**Lusitano Mortgages No. 2 Public Limited Company and Subsidiary**

**Management report and**
**Condensed unaudited interim financial statements**

**For the half financial year ended 30 June 2016**

***Registered number 374631***

**Lusitano Mortgages No. 2 Public Limited Company and Subsidiary**

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**Lusitano Mortgages No. 2 Public Limited Company and Subsidiary**



**Directors and other information**

| | |
|---|---|
| **Directors** | Eimir McGrath<br>David McGuinness |
| **Registered Office** | Pinnacle 2<br>Eastpoint Business Park<br>Dublin 3<br>Ireland |
| **Administrator & Company Secretary** | Deutsche International Corporate Services (Ireland) Limited<br>Pinnacle 2<br>Eastpoint Business Park<br>Dublin 3<br>Ireland |
| **Trustee** | Deutsche Trustee Company Limited<br>Winchester House<br>1 Great Winchester Street<br>London EC2N 2DB<br>United Kingdom |
| **Bankers** | *As from 22 January 2016*<br>BNP Paribas<br>Dublin Branch<br>5 George's Dock<br>IFSC, Dublin 1<br>Ireland<br><br>Bank of Ireland<br>2 Burlington Plaza<br>Burlington Road<br>Dublin 4<br>Ireland<br><br>*Up to 21 January 2016*<br>Deutsche Bank AG London<br>Winchester House<br>1 Great Winchester Street<br>London EC2N 2DB<br>United Kingdom |
| **Solicitor** | Matheson<br>70 Sir John Rogerson's Quay<br>Dublin 2<br>Ireland |
| **Custodian and Servicer** | Novo Banco, S.A.<br>Avenida da Liberdade, 195, 1250-142<br>Lisbon<br>Portugal |
| **Swap Counterparty** | Crédit Agricole Indosuez<br>9, quai Paul Doumer<br>92920 Paris La Defense<br>France |

**Interim management report**

The directors present their interim report and unaudited financial statements of Lusitano Mortgages No. 2 PLC (the "Company") and subsidiary (together the "Group") for the half financial year ended 30 June 2016.

**Principal activities**

The Company is a special purpose company incorporated and registered in Ireland with limited liability on 13 August 2003 under registered number 374631.

The principal activity of the Group is the investment in a portfolio of mortgage receivables in Portugal, through the purchase of 100% of the units in Lusitano Mortgages No 2 Fundo ("Fundo" or the "Subsidiary"), a Portuguese securitisation fund. The portfolio consists of loans originated by Novo Banco S.A. ("Novo Banco") with a Novo Banco subsidiary continuing to service the loans (the "Servicer"). Fundo acquired the receivables from Novo Banco and granted to the unitholder (the "Company") ownership interests in its assets through issuance of units. Fundo has a narrow and well defined objective (to manage its portfolio) and is operating for the sole benefit of its Unitholders. Fundo is neither permitted to issue additional units nor acquire additional assets. Fundo is managed by a fund management company in Portugal, Finantia SGFTC S.A. ("Finantia" or the "Fund Manager"). Finantia acts on behalf of the unitholder and provides supervisory services such as supervising the acquisition of the assets, notification of the borrowers in the event of a mortgage asset sale notification event, issuance of the units and determination of the unit distribution.

Further information on the Group's operations are set out in note 1 to the unaudited interim financial statements.

There have been no significant changes in those activities outlined above during the financial period. The directors do not anticipate any material changes to the nature or volume of the business in the foreseeable future.

**Business review**

During the financial period:

- there were no new debt securities issued (30 Jun 2015: nil);
- the Group made no profit or loss (30 Jun 2015: €nil);
- there were no credit events that affected the Group;
- Class A Mortgage Backed Floating Rate Notes due 2036 were partially redeemed by €15,550,760 (31 Dec 2015: €29,190,404);
- the mortgages written off during the financial period amounted to €890,237 (31 Dec 2015: €2,695,241);
- the increase in provision for impairment during the financial period amounted to €853,428 (31 Dec 2015: €2,612,889); and
- the net gain from derivative financial instruments for the financial period amounted to €3,401,102 (30 Jun 2015: €3,681,723).

As at 30 June 2016:

- the fair value of the interest rate swap was €1,761,986 (31 Dec 2015: €1,284,076);
- the Group's total liabilities was €274,786,634 (31 Dec 2015: €291,467,703);
- the carrying value of the Group's total debt securities issued was €257,682,432 (31 Dec 2015: €273,832,810);
- the Group's net assets was €40,000 (31 Dec 2015: €40,000); and
- the Company had the following notes in issue:

| | Nominal value | Description |
|---|---|---|
| - | € 170,741,512 | Class A Mortgage Backed Floating Rate Notes due 2036 |
| - | € 30,000,000 | Class B Mortgage Backed Floating Rate Notes due 2046 |
| - | € 28,000,000 | Class C Mortgage Backed Floating Rate Notes due 2046 |
| - | € 16,000,000 | Class D Mortgage Backed Floating Rate Notes due 2046 |
| - | € 6,000,000 | Class E Mortgage Backed Floating Rate Notes due 2046 |
| - | € 9,000,000 | Class F Mortgage Backed Floating Rate Notes due 2046 |

The directors expect the current level of activity to continue in the foreseeable future. The Company will continue to utilise the collections from the fully amortised mortgage loan portfolio to redeem the outstanding loan notes during the lifetime of the transaction.

**Interim management report (continued)**

| Key performance indicators | 30-Jun-16 | 30-Jun-15 |
|---|---|---|
| | € | € |
| Profit after tax | Nil | Nil |
| Net assets | 40,000 | 40,000 |
| | | |
| *Mortgage portfolio* | | |
| Weighted average interest rate | 1.260% | 1.492% |
| Number of loans | 9,204 | 9,609 |
| Current LTV (outstanding loan amount/initial valuation) | 44.86% | 47.64% |
| Original LTV (initial loan amount/initial valuation) | 73.49% | 73.49% |
| Portfolio Trigger Event (maximum 4.5%): Arrears ratio | 0.658% | 0.835% |
| Mortgage loans in arrears (> 30 days) | € 10,634,686 | € 13,031,273 |
| No. of loans in arrears | 326 | 368 |

The directors of the Company manage their credit risk exposure of loans and receivables by monitoring the loan to value ratios, mortgage arrears balances and related ratios. The loan to value ratio is a mathematical calculation which expresses the current principal balance of a mortgage as a percentage of the total initial value of the property. The arrears ratio is the ratio of the principal outstanding balance of mortgage loans in arrears between 90 to 365 days divided by the principal outstanding balance of initial mortgage backed credit portfolio as at the determination date.

**Future developments**

The directors do not anticipate any material changes to the nature or volume of the business in the foreseeable future as the Notes will mature in 2036 and 2046. The Board will continue to seek new opportunities for the Company and will continue to ensure proper management of the current portfolio of Notes of the Company.

**Results and dividends for the financial period**

The results for the financial period are set out on page 6. The directors do not recommend the payment of a dividend for the financial period under review (30 Jun 2015: €nil).

**Changes in directors, secretary and registered office**

There were no changes in directors, secretary or registered office during the financial period, and/or since the financial period end.

**Directors and secretary and their interests**

The directors and secretary, who held office on 30 June 2016, did not hold any shares in the Company at that date, or during the financial period. Except for the Administration Agreement entered into by the Company with Deutsche International Corporate Services (Ireland) Limited, there were no contracts of any significance in relation to the business of the Company in which the directors had any interest, as defined in Section 309 of the Companies Act 2014, at any time during the financial period.

**Shares and shareholders**

The authorised share capital of the Company is EUR 40,000, which have been fully called for. The principal shareholders in the Company are BADB Charitable Trust Limited, Eurydice Charitable Trust Limited and MEDB Charitable Trust Limited, each holding 13,332 shares. In addition, Mr James Scanlon, Mr Turlough Galvin, Mr William Prentice and Mr Patrick Molloy hold one share each in the Company. All shares are held under the terms of declarations of trust dated 16 October 2002, under which the relevant share trustee holds the issued shares of the Company on trust for a charity. The Share Trustee has no beneficial interest in and derives no benefit from its holding of the shares. There are no other rights that pertain to the shares and the shareholders.

