Consolidated Report and Accounts | 2018

KEY ACTIVITY FIGURES

IFRS [1]

Euro millions	2018	2017
BALANCE SHEET		
Total assets	2,027.8	1,988.5
Securities and loans portfolio	1,816.8	1,815.9
Due to customers	900.9	802.5
Shareholders' equity	391.2	455.0
RESULTS		
Net interest income	60.5	59.9
Operating income after impairment and provisions	68.2	77.6
Net profit	38.6	42.3
PROFITABILITY, in %		
ROE [2]	10.2	12.4
ROA [2]	2.1	2.9
SOLVENCY (BIS III, fully loaded), in %		
CET1 ratio	21.0	23.0
Total solvency ratio	21.0	23.0
LIQUIDITY AND LEVERAGING, in %		
LCR [3]	1,113	1,095
Regulatory leveraging ratio [4]	18	20
PRODUCTIVITY EFFICIENCY		
Cost-to-Income (%)	34.0	27.5
EPS (Euros)		
Net profit	0.26	0.29
Book value	2.61	3.03
Weighted average no. of shares outstanding (millions)	150	144
Year-end no. of shares outstanding (millions)	150	150

(1) International Financial Reporting Standards

(2) Amounts before tax

(3) HQLA/Net outflows in a stress period of 30 days

(4) CETI/Balance and off-balance sheet assets (measure of exposure under Basel III)

Banco Finantia in Brief

Banco Finantia is an independent bank, with a national and international experience of over 30 years, and is one of the leaders in Portugal in the area of investment banking and private banking.

Banco Finantia has always been solid and profitable with capital ratios higher than the industry average - in the 2018 financial year the ROE (before taxes) attained 10% and in December of 2018 the Common Equity Tier 1 ratio stood at 21%, one of the highest in the European Union.

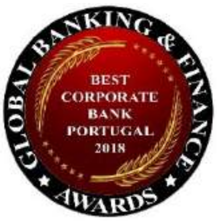
The Bank operates in two important niche markets:

> Corporate & Investment Banking – fixed-income products and capital market operations for companies and investors; loans and financial restructurings; financial advisory services focusing on cross-border Mergers and Acquisitions.

> Private Banking – quality personalized services for affluent and wealthy customers.

Banco Finantia focuses on Portugal, Spain, Brazil and Commonwealth of Independent States (CIS) countries, having as its main operating units' banks in Portugal and Spain, broker dealers in the United Kingdom and the United States, and auxiliary subsidiaries in Brazil and in Malta.

Banco Finantia's performance, its success and the quality and professional competence of its team have been recognized over the years through the accumulation of a vast number of international awards.



1 Macroeconomic Framework

World Economy

A number of important events occurred in 2018. Among these, we highlight the negotiations on the exit of the United Kingdom from the European Union, the presidential elections in Brazil, the meeting between President Trump and the leader of North Korea and the commercial tension between the United States and China. Despite these, the world economic growth that had started in mid-2016 continued, with a rate of 3.7% estimated for 2018. The IMF notes, however, that growth may have peaked in some developed economies, with the risks of a decline of global growth increasing at the end of 2018. The global growth projected for 2019 is 3.5%.

For 2018 the IMF estimates the economic growth of developed economies at 2.3%, a slight reduction from the 2.4% of 2017. For 2019, a growth of 2.0% is expected. For the emerging economies, growth is estimated at 4.6% in 2018, against 4.7% in 2017. For 2019, growth is projected to be 4.5%.

The GDP growth estimate for the North American economy reflects an acceleration of the economy from 2.2% in 2017 to 2.9% in 2018. In the case of the Eurozone, economic growth is estimated to have slowed from 2.4% in 2017 to 1.8% in 2018. For the Commonwealth of Independent States, the economy is estimated to have accelerated from 2.1% in 2017 to 2.4% in 2018. In Latin America and the Caribbean, growth in 2018 is expected to be 1.1%, below the 1.3% verified in 2017.

In 2018 the Chinese economy is expected to have slowed down slightly to 6.6%, compared with 6.9% in 2017, reflecting a decline in economic activity in the second quarter in response to regulatory restrictions in the real estate and non-bank financial intermediation sectors. The growth of the Russian economy improved to 1.7% in 2018, from 1.5% in 2017. Brazil grew 1.3% in 2018, against 1.1% in 2017.

