

### 38. LEGAL AND STATUTORY RESERVES

Under Portuguese legislation, the Bank is required to set-up annually a legal reserve equal to a minimum of 10 percent of annual profits until the reserve equals the share capital. Such reserve is not normally distributable. In accordance with the proposal for the application of results for the year 2016 approved at the General Shareholders' Meeting held on 10 May 2017, the Bank increased its legal reserve in the amount of Euros 6,931,000. As at 31 December 2017, the amount of Legal reserves amounts to Euros 222,806,000 (31 December 2016: Euros 215,875,000).

The amount of Statutory reserves amounts to Euros 30,000,000 (31 December 2016: Euros 30,000,000) and correspond to a reserve to steady dividends that, according to the bank's by-laws, can be distributed.

### 39. FAIR VALUE RESERVES AND RESERVES AND RETAINED EARNINGS

This balance is analysed as follows:

	(Thousands of euros)	
	2017	2016
<b>Fair value reserves</b>		
Financial assets available for sale (note 21)		
Potential gains and losses recognised in fair value reserves (*)	37,394	(138,490)
Financial assets held to maturity (**)	(451)	(703)
	36,943	(139,193)
Cash-flow hedge	26,236	77,360
	63,179	(61,833)
<b>Tax</b>		
Financial assets available for sale		
Potential gains and losses recognised in fair value reserves	(10,607)	41,318
Financial assets held to maturity	141	207
Cash-flow hedge	(8,212)	(22,767)
	(18,678)	18,758
Fair value reserve net of taxes	44,501	(43,075)
Actuarial losses (net of taxes)	(2,568,813)	(2,552,971)
Legal reserve	222,806	215,875
Statutory reserve	30,000	30,000
Other reserves and retained earnings	2,462,621	2,444,197
<b>Reserves and retained earnings</b>	<b>146,614</b>	<b>137,101</b>

(\*) Includes the effects arising from the application of hedge accounting.

(\*\*) Refers to the amount not accrued of the fair value reserve at the date of reclassification for securities subject to reclassification.

The Fair value reserves correspond to the accumulated fair value changes of the financial assets available for sale and Cash flow hedge, in accordance with the accounting policy presented in note 1 c).

The changes occurred in Fair value reserves, excluding the effect of hedge accounting, during 2017, are analysed as follows:

(Thousands of euros)

2017

	Balance on 1 January	Fair value adjustment	Fair value hedge adjustment	Impairment in profit and loss	Sales	Balance on 31 December
Portuguese public debt securities	(225,170)	278,269	(84,995)	-	(33,454)	(65,350)
Visa Inc.	462	1,650	-	-	-	2,112
Others	85,515	28,234	(767)	70,310	(83,111)	100,181
	(139,193)	308,153	(85,762)	70,310	(116,565)	36,943

The changes occurred in Fair value reserves, excluding the effect of hedge accounting, during 2016, are analysed as follows:

(Thousands of euros)

2016

	Balance on 1 January	Fair value adjustment	Fair value hedge adjustment	Impairment in profit and loss	Sales	Balance on 31 December
Portuguese public debt securities	(90,822)	(82,573)	(43,062)	-	(8,713)	(225,170)
Visa Europe Limited	18,276	8,077	-	-	(26,353)	-
Visa Inc.	-	462	-	-	-	462
Others	156,916	(307,350)	1,373	295,304	(60,728)	85,515
	84,370	(381,384)	(41,689)	295,304	(95,794)	(139,193)