**Principal risks and uncertainties for the remaining six months of the financial year**

The Group and Company are subject to various risks. The key risks facing the Group and Company and the manner in which these risks have been dealt with are disclosed in note 24 of the financial statements.

**Going concern**

The Group's and Company's financial statements for the half financial year ended 30 June 2016 have been prepared on a going concern basis. The directors anticipate that the loans and receivables will continue to generate enough cash flow on an ongoing basis to meet the Company's liabilities as they fall due. Majority of the Notes in issue as at 30 June 2016 will mature in 2046. For these reasons, the directors believe that the going concern basis is appropriate.

**Interim management report (continued)**

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with an entity's processes, personnel and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

Operational risks arise from all of the Company's operations. The Company was incorporated with the purpose of engaging in those activities outlined in note 1. The Company limits its exposure to operational risks by outsourcing all management and administration functions to Deutsche International Corporate Services (Ireland) Limited ("DICSIL").

Fundo is managed by a fund management company in Portugal, Finantia.

**Credit risk**

Credit risk is the risk of the financial loss to the Group and Company if counterparty to a financial asset fails to meet its contractual obligations, and arises principally from the Group and Company's credit linked assets.

In 2007, Novo Banco was able to modify the terms and conditions of some of the loans on a limited basis or substitute some loans. Subsequently, no modification of terms or assets substitution were made by Novo Banco.

Any reduction in the value of the mortgage receivables will be matched by a reduction in the repayment obligations of the Notes. Because of the ring-fenced nature of the debt issued by the Company any such losses would ultimately be borne by either the Swap Counterparty or the Noteholders.

**Political donations**

The Electoral Act, 1997 (as amended by the Electoral Amendment Political Funding Act, 2012) requires companies to disclose all political donations over €200 in aggregate made during a financial year. The directors, on enquiry, have satisfied themselves that no such donations in excess of this amount have been made by the Company during the financial period ended 30 June 2016.

**Subsequent events**

There has been no subsequent significant event that requires disclosures in these unaudited interim financial statements as at the financial period end till the date of this report.

**Accounting records**

The directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act 2014, adequate accounting records are kept by employing service providers who employ accounting personnel with the appropriate expertise and by providing adequate resources to the financial function. The accounting records of the Company are maintained at Pinnacle 2, Eastpoint Business Park, Dublin 3, Ireland.

**On behalf of the Board**

**David McGuinness**
**Director**

**Eimir McGrath**
**Director**

**Date:** 20/9/16

**Responsibility statement**

The directors are responsible for preparing the management report and the Group and Company interim financial statements in accordance with applicable law and regulations. The directors confirm that, to the best of their knowledge:

- the condensed financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and results of the Group and Company, and

- the Interim Management Report includes a fair review of:

- The important events that have occurred during the first six months of the financial year;
- The impact of those events on the condensed financial statements; and
- A description of the principal risks and uncertainties for the remaining six months of the financial year.

The directors further indicate that such interim financial statements for the half financial year ended 30 June 2016 have not been audited.

**On behalf of the Board**

**David McGuinness**
**Director**

**Eimir McGrath**
**Director**

**Date:** 20/9/16

**Group Statement of Comprehensive Income**
**For the half financial year ended 30 June 2016**

| | Note | Half financial year ended 30-Jun-16 € | Restated* Half financial year ended 30-Jun-15 € |
|---|---|---|---|
| Income from loans and receivables | 5 | 2,408,981 | 2,903,182 |
| Net finance expense on debt securities issued | 6 | (5,326,521) | (5,411,846) |
| Net gain on derivative financial instruments | 7 | 3,401,102 | 3,681,723 |
| | | **483,562** | **1,173,059** |
| Other expenses | 8 | (314,852) | (282,009) |
| Net provision for impairment loss on loans and receivables * | 9 | (168,710) | (891,050) |
| **Operating results before taxation** | | - | - |
| Income tax expense | 10 | - | - |
| **Result for the financial period** | | - | - |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the financial period** | | - | - |

* Other income of €470,484 relating to the financial period 30 June 2015 was re-presented as cash recoveries (refer to note 4). Net provision for impairment losses on loans and receivables presented on the Statement of Comprehensive Income is net of cash recoveries of €470,484 which were recovered on previously written off loans and receivables balances (refer to notes 4 and 9).

All items dealt with in arriving at the total comprehensive income for the financial period ended 30 June 2016 related to continuing operations.

**Group Statement of Financial Position**
**As at 30 June 2016**

| | Note | 30-Jun-16 | 31-Dec-15 |
|---|---|---|---|
| **Assets** | | € | € |
| Cash and cash equivalents | 11 | 14,261,273 | 14,642,278 |
| Cash collateral | 12 | 15,044,491 | 15,977,537 |
| Other receivables | 13 | 281,556 | 311,799 |
| Loans and receivables | 14 | 245,239,314 | 260,576,089 |
| **Total assets** | | **274,826,634** | **291,507,703** |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Other payables | 16 | 297,725 | 373,280 |
| Derivative financial liabilities | 15 | 1,761,986 | 1,284,076 |
| Liquidity facility | 17 | 15,044,491 | 15,977,537 |
| Debt securities issued | 18 | 257,682,432 | 273,832,810 |
| **Total liabilities** | | **274,786,634** | **291,467,703** |
| **Equity** | | | |
| Called up share capital presented as equity | 20 | 40,000 | 40,000 |
| Retained earnings | | - | - |
| **Total equity** | | **40,000** | **40,000** |
| **Total liabilities and equity** | | **274,826,634** | **291,507,703** |

**On behalf of the Board**

**David McGuinness**
**Director**

**Eimir McGrath**
**Director**

**Date:** 20/9/16

The accompanying notes to the financial statements on pages 12 to 25 form an integral part of these financial statements.

**Company Statement of Financial Position**
**As at 30 June 2016**

| | Note | 30-Jun-16 | 31-Dec-15 |
|---|---|---|---|
| **Assets** | | € | € |
| Cash and cash equivalents | 11 | 9,006,622 | 9,026,536 |
| Cash collateral | 12 | 15,044,491 | 15,977,537 |
| Other receivables | 13 | 1,024,038 | 1,115,176 |
| Loans and receivables | 14 | 249,672,234 | 265,305,644 |
| **Total assets** | | **274,747,385** | **291,424,893** |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Other payables | 16 | 218,476 | 290,470 |
| Derivative financial liabilities | 15 | 1,761,986 | 1,284,076 |
| Liquidity facility | 17 | 15,044,491 | 15,977,537 |
| Debt securities issued | 18 | 257,682,432 | 273,832,810 |
| **Total liabilities** | | **274,707,385** | **291,384,893** |
| **Equity** | | | |
| Called up share capital presented as equity | 20 | 40,000 | 40,000 |
| Retained earnings | | - | - |
| **Total equity** | | **40,000** | **40,000** |
| **Total liabilities and equity** | | **274,747,385** | **291,424,893** |

**On behalf of the Board**

**David McGuinness**
**Director**

**Eimir McGrath**
**Director**

**Date:** 20/9/16

The accompanying notes to the financial statements on pages 12 to 25 form an integral part of these financial statements.