For 2019, the IMF predicts a growth for the US economy of 2.5%. This decrease is related to the recent trade measures, including the imposition of tariffs on about $200 thousand millions worth of imports by the United States from China. The IMF also expects a slowdown in Eurozone growth to 1.6%, or 0.2 p.p. below the 2018 estimates. Growth continues constrained by weak productivity, adverse demographic factors and, in some countries, excessive public and private debt.

The IMF notes that the medium-term outlook remains generally strong in the emerging Asian economies. The growth of the Chinese economy is expected to slow to 6.2% in 2019, reflecting rising trade barriers and reduced lending. Brazil, according to IMF data, is expected to continue to recover in 2019, growing at 2.5%, while Russia is expected to slow 0.1 p.p. to 1.6%, in 2019.

Iberian Peninsula

The IMF estimates a 2.3% growth of the Portuguese economy in 2018, against 2.7% in 2017. The fiscal deficit is expected to decline in 2018, according to IMF estimates, contributing to the reduction of the public indebtedness level. Interest rates on Portuguese public debt declined significantly since the beginning of 2018, with some volatility in May and June due to the political uncertainty in Italy. In October, with the upward revision of Portugal's rating to “Investment-grade" by Moody's, sovereign debt interest rates resumed their downward trajectory. This "upgrade" reflects improvements at the fiscal and economic levels. Stability and confidence in the banking sector also continued to improve, in particular as a result of its improved capitalization and profitability.

The IMF forecasts a reduction in the unemployment rate to levels below 7.5% in 2018. This trend should continue, contributing to a moderate growth in real wages. The IMF projects inflation at 1.7% in 2018 and 2.1% in the medium term.

For Spain, the IMF estimates growth of 2.5% in 2018, down from 3.0% in 2017. The strong investment and private consumption were the main engines of growth in this economy. The external position has been strengthened by the continuous surpluses in the current account, although it is currently moderately below the medium-term indicators. The IMF estimates a decline in the unemployment rate to 14.6%, reflecting improvements in the labour market. Public debt remains close to 100% of GDP, while the fiscal deficit is estimated to have come in below 3% of GDP in 2018, in line with the Maastricht criterion. This improvement is supported by a strengthening of the business cycle and by low interest rates.

2 Operating Activities

Reduced growth in major economies and geopolitical uncertainties have created volatility in financial markets. This has slowed the volume of transactions and affected valuations, primarily in the last quarter of the year. Business investment was also affected, contracting in the face of uncertainty over several factors such as Brexit and the US-China trade conflict.

In this context, the Bank maintained a conservative stance and sought to consolidate positions in its main business areas – fixed-income capital markets, financial advisory services, corporate banking, and private banking.

The emphasis on international operations was maintained, capitalizing on the main operating platforms of the Bank in Lisbon, Madrid, London, New York, Miami and São Paulo.

Total assets remained close to Euros 2 thousand million. Following the slowdown in the market, capital markets activity saw the transacted volume decline, but the number of “corporate” and institutional customers continued to increase, as did the number of “private” customers, with deposits exceeding Euros 900 million.

Capital Markets

The year 2018 was marked by high volatility in the capital markets. Despite a global context of great complexity, reduced liquidity and, as a consequence reduced customers’ activity, this area closed the year with a total trading volume in the order of Euros 6 thousand million. The continued investment in electronic platforms combined with the entry into force of MiFID II enabled a significant increase in volumes transacted electronically of about 350% over the previous year. The Bank maintained its focus on the bond markets of Latin America, Eastern Europe and Iberia. With regard to business development, Banco Finantia began to operate with customers in geographical areas where it had not yet established a regular presence such as Asia and the Middle East.

2018 was also a year of consolidation of Banco Finantia’s international presence. Since September, the subsidiary Finantia USA has its own facilities and fully operational information systems in Miami. This important step was taken to satisfy the need not only to be closer to customers, with a physical presence in Miami, but also to serve as a support base for Banco Finantia’s international business in Latin America.

