremoz, Monforte e Arronches

**Normando António Gil Xarepe**

*[Illegible Signature]*

Caixa de Crédito Agrícola do Médio Ave

**António Germano Fernandes de Sá e Abreu**

*[Illegible Signature]*

Caixa de Crédito Agrícola do Nordeste Alentejano

**João Nascimento Canas Guerra**

*[Illegible Signature]*

Caixa de Crédito Agrícola de Paredes

**António Francisco Coelho Pinheiro**

*[Illegible Signature]*

Caixa de Crédito Agrícola de Silves

**José Manuel Guerreiro Esteveira Gonçalves**

Caixa de Crédito Agrícola de Vale do Távora e Douro

**Francisco Eduardo Neves Rebelo**

Caixa de Crédito Agrícola do Alto Douro, by inherence, pursuant to article 35 of the Statutes of Caixa Central.

**Adriano Augusto Diegues**