**Group and Company Statement of Changes in Equity**
**For the half financial year ended 30 June 2016**

| | Share capital € | Retained earnings € | Total € |
|---|---|---|---|
| **Balance as at 1 January 2015** | **40,000** | **-** | **40,000** |
| Profit for the financial period | - | - | - |
| Other comprehensive income | - | - | - |
| *Total comprehensive income for the financial period* | - | - | - |
| **Balance as at 30 June 2015** | **40,000** | **-** | **40,000** |
| **Balance as at 1 July 2015** | **40,000** | **-** | **40,000** |
| Profit for the financial period | - | - | - |
| Other comprehensive income | - | - | - |
| *Total comprehensive income for the financial period* | - | - | - |
| **Balance as at 31 December 2015** | **40,000** | **-** | **40,000** |
| **Balance as at 1 January 2016** | **40,000** | **-** | **40,000** |
| Profit for the financial period | - | - | - |
| Other comprehensive income | - | - | - |
| *Total comprehensive income for the financial period* | - | - | - |
| **Balance as at 30 June 2016** | **40,000** | **-** | **40,000** |

**Group Statement of Cash Flows**
**For the half financial year ended 30 June 2016**

| | Note | Half financial year ended 30-Jun-16 € | Restated* Half financial year ended 30-Jun-15 € |
|---|---|---|---|
| **Net cash flows from operating activities** | | | |
| Result from ordinary activities after taxation | | - | - |
| *Adjustments for:* | | | |
| Amortisation of premium | 6 | (37,248) | (37,042) |
| Amortisation of issue costs | 6 | 3,674 | 3,653 |
| Interest expense during the financial period | 6 | 5,360,095 | 5,445,235 |
| Interest income during the financial period | 5 | (2,408,981) | (2,903,182) |
| Net increase in provision for impairment loss on loans and receivables ** | 9 | 168,710 | 891,050 |
| Unrealised loss/(gain) on derivative financial instruments | | 477,910 | (554,892) |
| Movement in embedded derivatives | 19 | (566,044) | 636,731 |
| **Operating cash flow before movements in working capital** | | **2,998,116** | **3,481,553** |
| Increase in other receivables | | (19,153) | (12,663) |
| (Decrease)/increase in other payables | | (8,189) | 21,747 |
| **Net cash generated from operating activities** | | **2,970,774** | **3,490,637** |
| **Cash flows from investing activities** | | | |
| Collections on portfolio of loan receivables | 14 | 14,483,347 | 13,037,170 |
| Movement in cash collateral * | | 933,046 | 893,931 |
| Interest received during the financial period | | 2,458,377 | 2,967,382 |
| Cash recoveries ** | | 684,718 | 470,484 |
| **Net cash generated from investing activities** | | **18,559,488** | **17,368,967** |
| **Cash flows from financing activities** | | | |
| Repayment of liquidity facility | 17 | (933,046) | (893,931) |
| Payment for redemption of Notes | | (15,550,760) | (14,898,848) |
| Interest paid during the financial period | | (5,427,461) | (5,485,235) |
| **Net cash used in financing activities** | | **(21,911,267)** | **(21,278,014)** |
| **Net decrease in cash and cash equivalents** | | **(381,005)** | **(418,410)** |
| Cash and cash equivalents at beginning of the financial period | | 14,642,278 | 14,589,144 |
| **Cash and cash equivalents at end of the financial period** | | **14,261,273** | **14,170,734** |

* Cash collateral was incorrectly included as part of cash and cash equivalents in the 2015 interim financial statements. This has been included in the Statement of Cash Flows as a cash flow from investing activities to comply with the requirements of IAS 7. This reclassification has no impact on the equity or profit or loss of the Group, as disclosed in note 4.

** Cash recoveries, included as other income in the 2015 interim financial statements, have been reclassified in the Statement of Comprehensive Income as part of net provision from impairment losses on loans and receivables and included in the Statement of Cash Flows as cash flows from investing activities to comply with the requirements of IAS 7. As such, the net increase in provision for impairment loss on loans and receivables presented under net cash flows from operating activities is net of cash recoveries in 2015. These reclassifications have no impact on the cash flow, equity or profit or loss of the Group, as disclosed in note 4.

**Company Statement of Cash Flows**
**For the half financial year ended 30 June 2016**

| | Note | Half financial year ended 30-Jun-16 € | Restated* Half financial year ended 30-Jun-15 € |
|---|---|---|---|
| **Net cash flows from operating activities** | | | |
| Result from ordinary activities after taxation | | - | - |
| *Adjustments for:* | | | |
| Amortisation of premium | 6 | (37,248) | (37,042) |
| Amortisation of issue costs | 6 | 3,674 | 3,653 |
| Interest expense during the financial period | 6 | 5,360,095 | 5,445,235 |
| Interest income during the financial period | | (3,013,153) | (3,159,190) |
| Impairment on Fundo Units ** | 9 | 168,710 | 891,050 |
| Unrealised loss/(gain) on derivative financial instruments | | 477,910 | (554,892) |
| Movement in embedded derivatives | 19 | (566,044) | 636,731 |
| **Operating cash flow before movements in working capital** | | **2,393,944** | **3,225,545** |
| Decrease in other receivables | | 1,094,341 | 1,259,355 |
| (Decrease)/increase in other payables | | (4,628) | 10,392 |
| **Net cash generated from operating activities** | | **3,483,657** | **4,495,292** |
| **Cash flows from investing activities** | | | |
| Collections on portfolio of loan receivables | 14 | 14,779,982 | 13,480,691 |
| Movement in cash collateral * | | 933,046 | 893,931 |
| Interest received during the financial period | | 2,009,950 | 1,936,035 |
| Cash recoveries ** | | 684,718 | 470,484 |
| **Net cash generated from investing activities** | | **18,407,696** | **16,781,141** |
| **Cash flows from financing activities** | | | |
| Repayment of liquidity facility | 17 | (933,046) | (893,931) |
| Payment for redemption of Notes | | (15,550,760) | (14,898,848) |
| Interest paid during the financial period | | (5,427,461) | (5,485,235) |
| **Net cash used in financing activities** | | **(21,911,267)** | **(21,278,014)** |
| **Net decrease in cash and cash equivalents** | | **(19,914)** | **(1,581)** |
| Cash and cash equivalents at beginning of the financial period | | 9,026,536 | 9,028,126 |
| **Cash and cash equivalents at end of the financial period** | | **9,006,622** | **9,026,545** |

* Cash collateral was incorrectly included as part of cash and cash equivalents in the 2015 interim financial statements. This has been included in the Statement of Cash Flows as a cash flow from investing activities to comply with the requirements of IAS 7. This reclassification has no impact on the equity or profit or loss of the Group, as disclosed in note 4.

** Cash recoveries included as other income in the 2015 interim financial statements, have been reclassified in the Statement of Comprehensive Income as part of net provision from impairment losses on loans and receivables and included in the Statement of Cash Flows as cash flows from investing activities to comply with the requirements of IAS 7. As such, the net increase in provision for impairment loss on loans and receivables presented under net cash flows from operating activities is net of cash recoveries in 2015. These reclassifications have no impact on the cash flow, equity or profit or loss of the Group, as disclosed in note 4.

**Notes to the financial statements**
**For the half financial year ended 30 June 2016**

## 1. General information

The Company is a special purpose company incorporated and registered in Ireland with limited liability on 13 August 2003 under registered number 374631.

The principal activity of the Group is the investment in a portfolio of mortgage receivables in Portugal, through the purchase of 100% of the units in Lusitano Mortgages No 2 Fundo ("Fundo" or the "Subsidiary"), a Portuguese securitisation fund. The portfolio consists of loans originated by Novo Banco S.A. ("Novo Banco") with a Novo Banco subsidiary continuing to service the loans (the "Servicer"). Fundo acquired the receivables from Novo Banco and granted to the unitholder (the "Company") ownership interests in its assets through issuance of units. Fundo has a narrow and well defined objective (to manage its portfolio) and is operating for the sole benefit of its Unitholders. Fundo is neither permitted to issue additional units nor acquire additional assets. Fundo is managed by a fund management company in Portugal, Finantia SGFTC S.A. ("Finantia" or the "Fund Manager"). Finantia acts on behalf of the unitholder and provides supervisory services such as supervising the acquisition of the assets, notification of the borrowers in the event of a mortgage asset sale notification event, issuance of the units and determination of the unit distribution.

In accordance with Portuguese Securitisation Law and Fund Regulations (the "Regulation"), a Portuguese securitisation fund must be administered, managed and represented by a local licensed fund manager. The Regulation requires that (i) the fund is managed by a fund manager, (ii) a servicer is appointed to collect and manage the portfolio and (iii) a custodian holds the portfolio on behalf of the fund. The Fund Manager acts on behalf of the Fund and for the sole benefit of the unitholders, and is required to perform and execute all acts to ensure the proper administration of the Fund.

The Fund has engaged the Servicer to collect and manage the mortgage asset portfolio including implementing any necessary enforcement procedures in relation to defaulted mortgage receivables.

Investments are financed by issuing debt securities whose values are determined by the underlying loans and receivables. The transaction was financed through the issuance of five senior tranches of mortgage backed floating rate notes, Classes A, B, C, D and E (the "Senior Notes") to an aggregate amount of €1,000,000,000 and also a small junior tranche in the amount of €10,000,000, the Class F Notes (together with the Senior Notes, the "Notes"). The repayment of principal and interest on the Notes is linked to the performance of the portfolio of mortgage receivables.