In the domestic market, the Bank placed more than Euros 400 million in Commercial Paper, a decrease of about 40% in volume placed compared with the year 2017. These figures accompany the Portuguese market trend of Commercial Paper as a whole, which throughout 2018 experienced a decrease in the volume and number of issuers, due to the increase in traditional bank financing.

Notwithstanding a reduced interest on the part of investors and national issuers for this financing instrument, Banco Finantia was, for the first time, able to sign a placement agreement for a Portuguese issuer in the form of Spanish Pagarés (the equivalent to the Portuguese commercial paper) listed on MARF (Spanish Fixed-Income Alternative Market) thus creating an alternative source of financing for Portuguese businesses.

In medium- and long-term financing, Banco Finantia successfully placed several issues of Portuguese and Spanish issuers during the year 2018. Noteworthy are: a 10-year bond issue for Indaqua, where the Bank acted as Joint Arranger & Lead Manager; a 4-year issue for Copasa - Sociedad Anonima de Obras Y Servicios, a Spanish company in the engineering and construction sector, where the Bank acted as a placement entity in a bond exchange operation to extend maturity; and the participation in the Exchange and Subscription Public Offer made by Mota-Engil. Although this last operation was mainly aimed at retail investors, Banco Finantia was able to establish itself as one of the benchmark counterparts among the various commercial banks making up the banking syndicate.

INDAQUA	sumol+compal	COPASA	MOTA-ENGIL
EUR 50.000.000	EUR 15.000.000	EUR 40.000.000	EUR 110.000.000
Bonds 2018-2028	**Commercial Paper**	**Exchange Offer / Bonds 2018-2022**	**Exchange Offer / Bond Issue 2018-2022**
Arranger and Lead Manager	Arranger and Lead Manager	Placement Entity	Manager
Banco Finantia	Banco Finantia	Banco Finantia	Banco Finantia

Corporate Finance

The year 2018 was a year of consolidation for the Corporate Finance area. Banco Finantia benefited from its competitive advantages as an international and independent investment bank to further strengthen its strategic positioning in cross-border financial advisory and fixed-income capital market operations.

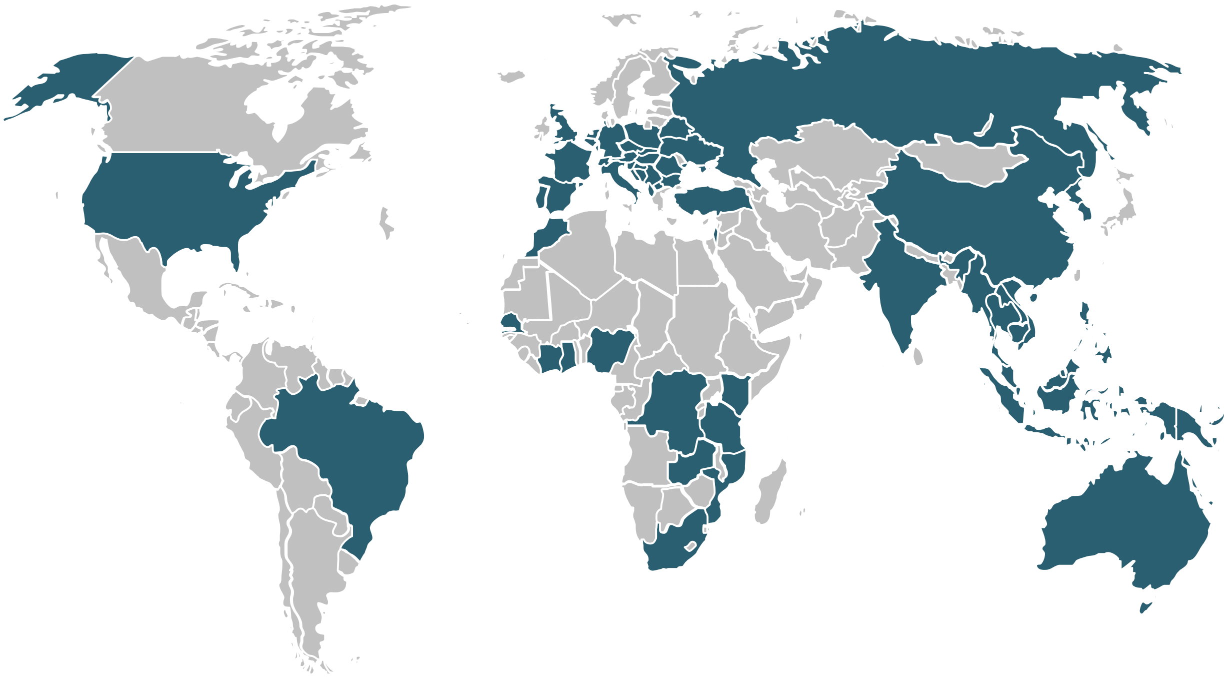
The Bank's global geographic coverage, strengthened by its bilateral partnerships for business development in its key operational markets (Portugal, Spain and Brazil), and also by its integration in the global investment bank network Terra Alliance, has materialized in increased opportunities and cross-border transactions.

TERRA ALLIANCE

15 Member Firms

+160 Employees

+40 Country Coverage



In the Financial Advisory area, of note is the continued support given to Reden Solar (started in 2017) in its consolidation efforts in Portugal, namely through the acquisition of Infrapar, an important player in the solar energy sector.

In addition, the Bank extended its activities to various sectors of the economy, providing financial advisory services in the financial, renewable energy, health, infrastructure, and transportation industries, as well as in other industrial sectors.

In 2018, the Bank strengthened and developed existing relationships, both with investment funds, private equity companies and asset managers, as well as through its partnerships, namely with the Terra Alliance network, in order to intensify its international activity. The Bank participated in the two half-yearly meetings of this important alliance, which took place in London (April) and Singapore (October).

Regarding the origination of Capital Market operations, there was a reduction in activity levels in Portugal compared with the previous year. In 2018, the Bank maintained a close relationship with Iberian Peninsula issuers, primarily medium-sized Portuguese companies, making use of the commercial paper instrument as a starting point for subsequent issuances of long-term debt and, possibly, financial advisory services.

For 2019, the Bank will continue the development and growth of its cross-border financial advisory activity, as well as its activity of origination of capital market operations. The international activity is considered essential for the development of this area and, as such, the Bank will continue to strengthen its team and its business partnerships with the objective of widening both its geographical coverage as well as the range of its activities.

Corporate Banking

In the area of Corporate Banking, during the year of 2018 five more operations were made in the form of syndicated loans than in the previous year, which represents a total of 19 operations, 7 of which on the primary market.

The Bank increased its focus and volume in transactions on the primary market, emphasis being placed on the fact that it was mandated as Lead Arranger, Arranger and Lead Manager in medium-term loans to Belagroprombank, Ecobank and G.B Group Corporation, respectively.

The loan portfolio increased by about 30% over 2017, closing the year with a total Euros 128 million. This increase follows the Bank's strategy to continue to diversify the loan portfolio by country of origin and by sector, focusing on supporting the growth of companies not only in Portugal and Spain but also of companies located in the various jurisdictions where Banco Finantia has operated for more than two decades.

Private Banking

As in previous years, Banco Finantia's Private Banking activity in Portugal and Spain continued to grow, attaining at the end of 2018 in excess of Euros 900 million in deposits (+ 12.5% versus 2017), and 12,500 customers (+ 7% versus 2017).

For this improvement several factors converged:

(i) a highly qualified and flexible commercial team, capable of offering our customers the execution of customized financial services tailored to their needs.

(ii) the promotion of the brand Finantia Private via specialized digital and traditional communication channels.

(iii) the recent partnership with entities that manage platforms specialized in raising funds from customers resident in several European countries, such as Germany, France or Holland (ex. Deposit Solutions/Savedo).

2018 was also noteworthy due to the introduction of MiFID II and the implementation of a new Front-End application. This application has proven to be of the utmost importance in the interaction with and understanding of the needs and expectations of our customers, and, together with the increased CRM capacity, has become critical to our sustained growth. Furthermore, during the year 2018 we continued to upgrade our internal systems to allow our customers to interact with Banco Finantia through an APP to be launched in early 2019.

From our locations in Portugal (Lisbon and Oporto) and Spain (Madrid, Barcelona and Valencia), we look forward, with enthusiasm, to the coming years, with new products and services to be delivered to our customers, in an environment of discretion, confidentiality and independence, while maintaining continued attention to cost effectiveness and the protection of customers' assets.