The Company issued €920,000,000 Class A Mortgage Backed Floating Rate Notes due 2036, €30,000,000 Class B Mortgage Backed Floating Rate Notes due 2046, €28,000,000 Class C Mortgage Backed Floating Rate Notes due 2046, €16,000,000 Class D Mortgage Backed Floating Rate Notes due 2046, €6,000,000 Class E Mortgage Backed Floating Rate Notes due 2046 and €9,000,000 Class F Mortgage Backed Floating Rate Notes due 2046.

There is a priority of payments for the principal and interest in relation to Class A being the most senior and then followed by Classes B, C, D and E with F being the junior tranche.

All the Notes issued by the Company are listed on the Irish Stock Exchange.

In addition, the Company entered into interest rate swap agreements with Crédit Agricole Indosuez (the "Swap Counterparty" or "CAI") to hedge its exposure to interest rate risk on the interest expense payable on Senior Notes.

The Company also entered into a Liquidity Facility Agreement with CAI (the "Liquidity Facility Provider") for the purpose of funding any liquidity shortfalls the Company might face and/or providing credit enhancement of the Company in the event the Swap Counterparty's short term rating is downgraded.

The Liquidity Facility Provider and Swap Counterparty have priority ranking over the holders of the Notes (the "Noteholders").

The Company has created Security over all of its assets in favour of the Trustee, who holds the assets on behalf of the Noteholders. The Company does not have any significant assets other than its rights under and in respect of the Units, its derivatives (when in an asset position) and any other rights arising under the Offering Circular and other related issuance documents. The Company has no direct proprietary interest in the underlying mortgage assets held by Fundo monies deriving therefrom except as that which arises in accordance with the terms of the Units. Both before and after an Insolvency Event in relation to the Company, amounts deriving from the Company's assets will be available for the purposes of satisfying the Company's obligations, in accordance with the pre-determined priority of payment schedule with obligations to the Liquidity Facility Provider and Swap Counterparty being settled in priority to the Company's obligations due to the Noteholders and any other creditor.

The Company has no direct employees.

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

## 2. Basis of preparation

The condensed financial statements for the half financial year ended 30 June 2016 have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the financial year ended 31 December 2015 and the unaudited financial statements for the financial period ended 30 June 2015.

*Statement of Comprehensive Income of the Company*

In accordance with Section 304 of the Companies Act 2014, a separate Statement of Comprehensive Income for the Company has not been presented. The total comprehensive income of the Company for the financial period was € nil (30 Jun 2015: € nil).

## 3. Significant accounting policies

The same accounting policies, presentation and methods of computation are followed in these condensed interim Group and Company financial statements as were applied in the preparation of the Group's and Company's financial statements for the financial year ended 31 December 2015.

## 4. Restatement of prior financial year error

During the financial period, the Group and Company have reclassified, regrouped and represented several items in the comparative financial statements and have highlighted these across the financial statements. Such restatements have no impact on the previously reported profit/ loss or the total comprehensive income or the reported equity. The restatements have been made to correct prior period errors and to improve the overall presentation of the financial statements.

**Group**

| **Statement of cash flows** | **Previously presented 30-Jun-2015** | **Restatement** | **As restated 30-Jun-2015** |
|---|---|---|---|
| | € | € | € |
| Cash and cash equivalents | 31,005,764 | (16,835,030) | 14,170,734 |
| Cash collateral | - | 16,835,030 | 16,835,030 |

**Company**

| **Statement of cash flows** | **Previously presented 30-Jun-2015** | **Restatement** | **As restated 30-Jun-2015** |
|---|---|---|---|
| | € | € | € |
| Cash and cash equivalents | 25,861,575 | (16,835,030) | 9,026,545 |
| Cash collateral | - | 16,835,030 | 16,835,030 |

The 30 June 2015 balance of net cash generated from investing activities presented in the Statement of Cash Flows incorrectly included €16,835,030 of cash collateral received from the Liquidity Facility Provider (refer to note 12). This error has been corrected in the current financial period. There was no impact of these restatements on the closing cash and cash equivalent balances other than for the effect of the restatement of the cash collateral balance.

**Group**

| **Statement of comprehensive income** | **Previously presented 30-Jun-2015** | **Restatement** | **As restated 30-Jun-2015** |
|---|---|---|---|
| | € | € | € |
| Other income | 470,484 | (470,484) | - |
| Net provision for impairment losses on loans and receivables | (1,361,534) | 470,484 | (891,050) |

Other income of €470,484 relating to the financial period ended 30 June 2015 was re-presented as cash recoveries.

Net provision for impairment losses on loans and receivables presented on the Statement of Comprehensive Income is net of cash recoveries of €470,484 which were recovered on previously written off loans and receivables balances (note 9).

## 5. Income from loans and receivables

| | **Half financial year ended 30-Jun-16** | **Half financial year ended 30-Jun-15** |
|---|---|---|
| | € | € |
| Coupon income on mortgage portfolio | 2,408,981 | 2,903,182 |

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

## 6. Net finance expense on debt securities issued

| | Half financial year ended 30-Jun-16 € | Half financial year ended 30-Jun-15 € |
|---|---|---|
| Net finance expense on debt securities issued | (5,360,095) | (5,445,235) |
| Amortisation of issue costs | (3,674) | (3,653) |
| Amortisation of premium on Class F Notes | 37,248 | 37,042 |
| | (5,326,521) | (5,411,846) |

## 7. Net gain on derivative financial instruments

| | Half financial year ended 30-Jun-16 € | Half financial year ended 30-Jun-15 € |
|---|---|---|
| Net coupon expense | (309,549) | (392,188) |
| Unrealised gain in fair value of derivative financial instruments | 3,710,651 | 4,073,911 |
| | 3,401,102 | 3,681,723 |

## 8. Other expenses

| | Half financial year ended 30-Jun-16 € | Half financial year ended 30-Jun-15 € |
|---|---|---|
| Commission expenses (note 23)* | (223,551) | (203,934) |
| Professional fees | (33,404) | (17,336) |
| Administration expenses | (13,375) | (13,000) |
| Fund taxes | (13,235) | (16,170) |
| Trustee fees | (11,376) | (13,621) |
| VAT expenses | (8,729) | (4,531) |
| Audit fees | (6,150) | (7,995) |
| Agent fees | (5,000) | (5,417) |
| Bank charges | (32) | (5) |
| | (314,852) | (282,009) |

The directors received no remuneration from the Company during the half financial year (30 Jun 2015: €nil). The Company is administered by Deutsche International Corporate Services (Ireland) Limited and has no employees.

* Commission expenses arise at Fundo level and relate to fees paid mainly comprising of fees paid to the Custodian, Fund Manager and Servicer. The basis of calculating the Servicer fees is based on an annual fee of 0.10% of the total value of Fundo's assets under management at the beginning of each collection period.

## 9. Provision for impairment loss on loans and receivables

| | Half financial year ended 30-Jun-16 € | Restated* Half financial year ended 30-Jun-15 € |
|---|---|---|
| Balance at beginning of the financial period | (652,098) | (734,450) |
| Increase in provision for impairment for the financial period | (853,428) | (1,361,534) |
| Impairment provision utilised for write off during the financial period | 890,237 | 1,401,810 |
| Balance at end of the financial period | (615,289) | (694,174) |
| Cash recoveries * | 684,718 | 470,484 |

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

**9. Provision for impairment loss on loans and receivables (continued)**

During the financial period, an impairment provision of €853,428 (30 Jun 2015: €1,361,534) was booked for the Group and Company.

* Other income of €470,484 relating to the half financial year ended 30 June 2015 was re-presented as cash recoveries (note 4).

The provision for impairment losses on loans and receivables presented on the Statement of Comprehensive Income is net of cash recoveries of €684,718 (30 Jun 2015: €470,484) recovered on previous written off loans and receivables balances.

**10. Income tax expense**

| | Half financial year ended 30-Jun-16 | Half financial year ended 30-Jun-15 |
|---|---|---|
| | € | € |
| Profit before income tax | - | - |
| Current tax at standard rate of 25% | | |
| **Current tax charge** | - | - |

The Company is charged to corporation tax at a rate of 25% (30 Jun 2015: 25%). The Company will continue to be actively taxed at 25% in accordance with Section 110 of the Taxes Consolidation Act, 1997.