3 Supporting Activities

Information Systems

In 2018, significant advances were made in line with the strategy outlined of constant improvements and efficiency gains in the Bank's Information Systems.

At the beginning of the year, a project to automate the registration of the trades via TOMS (Bloomberg) and in Banco Finantia's Front Office – Kondor application went into production.

As part of its business expansion strategy, Banco Finantia partnered with the German Open Banking platform, SAVEDO, for deposit raising. This platform allows investors to access, in a single website, various international banks and implied the creation of a communication interface with the Bank's current systems.

The first phase of the "Front-End Project" for private banking was implemented. It is an integrated solution that not only meets the current needs, but will also accompany the growth of the Bank's business over time. This project reinforces the reliability, flexibility and efficiency of the private banking activities.

In order to automate Banco Finantia's manuals management process, the "IFlow" application (workflow solution) was implemented, with important gains in efficiency and control. Over time this solution will be extended to other Bank processes.

In September, the new CRC (Credit Risk Centre) project went into production.

During the year 2018, several initiatives were taken to ensure compliance with the new general regulation on the protection of personal data (RGPD). To the effect, a file encryption solution was implemented in document Servers. The security of the Bank's physical network was reinforced, with logical restructuring, through the implementation of Virtual Local Area Networks (VLAN).

As regards the Intel platforms, a disk Backup Solution, with redundancy, for the Disaster Recovery Centre and tape encryption were implemented, reducing the Backup, Recovery Point Objective (RPO) and Recovery Time Objective (RTO) times of the critical business processes.

The security of information and of all systems is a priority for the Bank. In this regard, a number of measures have been taken to mitigate the respective risks. In 2018, in order to conduct a continuous evaluation of the level of maturity of the Employees of the Bank in matters related to Information Security and to raise their awareness to the risks involved when good practices are not followed, a tool was acquired to periodically carry out phishing actions in a controlled environment. The Risk Monitoring Services on the Web were followed up, in order to proactively detect events that could represent a risk for the Group. Intrusion tests were carried out on the internal infrastructure that supports the business, in order to identify possible vulnerabilities.

Appropriate safety measures and controls have been implemented to ensure compliance with the safety requirements imposed by the Swift System.

With the objective of obtaining operating gains and maximizing the performance of the business support infrastructures, the IBM technological platforms, which support the Core business applications, were upgraded. Conventional hard disk drives in Workstations and Servers have also been replaced by superior speed and performance disks, significantly reducing information access times.

The installation and configuration of the IT and telecommunications infrastructure (hardware/software) in the new office in Miami took place.

Regarding the Business Continuity Plan (BCP), the Workstations (hardware/software) were upgraded in the Disaster Recovery Centre (DRC).

Operations

As with previous years, 2018 was a year of challenges. The strategy focused on the internal rotation of employees, and on the development and improvement of processes and procedures, allowing for the accommodation of the growth and diversification of the activity in the various business areas, while maintaining adequate safety standards.

In 2018, the dynamism and close involvement of the various Department teams, resulted in over 50 requests for development applications from the Development and Application Support Department as well as the revision and updating of some 20 operating manuals.

At the level of new projects, of note is the redesign of the entire process of opening accounts and customer on-boarding, which will immediately make possible a gain in terms of reliability and efficiency and, in the long run, enable the Bank to adopt online account opening solutions.

Also worthy of note is the entry into the electronic platforms for deposits, through the German SAVEDO, which required an exercise of application and procedure adjustment, in order to ensure a high level of service to the end customer.

This was another demanding year in terms of new regulations, especially the new General Data Protection Regime and the implementation of the Second Payment Services Directive (PSD2), scheduled to take effect in early 2019.

Throughout 2019, the Operations Department will continue to focus on operational risk mitigation and on ongoing employee training, aligned with the strategy and objectives set by the Bank.

Human Resources

Our employees are a key determinant for the success of Banco Finantia.

In this regard, we continually seek to improve our value proposition as employers, in order to attract and retain ambitious and talented professionals. The investment we make in people translates into the training and development of their skills and competencies and the management of their careers.