*Deferred tax*

Any temporary difference arising on the assets will be offset by a corresponding difference in the liabilities.

**11. Cash and cash equivalents**

| | Group 30-Jun-16 | Company 30-Jun-16 | Group 31-Dec-15 | Company 31-Dec-15 |
|---|---|---|---|---|
| | € | € | € | € |
| Issuer operating account | - | - | 164 | 164 |
| Reserve account | 8,973,387 | 8,973,387 | 8,998,501 | 8,998,501 |
| Fund operating account | 5,254,651 | - | 5,615,742 | - |
| Bank of Ireland | 33,235 | 33,235 | 27,871 | 27,871 |
| | 14,261,273 | 9,006,622 | 14,642,278 | 9,026,536 |

All of the Group's cash balances are held with BNP Paribas (99.89%) and Bank of Ireland (0.11%). A Reserve Fund is contained in the Reserve account to cover any revenue shortfalls in respect of an interest period.

**12. Cash collateral**

| | Group 30-Jun-16 | Company 30-Jun-16 | Group 31-Dec-15 | Company 31-Dec-15 |
|---|---|---|---|---|
| | € | € | € | € |
| Issuer operating account | 15,044,491 | 15,044,491 | 15,977,537 | 15,977,537 |

The Group's cash collateral balances are held with Crédit Agricole Indosuez. The cash collateral are held on demand and the Group did not use nor did it foresee that it would need to use, any of the proceeds from the cash collateral to meet its Notes and other payment obligations.

**13. Other receivables**

| | Group 30-Jun-16 | Company 30-Jun-16 | Group 31-Dec-15 | Company 31-Dec-15 |
|---|---|---|---|---|
| | € | € | € | € |
| Interest receivable | 260,721 | - | 310,117 | - |
| Unit distributions receivable | - | 1,003,203 | - | 1,113,494 |
| Prepayments | 20,835 | 20,835 | 1,682 | 1,682 |
| | 281,556 | 1,024,038 | 311,799 | 1,115,176 |

Notes to the financial statements (continued)
For the half financial year ended 30 June 2016

## 14. Loans and receivables

| | Group 30-Jun-16 € | Group 31-Dec-15 € |
|---|---|---|
| Mortgage receivables | 245,239,314 | 260,576,089 |
| **Movement during the financial period/year** | | |
| At beginning of the financial period/year | 261,228,187 | 290,446,208 |
| Collection during the financial period/year | (14,483,347) | (26,522,780) |
| Impairment provision utilised during the financial period/year | (890,237) | (2,695,241) |
| At end of the financial period/year | 245,854,603 | 261,228,187 |
| ***Impairment provision*** | | |
| At beginning of the financial period/year | (652,098) | (734,450) |
| Provision made during the financial period/year | (853,428) | (2,612,889) |
| Loans and receivables written off during the financial period/year | 890,237 | 2,695,241 |
| At end of the financial period/year | (615,289) | (652,098) |
| **Mortgage receivables at end of financial period/year** | 245,239,314 | 260,576,089 |

| **Maturity analysis of loans and receivables** | Group 30-Jun-16 € | Group 31-Dec-15 € |
|---|---|---|
| <1 year | 159,633 | 187,648 |
| 1-2 years | 547,727 | 515,607 |
| 2-5 years | 6,785,459 | 5,870,281 |
| > 5 years | 237,746,495 | 254,002,553 |
| | 245,239,314 | 260,576,089 |

During the financial period, impairment provision of €853,428 (31 Dec 2015: €2,612,889) was made for bad and doubtful debts. The directors have estimated the level of impairment through the use of sensitivity analysis and other impairment factors on the value of mortgage receivables and other factors such as collateral pool performance, principal balance of overdue loans and written-off mortgage loans. The directors' believe that the carrying value of the loans and receivables net of the impairment amount is appropriate.

Loans and receivables that are less than three months past due are not considered impaired. As of 30 June 2016, loans and receivables of €4,330,905 (31 Dec 2015: €4,310,741) were past due but not impaired. The ageing analysis of past due loans and receivables is as follows:

| | Group 30-Jun-16 € | Group 31-Dec-15 € |
|---|---|---|
| Up to 3 months | 4,330,905 | 4,310,741 |
| 3 to 6 months | 1,938,173 | 2,024,055 |
| 6 to 12 months | 1,399,066 | 1,144,329 |
| More than 12 months | 1,842,567 | 2,141,397 |
| | 9,510,711 | 9,620,522 |

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

**14. Loans and receivables (continued)**

| **Investment in Fund Units (loan investment)** | **Company 30-Jun-16** | **Company 31-Dec-15** |
|---|---|---|
| *Cost* | € | € |
| At beginning of the financial period/year | 284,965,043 | 314,093,834 |
| Unit principal distributions during the financial period/year | (14,779,982) | (26,433,550) |
| Impairment during the financial period/year | (890,237) | (2,695,241) |
| At end of the financial period/year | 269,294,824 | 284,965,043 |
| | | |
| *Impairment provision* | | |
| At beginning of the financial period/year | (19,659,399) | (19,741,751) |
| Increase in provision for impairment for the financial period/year | (853,428) | (2,612,889) |
| Impairment provision utilised for write off during the financial period/year | 890,237 | 2,695,241 |
| At end of the financial period/year | (19,622,590) | (19,659,399) |
| | | |
| **Fundo Units at 30 June 2016/31 December 2015** | 249,672,234 | 265,305,644 |

**Group undertakings**
The subsidiary undertaking of the Group is Lusitano Mortgages No 2 Fundo ('the Fundo'), a Portuguese Securitisation fund incorporated under the laws of the Portuguese Republic. The Company has invested in 100% of the units of the Fundo, being 100 units with a nominal value of €10m each. The principal activity of the Fundo is the investment in a portfolio of mortgage receivables.

**15. Derivative financial instruments**
In accordance with IFRS 7 Disclosures – Offsetting financial assets and financial liabilities, the Group and Company are required to disclose the impact of potentially offsettable financial assets and liabilities represented in the Statement of Financial Position to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on its financial position for recognised assets and liabilities. These recognised assets and liabilities are financial instruments and derivative instruments that are either subject to an enforceable master netting arrangement or similar agreement or meet the following right of setoff criteria: the amounts owed by the Group and Company to another party are determinable, the Group and Company have the right to set off the amounts owed by the Group and Company with the amounts owed by the other party, the Group and Company intend to set off, and the Group's and Company's right of setoff are enforceable at law.

The Group and Company have no intention to settle net its offsettable financial assets and financial liabilities in the Statement of Financial Position that may be received or paid as part of collateral arrangements. In the event of counterparty default and in cases where an enforceable master netting agreement is in place, the Group and the Company would have the option to liquidate the collateral and offset a counterparty's rights and obligations. The gross amounts of derivative contract liabilities reported in the Statement of Financial Position in the amount of €1,761,986 as at 30 June 2016 (31 Dec 2015: €1,284,076) are not subject to an enforceable master netting arrangement due to unavailability of any derivative contract asset with the named counterparty.