As at 31 December 2018, the Bank and its subsidiaries had a total of 264 employees, of which 168 in Portugal, 76 in Spain (Banco Finantia Spain) and the remaining 20 in the United Kingdom, USA, Brazil and Malta.

The average age of the employees is 43 years and their average time with the company is 12 years. About 73% of the employees have a higher academic qualification (bachelor's/ master's degrees).

Regarding gender distribution, at the end of 2018, 62% of the employees were male and 38% female.

About 35% of employees are senior staff, 56% mid-level staff and 9% administrative staff.

Internal mobility, as a tool for professional enhancement, continues to be very dynamic. Thus, in 2018, 12 rotations occurred in Portugal and two abroad.

Training at Banco Finantia is an integral part of the Human Resources management and development process, actively contributing to the effectiveness and efficiency of the Organization. The training corresponds not only to fundamental needs, from the integration of employees in the workplace and in the Bank, to the adaptation to subsequent changes, including the continuous development of technical and behavioural skills. It is also an agent of organizational innovation, in that it stimulates the initiative, leadership and participation capabilities of the employees.

In 2018, 557 participations in training sessions were recorded, in a total of 129 actions of which 11 carried out internally, 101 carried out by external entities and 17 in an e-learning regime. The overall volume of hours of training in Portugal was almost 6,000 hours (corresponding to an average of 34 hours of training per employee).

Finally, we emphasize the financing of a graduation-level academic training programmes and the assignment of worker-student status to 5 employees.

Financial Markets

The main areas of activity of the Financial Markets Department are liquidity management, the monitoring of all of the Bank's financial flows, the management of financial assets and liabilities, the interest rate and exchange rate risks mitigation strategy and also the relationship with multiple financial institutions, national and international.

In terms of monetary policy, and similarly to previous years, 2018 was marked by divergent performances by the main central banks (FED and ECB). Given the dynamism of the US economy, the FED increased interest rates four times and signalled the maintenance of this policy in 2019. In the Eurozone, given the expectations of economic slowdown and the absence of inflationary pressures, the ECB announced the end of the debt purchase programme, while maintaining unchanged the interest rates, indicating that this policy is to be maintained at least until the summer of 2019.

In this context, Banco Finantia successfully met the objectives set out in the strategy for its financial management, consubstantiated in maintaining a high liquidity reserve and diversifying funding sources.

As a result of this strategy, there was an increase (9.5%) in the highly liquid assets (HQLA) eligible for the liquidity coverage ratio (LCR), thereby maintaining this ratio well above the required regulatory minimum (1,113% versus 100%). Although maintaining a large portfolio of eligible securities, the Bank has opted to continue not to use the European Central Bank's (ECB) liquidity-providing facilities.

With regard to the main sources of financing, the highlight goes to collateralized financing operations with longer maturities, and an increase in the volume and average term of deposits, thus allowing greater granularity and the reinforcement of steady funding for the Bank.

In relation to the debt instruments portfolio, an active management was maintained taking into account criteria of liquidity, profitability, credit quality and diversification, in a portfolio denominated in Euros and US Dollars. In a context of greater volatility, the diversification strategy was maintained, which resulted in a 6% increase in the number of entities comprising the portfolio and a reduction of 5% in the average amount invested per entity. This strategy was implemented without compromising the associated credit risk, resulting in the maintenance of the average portfolio rating and in the reduction in 3% of its average term.

In line with the strategy defined in terms of the monitoring and control of interest rate and exchange rate risks, during the year there was a 45% increase in the volume of foreign exchange transactions carried out and a 16% increase in the amount of interest rate risk hedges, which contributed to a better immunization of the Bank’s balance sheet in the context of greater volatility in the financial markets.

The Financial Institutions relationship area sought to deepen and extend the wide network of international counterparts, in the context of a favourable framework at the level of Portugal’s country risk, consequence of the positive economic performance and the return of Portuguese debt to “investment” rating by all the major credit rating agencies. In this context, the relationships with the Bank’s correspondents and counterparties has been deepened, both by increasing the amounts and terms of the operations carried out as well as by increasing the diversity of the instruments negotiated with each counterpart.

Also in this context, and during 2018, the Bank was represented at several international events, of note being the annual meetings of the ITFA - International Trade and Forfaiting Association (ITFA) in Cape Town (September), of the IMF and World Bank in Indonesia (October) and, also, a visit to Shanghai organized by AICEP (October).