The following table sets forth the rights to offset and related arrangements associated with the Company's derivative financial instruments as at 30 June 2016:

| **Type of contract** | **Currency** | **Expiration** | **Notional** | **Group Fair value of liabilities 30-Jun-16** | **Company Fair value of liabilities 30-Jun-16** |
|---|---|---|---|---|---|
| | | | € | € | € |
| *Interest rate swap* | | | | | |
| Tranche I | Euro | 16 Aug 2029 | 253,987,393 | (1,338,586) | (1,338,586) |
| Tranche II | Euro | 16 Aug 2029 | 4,734,206 | (423,400) | (423,400) |
| | | | | (1,761,986) | (1,761,986) |

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

**15. Derivative financial instruments (continued)**

The following table sets forth the rights to offset and related arrangements associated with the Company's derivative financial instruments as at 31 December 2015:

| Type of contract | Currency | Expiration | Notional | Group Fair value of liabilities 31-Dec-15 | Company Fair value of liabilities 31-Dec-15 |
|---|---|---|---|---|---|
| *Interest rate swap* | | | € | € | € |
| Tranche I | Euro | 16 Aug 2029 | 268,298,233 | (837,394) | (837,394) |
| Tranche II | Euro | 16 Aug 2029 | 5,309,779 | (446,682) | (446,682) |
| | | | | (1,284,076) | (1,284,076) |

| *Movement in derivative financial instruments (Group and Company)* | 30-Jun-16 | 31-Dec-15 |
|---|---|---|
| | € | € |
| At beginning of the financial period/year | (1,284,076) | (1,710,364) |
| Net changes in fair value of derivatives during the financial period/year | (477,910) | 426,288 |
| At end of the financial period/year | (1,761,986) | (1,284,076) |

**16. Other payables**

| | Group 30-Jun-16 | Company 30-Jun-16 | Group 31-Dec-15 | Company 31-Dec-15 |
|---|---|---|---|---|
| | € | € | € | € |
| Accrued expenses | 115,851 | 36,602 | 124,040 | 41,230 |
| Interest payable on debt securities issued | 181,874 | 181,874 | 249,240 | 249,240 |
| | 297,725 | 218,476 | 373,280 | 290,470 |

**17. Liquidity facility**

| | Group 30-Jun-16 | Company 30-Jun-16 | Group 31-Dec-15 | Company 31-Dec-15 |
|---|---|---|---|---|
| | € | € | € | € |
| At beginning of the financial period/year | 15,977,537 | 15,977,537 | 17,728,961 | 17,728,961 |
| Repayment during the financial period/year | (933,046) | (933,046) | (1,751,424) | (1,751,424) |
| At end of the financial period/year | 15,044,491 | 15,044,491 | 15,977,537 | 15,977,537 |

In 2003, the Company entered into a Liquidity Facility Agreement with the Liquidity Facility Provider, CAI, for an amount of €30,000,000.

The liquidity facility can be drawn to fund any liquidity shortfall and following a downgrade of the minimum short term rating ("MSTR") of the Liquidity Facility Provider.

"Minimum short term rating" means, in respect of any entity, the short term unsecured, unsubordinated and unguaranteed debt obligations of such entity are rated, in the case of Moody's P-1, the case of Standard & Poor's, A-1 and in the case of Fitch Ratings F1.

In the event that the liquidity facility is drawn to fund any liquidity shortfall, then the facility shall be a revolving 364 day facility. Alternatively, if the liquidity facility is drawn following the downgrade of the minimum short term rating of the Facility Liquidity Provider, then the liquidity facility amount will be repaid if the credit rating of the Liquidity Facility Provider is subsequently upgraded to the minimum short term rating level.

Since inception, the only drawdown of this Liquidity facility was in 2011 where the Company had drawn €24,693,362 following the downgrade of the short-term rating of the Liquidity Provider by Moody's to P-2. The Company did not use nor did it foresee that it would need to use, any of the proceeds from the facility to meet its Notes and other payment obligations and expects to return the €24,693,362 upon the Liquidity Facility Provider re-achieving the MSTR.

Pursuant to the Liquidity Facility Agreement, the Company shall pay to the Liquidity Facility Provider a commitment fee on the amount of the Available Liquidity Facility to be calculated as the sum of 3 months Euribor and the liquidity facility margin of 0.5% per annum and is payable in arrear on each interest payment date.

During the financial period, the Company partially repaid the liquidity amount by €933,046 (31 Dec 2015: €1,751,424) and paid €7,876 (31 Dec 2015: €16,989) as commitment fee to the Liquidity Facility Provider.

As of 30 June 2016, the short term credit rating of CAI as rated by Moody's was P-1 (31 Dec 2015: P-2).

Notes to the financial statements (continued)
For the half financial year ended 30 June 2016

## 18. Debt securities issued

| Group and Company: | Group 30-Jun-16 | Company 30-Jun-16 | Group 31-Dec-15 | Company 31-Dec-15 |
|---|---|---|---|---|
| *Notes issued* | € | € | € | € |
| Class A Mortgage Backed Floating Rate Notes due 2036 | 170,600,657 | 170,600,657 | 186,147,998 | 186,147,998 |
| Class B Mortgage Backed Floating Rate Notes due 2046 | 29,994,747 | 29,994,747 | 29,994,661 | 29,994,661 |
| Class C Mortgage Backed Floating Rate Notes due 2046 | 27,995,099 | 27,995,099 | 27,995,019 | 27,995,019 |
| Class D Mortgage Backed Floating Rate Notes due 2046 | 15,997,200 | 15,997,200 | 15,997,154 | 15,997,154 |
| Class E Mortgage Backed Floating Rate Notes due 2046 | 5,998,948 | 5,998,948 | 5,998,931 | 5,998,931 |
| Class F Mortgage Backed Floating Rate Notes due 2046 | 7,095,781 | 7,095,781 | 7,699,047 | 7,699,047 |
| | 257,682,432 | 257,682,432 | 273,832,810 | 273,832,810 |

All the Notes are listed on the Irish Stock Exchange.

| Maturity analysis of debt securities issued | Group 30-Jun-16 | Company 30-Jun-16 | Group 31-Dec-15 | Company 31-Dec-15 |
|---|---|---|---|---|
| | € | € | € | € |
| < 1 year | - | - | - | - |
| 1-2 years | - | - | - | - |
| 2-5 years | - | - | - | - |
| > 5 years | 257,682,432 | 257,682,432 | 273,832,810 | 273,832,810 |
| | 257,682,432 | 257,682,432 | 273,832,810 | 273,832,810 |

The Company issued €920,000,000 Class A Mortgage Backed Floating Rate Notes due 2036, €30,000,000 Class B Mortgage Backed Floating Rate Notes due 2046, €28,000,000 Class C Mortgage Backed Floating Rate Notes due 2046, €16,000,000 Class D Mortgage Backed Floating Rate Notes due 2046, €6,000,000 Class E Mortgage Backed Floating Rate Notes due 2046 and €9,000,000 Class F Mortgage Backed Floating Rate Notes due 2046. Interest on the above mentioned Notes is payable quarterly in arrears equal to the sum of EURIBOR and the Applicable Margin (as defined below) on the basis of a 360 day financial year over the actual number days elapsed. The 'Applicable Margin' will be as follows:

- Class A Notes: 0.24% per annum on and prior to the Step-up date (16 November 2012) and at 0.48% per annum thereafter;
- Class B Notes, 0.48% per annum on and prior to the Step-up date (16 November 2012) and at 0.96% per annum thereafter;
- Class C Notes, 0.64% per annum on and prior to the Step-up date (16 November 2012) and at 1.28% per annum thereafter;
- Class D Notes, 1.20% per annum on and prior to the Step-up date (16 November 2012) and at 2.40% per annum thereafter;
- Class E Notes, 3.75% per annum on and prior to the Step-up date (16 November 2012) and at 4.75% per annum thereafter;
- Class F Notes receive interest based on the remaining income of the Company after expenses.

All classes of Notes issued are collectively linked to the performance of the entire mortgage portfolio. Prior to each Interest Payment Date, the Company receives available distribution amounts in respect of the Collection Period and then makes payments as outlined in the Offering Circular.

There is a priority of payments for the principal and interest in relation to Class A being the most senior and then followed by Classes B, C, D and E with F being the junior tranche.

The directors consider that the timing of the repayment of the Notes is uncertain given that the timing of such payments is dependent on the receipt of interest and principal amounts yielded by the assets. The Notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage receivables.