Also worthy of mention was the participation in another annual meeting of the Groupement Europèen de Banques (GEB) in June (Milan), a cross-border cooperation banking group. The GEB is made up of small and medium-sized private European banks, of which Banco Finantia is the Portuguese member. This year's meeting discussed, in addition to the Italian debt crisis, the regulatory challenges and proportionality issues faced by the smaller banks. During the plenary, the open innovation banking and fintech structures, increasingly greater allies and partners of the traditional banking business, were also analysed.

4 Risk Management

Risk Management Model

The Bank’s risk management model is based on an integrated set of processes, duly planned, reviewed and documented, focused on producing an appropriate understanding of the nature and magnitude of the risks underlying the Bank’s activities, allowing for an adequate implementation of the respective strategy and attainment of the goals established.

That management is based on processes implemented to identify, assess, monitor and control all the risks inherent in the financial and non-financial activities, existing or potential. These processes are supported by clearly defined policies and procedures aimed at ensuring that the established goals are attained and that the necessary actions are taken to adequately respond to the risks.

The process of risk identification is based on risk matrices, which incorporate, among others, the mapping of the processes, of the risk factors and of the controls associated with the activity. These risk matrices serve as a basis for the assessment, monitoring and control processes of same.

All these processes follow the principles recognized at the international and national level, in line with Bank of Portugal Notice no. 5/2008, with the Guidelines on Internal Governance issued by the European Banking Authority (EBA/GL/2017/11) and with Regulation 575/2013 of the European Union (CRR).

In this manner, the Bank's risk management model covers all the products, activities, processes and systems; taking into consideration all the risks inherent in its activities and considering its size, nature and complexity, as well as the nature and magnitude of the risks assumed.

The Bank recognizes that within the scope of its risk management model, the definition and evaluation of adequate capital levels to support the risk profile are essential elements for the implementation of a sustainable business strategy. Thus, the planning of the internal capital evolution and the maintenance of appropriate levels of capital in relation to the economic capital requirements (ascertained in the internal capital adequacy assessment process - ICAAP) are crucial to ensure the continuous adequacy of the risk profile to the Group's strategic objectives.

The Bank also recognizes the importance of integrating the risk management model into its culture and decision-making processes. In this manner, the risk management model has the active involvement of the entire Bank, including the management body, the directors with executive functions, the intermediate management bodies and the Risk Management Department:

> It is the responsibility of the Board of Directors to prepare and maintain an internal control system that is adequate and efficient, through the approval and periodic review of the governance, the strategies and the policies related to the risk management model, and to regularly monitor the activity of the risk management function. The Board of Directors is also responsible for the approval of the Risk Appetite Framework (RAF);

> The directors with executive functions are responsible for the implementation of the internal control system, based on the governance, strategy and policies approved by the Board of Directors related to the risk management model;

> The Finance and Risks Committee is responsible for the identification, evaluation and monitoring of the various risks that the Bank is exposed to. The Finance and Risks Committee is also responsible for the monitoring of the RAF limits and tolerance levels;

> The Risk Management Department is independent and responsible for the management of all the risks of the Bank. In this scope, the Risk Management Department: (i) guarantees the effective application of the risk management model, through a continuous monitoring of its adequacy and effectiveness, as well as the adoption of measures to correct any weaknesses, (ii) provides advice to all management and supervisory bodies, (iii) leads the

work involving the preparation and updating of risk matrices and risk assessment, (iv) prepares and presents periodic reports related to risk management, (v) actively participates in the business and capital planning, (vi) performs stress tests, (vii) prepares the ICAAP and actively engages in the preparation of the RAF; and (viii) promotes the integration of the risk principles in the Bank's daily activities.

In summary, the risk management function ensures:

- An adequate identification, assessment, monitoring and control of all the material risks to which the Group is exposed, as well as the mitigation of such risks;
- The adequacy of the internal capital to the risk profile, business model, and strategic planning; and
- The integration of the risk management process in the Group's culture and decision-making process.