If not otherwise redeemed, purchased or cancelled, the Notes will be redeemed at their principal amount outstanding on the last interest payment date falling in December 2036 for Class A Notes and December 2046 for Class B, C, D, E and F Notes. Accordingly, all Notes outstanding at 30 June 2016 have been classified as falling due after more than five financial years.

| Reconciliation of debt securities issued | Nominal | Premium | Issue costs | Net proceeds |
|---|---|---|---|---|
| *Initial issuance* | € | € | € | € |
| Class A Mortgage Backed Floating Rate Notes due 2036 | 920,000,000 | | (227,948) | 919,772,052 |
| Class B Mortgage Backed Floating Rate Notes due 2046 | 30,000,000 | - | (7,433) | 29,992,567 |
| Class C Mortgage Backed Floating Rate Notes due 2046 | 28,000,000 | - | (6,938) | 27,993,062 |
| Class D Mortgage Backed Floating Rate Notes due 2046 | 16,000,000 | - | (3,964) | 15,996,036 |
| Class E Mortgage Backed Floating Rate Notes due 2046 | 6,000,000 | - | (1,487) | 5,998,513 |
| Class F Mortgage Backed Floating Rate Notes due 2046 | 9,000,000 | 3,234,600 | (2,230) | 12,232,370 |
| | 1,009,000,000 | 3,234,600 | (250,000) | 1,011,984,600 |

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

## 18. Debt securities issued (continued)

**30-Jun-16**

| Notes issued | Credit rating (Moody's) | Net proceeds | Cumulative redemptions | Cumulative issue costs amortisation | Cumulative premium amortisation | Embedded derivative adjustment | Balance at 30 Jun 2016 |
|---|---|---|---|---|---|---|---|
| | | € | € | € | € | € | € |
| Class A | A1 | 919,772,052 | (749,258,488) | 87,093 | - | - | 170,600,657 |
| Class B | A1 | 29,992,567 | - | 2,180 | - | - | 29,994,747 |
| Class C | A2 | 27,993,062 | - | 2,037 | - | - | 27,995,099 |
| Class D | Ba1 | 15,996,036 | - | 1,164 | - | - | 15,997,200 |
| Class E | B3 | 5,998,513 | - | 435 | - | - | 5,998,948 |
| Class F | Not rated | 12,232,370 | - | 657 | (948,686) | (4,188,560) | 7,095,781 |
| | | 1,011,984,600 | (749,258,488) | 93,566 | (948,686) | (4,188,560) | 257,682,432 |

**31-Dec-15**

| Notes issued | Credit rating (Moody's) | Net proceeds | Cumulative redemptions | Cumulative issue costs amortisation | Cumulative premium amortisation | Embedded derivative adjustment | Balance at 31 Dec 2015 |
|---|---|---|---|---|---|---|---|
| | | € | € | € | € | € | € |
| Class A | A1 | 919,772,052 | (733,707,728) | 83,674 | - | - | 186,147,998 |
| Class B | A3 | 29,992,567 | - | 2,094 | - | - | 29,994,661 |
| Class C | Baa3 | 27,993,062 | - | 1,957 | - | - | 27,995,019 |
| Class D | B1 | 15,996,036 | - | 1,118 | - | - | 15,997,154 |
| Class E | Caa2 | 5,998,513 | - | 418 | - | - | 5,998,931 |
| Class F | Not rated | 12,232,370 | - | 631 | (911,438) | (3,622,516) | 7,699,047 |
| | | 1,011,984,600 | (733,707,728) | 89,892 | (911,438) | (3,622,516) | 273,832,810 |

| Reconciliation of issue costs and set up fees | 30-Jun-16 | 31-Dec-15 |
|---|---|---|
| | € | € |
| Issue costs and set up fees paid | 250,000 | 250,000 |
| Cumulative amortisation | (93,566) | (89,892) |
| Unamortised issue costs and set up fees at financial period/year end | 156,434 | 160,108 |

**Optional redemption**
The Notes issued by the Company are principally secured by way of a first fixed security over the entire mortgage portfolio.

The Company may redeem all (but not only some) of the Notes in each class at their principal amount outstanding together with any accrued interest on any interest payment date:

- following the interest payment date on which the aggregate principal outstanding balance of the mortgage receivables is equal to or less than 10% of the aggregate principal outstanding balance of the mortgage receivables as at the collateral determination date; or
- following any change in tax law in either the jurisdiction of the Company or the Fund which would materially affect the Company's results; or
- if not otherwise redeemed, the notes will be redeemed at their principal amount outstanding on the last interest payment date falling due in December 2036 for Class A Notes and December 2046 for Class B, C, D, E and F Notes.

## 19. Embedded derivative

| Group and Company | 30-Jun-16 | 31-Dec-15 |
|---|---|---|
| | € | € |
| At beginning of the financial period/year | (3,622,516) | (4,155,749) |
| Movement during the financial period/year | (566,044) | 533,233 |
| At end of the financial period/year | (4,188,560) | (3,622,516) |

The directors have determined that an embedded derivative exists in respect of the Class F Note. The return on the Class F Note is linked to the return on the mortgage receivables. Further, all interest amounts payable by the Company under the Class F Notes will be subordinated to payment of principal and interest under the Senior Notes and will only be payable to the extent that the Company has sufficient funds available for the purpose.

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

**19. Embedded derivative (continued)**

However, it is the view of the directors of the Company that the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract therefore the embedded derivative is not separated from the host contract.

During the financial period, a sum of €865,734 (30 Jun 2015: €57,464) was paid to Class F Noteholders as interest.

**20. Called up share capital presented as equity**

| | Group 30-Jun-16 € | Company 30-Jun-16 € | Group 31-Dec-15 € | Company 31-Dec-15 € |
|---|---|---|---|---|
| **Authorised** | | | | |
| 10,000,000 shares of €1 each | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| **Issued** | | | | |
| 40,000 shares of €1 each | 40,000 | 40,000 | 40,000 | 40,000 |

**21. Ownership of the Company**

The principal shareholders in the Company are BADB Charitable Trust Limited (13,332 shares), MEDB Charitable Trust Limited (13,332 shares), Eurydice Charitable Trust Limited (13,332 shares). In addition, Mr James Scanlon, Mr Turlough Galvin, Mr William Prentice and Mr Patrick Molloy hold one share each in the Company. All shares are held under the terms of declarations of trust dated 4 November 2003, under which the relevant share trustee holds the issued shares of the Company on trust for a charity.

The Share Trustee has appointed a Board of Directors to run the day-to-day activities of the Company. The Board of Directors have considered the issue as to who is the ultimate controlling party of the Company. It has determined that the control of the day-to-day activities of the Company rests with the Board.

The financial statements of subsidiary are included in the consolidated financial statements of the Company from the date that control commences until the date that control ceases. Financial statements of subsidiary are made up to the reporting date.

**22. Charges**

The Company has created Security over all of its assets in favour of the Trustee, who represents the Unitholders. The Company does not have any significant assets other than its rights under and in respect of the Units it holds in Fundo, its derivatives (when in an asset position) and any other rights arising under the Offering Circular and other related issuance documents. The Company has no direct proprietary interest in the underlying mortgage assets held by Fundo or monies deriving therefrom except as that which arises in accordance with the terms of the Units. Both before and after an Insolvency Event in relation to the Company, amounts deriving from the Company's assets will be available for the purposes of satisfying the Company's obligations, in accordance with the pre-determined priority of payment schedule with obligations to the Swap Counterparty being settled in priority to the Company's obligations due to the Noteholders and any other creditor.

The Company has granted in favour of the Trustee fixed and floating charges over all the Company's assets and property with priority given to the Liquidity Facility Provider and the Swap Counterparty over the Noteholders' obligations. The security arrangements for all the classes of Notes are collectively linked to the entire mortgage portfolio subject to the priority of payment arrangements. Accordingly, there are no separate pool of assets pledged as collateral for each separate class of Notes.

**23. Related party and certain other transaction disclosures**

The Group and Company have identified the following transactions and balances which are required to be disclosed in accordance with the criteria set out in International Accounting Standards 24 "Related Party Transactions".

***For the Group and Company***

**Transactions with Deutsche International Corporate Services (Ireland) Limited**

The Company has entered into a Corporate Services Agreement ("CSA") with Deutsche International Corporate Services (Ireland) Limited (DICSIL) for the provision of corporate services. Under the terms of the service agreement €13,375 (30 Jun 2015: €13,000), as disclosed in note 8, was paid to DICSIL for these services during the financial period. No administration fees were due and payable to DICSIL at the financial period end (31 Dec 2015: € nil). The services are provided under normal commercial terms.

The two directors listed on page 1 are employed by DICSIL. There were no direct transactions which arose with the directors and the directors received no remuneration during the financial period (30 Jun 2015: € nil). Refer to note 8.

## 23. Related party and certain other transaction disclosures (continued)

*For the Group and Company (continued)*

**Transactions with Novo Banco**

Novo Banco is the Originator and Servicer.

During the financial period, an amount of €223,551 (30 Jun 2015: €203,934), as disclosed in note 8, was paid by Fundo to Novo Banco with respect to commission charges. Commission charges amounting to €58,003 (31 Dec 2015: €61,545) were due and payable to Novo Banco at the financial period end.

*For the Company*

**Transactions with Lusitano Mortgages No 2 Unit ("Fundo")**

The Company is the holder of 100% of the units issued by the Fundo. During the financial period, unit distributions of €2,902,861 (31 Dec 2015: €6,279,612) have been paid and accrued to the Company as interest. The interest distributions are calculated as per the requirements of the prospectus. At the financial period end, the Company's investment in Fundo units balance, net of impairment, was measured at €257,682,432 (31 Dec 2015: €273,832,810). During the financial period, an impairment charge of €853,428 (31 Dec 2015: €2,612,889) was recognised in the Statement of Comprehensive Income.

## 24. Financial risk management

*Introduction and overview*

The principal activity of the Group is the investment in a portfolio of mortgage receivables in Portugal, through the purchase of 100% of the units in Lusitano Mortgages No 2 Fundo, ("Fundo") a Portuguese securitisation fund. The transaction was financed through the issuance of five senior tranches of mortgage backed floating rate notes, Classes A, B, C, D and E (the "Senior Notes") to an aggregate amount of €1,000,000,000 and also a small junior tranche in the amount of €10,000,000, the Class F Notes (together with the Senior Notes, the "Notes"). The repayment of principal and interest on the Notes is linked to the performance of the portfolio of mortgage receivables.

*Risk management framework*

The Board of Directors have overall responsibility for the establishment and oversight of the Company's risk management framework.

The risk profile of the Company is such that market, credit, liquidity and other risks of its investments in the Fundo and derivative financial instruments held for risk management purposes by the Company are borne fully by the holders of debt securities issued. The risk associated with a particular class of Notes will depend on the ranking of the Notes. Other than the difference in risk associated with the differing priorities of payment, all the Notes have the same exposure to price risk, concentration risk or any other risks arising from the underlying mortgage portfolio.

This note presents information about the Group's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital are included in these financial statements.

The Group and Company have exposure to the following risks from its use of financial instruments:

(i) Credit risk;
(ii) Market risk; and
(iii) Liquidity risk.

### (i) Credit risk

Credit risk is the risk of the financial loss to the Group and Company if counterparty to a financial asset fails to meet its contractual obligations, and arises principally from the Group and Company's credit linked assets.

The policy of the Group and the Company in relation to credit risk is to expose themselves to the credit risk in relation to the financial assets only. The directors consider this risk to be of an acceptable nature. During the life of the transaction, the Originator is able to modify the terms and conditions of some of the loans on a limited basis or substitute some loans. These changes may have an impact on the risk profile of the pool. The Originator's ability to make changes to the terms and conditions of the loans securitised is limited by permitted variations and substitutions language included in the securitisation documentation. The directors confirm that no modification of terms or assets substitution have occurred in the half financial year ended 30 June 2016 and the financial year ended 31 December 2015.

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

## 24. Financial risk management (continued)

### (i) Credit risk (continued)

The Group has engaged the Servicer to act as agent of the Fundo in administering the mortgage portfolio including all sums due in relation to the mortgage portfolio.

Fundo appointed the Servicer in accordance with the Mortgage Servicing Agreement and the mandatory provisions of the securitisation law in Portugal, to be the Servicer and as its lawful non-exclusive agent. The Servicer has the full authority, power and right to do or cause to be done at any end all things which it reasonably considers necessary, convenient or incidental to such rights, powers and discretion in relation to the performance of the relevant services which mainly includes: collection of receivables and collection management; management of assets in default and take enforcement procedures as required; perform general administrative obligations; maintenance of mortgage asset records and periodic reporting.

The appointment of the Servicer shall terminate on the Final Maturity Legal date, which is the last interest payment date in December 2046, unless the appointment is terminated by Fundo by reason of the occurrence of a "Service Event", which mainly includes the Servicer defaulting from its obligations during its performance of services under the Mortgage Servicing Agreement.

Any reduction in the value of the mortgage receivables will be matched by a reduction in the repayment obligations of the Notes. Because of the ring-fenced nature of the debt issued by the Company any such losses would ultimately be borne by either the Swap Counterparty or the Noteholders.

### (ii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group and Company's income or its value of its holdings of financial instruments. The Noteholders are exposed to the market risk of the assets portfolio.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on the market.

Market risk embodies the potential for both gains and losses and includes interest rate risk, currency risk and price risk.

#### *(a) Interest rate risk*

The Company has entered into an interest rate swap in order to reduce the risk of a mismatch arising between the amounts received from the Fundo unit distributions received and the interest payable on the debt securities issued by the Company.

Under the interest rate swap agreement on each interest payment date, an exchange is made of the blended rate of interest receivable in respect of the mortgage receivables in Euros on a notional amount equal to the outstanding balance of loans, into amounts calculated by reference to 3 months Euribor plus a spread. Payment is made on a net basis.

#### *(b) Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates. These financial statements are presented in Euro which is the Group's and Company's functional currency. All the receipts, payments, assets and liabilities are denominated in Euro, and therefore the Group and Company are not exposed to any significant currency exchange fluctuation.

#### *(c) Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (i.e. the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk.

In relation to the Group's portfolio of mortgage loans, this is not subject to equity price risk, commodity price risk and residual value risk. In relation to prepayment risk, the directors do not consider this to be a significant risk as any fluctuation in the value of the loans held by the Company is borne by the Noteholders and/or Swap Counterparty.

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

## 24. Financial risk management (continued)

### (iii) Liquidity risk

Liquidity risk is the risk that the Group and Company will not be able to meet its financial obligations as they fall due. The Company's obligations under the Notes are limited to receipts of accrued interest and proceeds from the collection of the mortgage receivables.

The Group's and Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's and Company's obligation to the Noteholders is limited to the net proceeds upon realisation of the mortgage portfolio as the repayment of principal and interest on the Notes is collectively linked to the performance of the portfolio of mortgage receivables. Should the net proceeds be insufficient to make all payments due in respect of the Notes, the other assets of the Group and Company are not contractually required to be made available to meet payment and the deficit is borne by the Noteholders and Swap Counterparty, according to the priority of payments. There were no liquidity issues experienced by the Group, Company or Swap Counterparty in respect of meeting obligations to the Noteholders or the Swap Counterparty.

### Concentration risk

All loans and receivables are mortgage receivables secured on residential properties located in Portugal.

### (iv) Fair values

The Group's and Company's derivative financial instruments are carried at fair value on the Statement of Financial Position. The fair value of the financial instruments can be reliably determined within a reasonable range of estimates. The valuation of derivatives has been provided by the Swap Counterparty. The Swap Counterparty has produced this valuation as of a particular time and date on the basis of, interalia, its proprietary valuation models which are based on net discounted cash flow model that takes into account market interest rates, duration and relevant credit spreads. The fair values of the derivative financial instruments represent amounts payable to the Swap Counterparty should the swaps be terminated at 30 June 2016 and 31 December 2015. At the reporting date, the carrying amounts of the Group's and Company's financial assets and liabilities approximated their fair values.

Although the directors believe that their estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value as fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement e.g. interest rates, volatility, credit spreads, probability of defaults, estimates cash flows etc and therefore, cannot be determined with precision.

For recognised fair values measured using significant unobservable inputs, changing one or more assumptions used to reasonably possible alternative assumptions might impact on the value attributable to Noteholders, but would not have any effect on the Group Statement of Comprehensive Income or on equity as any change in fair value will be borne by the Noteholders due to the limited recourse nature of the debt issued by the Company.

## 25. Capital risk management

Share capital of €40,000 was issued in line with Irish Company Law and is not used for financing the investment activities of the Group.

## 26. Subsequent events

There have been no significant subsequent events up to the date of approval of these financial statements.

*Credit event*

No credit events occurred after the financial period end up to the date of signing this report.

**Notes to the financial statements (continued)**
**For the half financial year ended 30 June 2016**

**27. Comparatives**

Certain comparative figures in the Statement of Comprehensive Income have been reclassified to conform with the 31 December 2015 audited financial year presentation.

In line with IAS 34, the comparative information for the Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes In Equity are for the half financial year ended 30 June 2015 and the comparative information for the Statement of Financial Position is as at 31 December 2015.

**28. Approval of the financial statements**

The board of directors approved these financial statements on.....