Finally, to ensure a continuous improvement in the risk management model, the Bank attaches great importance to the development of the skills of its employees through specific training actions. Focused on best practices, the Risk Management Department, among many other control and risk mitigation issues, actively participates in the planning and structuring of training related to the risk management processes as well as the capital adequacy and liquidity assessments known as ICAAP and ILAAP, respectively.

Risk Profile

The risk profile of the Bank is determined by the analysis of risk matrices and the subsequent justification of the materiality of the risks, taking into account the applicable risk management legislation and the activity developed by the Bank.

To do this, the Bank takes into account the following risk categories: credit, interest rate, exchange rate, liquidity, operational (including operating, information systems, and behaviour and model risks), compliance, reputation and strategy.

All the risk categories contributing to the Bank's risk profile are analysed, discussed and monitored monthly by the Finance and Risks Committee considering exposure levels (and possible measures to increase effectiveness and risk mitigation), the ICAAP and RAF.

> **Credit Risk**

Credit risk arises from the possibility of a counterpart defaulting or the credit quality of a given financial instrument degrading. The Bank's objective is to maintain a high-quality asset portfolio, based on a prudent credit policy and a judicious analysis of all credit proposals. The Bank also has a constant concern to diversify its loan and bond portfolio, as a form of mitigating credit concentration risk.

> **Interest Rate Risk**

The interest rate risk results from the probability of the occurrence of negative impacts, provoked by unfavourable fluctuations in interest rates as a result of gaps between the maturities of the assets and the liabilities.

The Bank has adopted a strategy of minimizing the interest rate risk related to its fixed-rate assets through the use of hedging instruments for this type of risk (normally IRS – Interest

Rate Swaps), thereby maintaining a balanced structure between assets and liabilities in terms of interest rate mismatch.

The Bank monitors the distribution of its fixed-rate assets across time buckets, net of the corresponding fixed-rate liabilities and the interest rate hedging instruments used.

Considering the nature and characteristics of the Bank's business, as well as the processes implemented to monitor and mitigate interest rate risk, the Bank also analyses the VaR ("Value at Risk") related to interest rate risk. The VaR is calculated using the historical simulation method, based on a rate history of one year, a one-day holding period, and a confidence interval of 99%. This model is validated with back tests. For ICAAP, the Group has applied the VaR methodology for the allocation of economic capital to interest rate risk. The economic capital requirements for this risk are calculated through historical simulation, based on a six-year rate history, a one-year holding period and a 99.9% confidence interval.

> Foreign Exchange Risk

Foreign exchange risk is characterized by the probability of the occurrence of a negative impact as a consequence of unfavourable fluctuations in foreign exchange rates and of adverse changes in the foreign currency price of instruments.

It is the Bank's policy to operate only in assets and liabilities denominated in EUR and USD (the positions in other currencies are sporadic and immaterial).

The Bank adopted the strategy of minimizing the foreign exchange risk associated with its assets and liabilities. Hence, foreign exchange risk is regularly hedged in order to ensure a comfortable margin of the exposure in foreign currency vis-à-vis pre-established limits. Exposure is monitored on a daily basis, both the spot position and the forward position.

For ICAAP, the Bank has applied the VaR methodology for the allocation of economic capital to the exchange rate risk. The economic capital requirements for this risk are calculated through historical simulation, based on a six-year rate history, a one-year holding period and a 99.9% confidence interval.

> Liquidity Risk

Liquidity risk is defined as the possibility of a financial institution being unable to meet its obligations as they fall due, because of the inability, on a timely manner, to liquidate assets, obtain funding or refinance liabilities.

As regards liquidity risk management, the Bank's objective is to guarantee a stable and robust liquidity position, through the holding of liquid assets, control of the liquidity gaps and maintenance of a liquidity buffer that permit responding to financial outflows, both under contractual and stress situations.

Liquidity risk management is carried out so as to maintain liquidity levels within pre-defined limits, in accordance with two key parameters: (i) cash flow management, through the daily calculation of the financial flows and treasury balances over an extended temporal horizon, permitting the maintenance of a liquidity buffer in normal conditions and under unfavourable conditions and (ii) balance sheet management, with the daily calculation of liquidity metrics, permitting the maintenance of the main liquidity indicators within the Bank's pre-defined limits.

The Financial Markets Department is responsible for the daily cash flow and balance sheet management of the Bank. The Risk Management Department is responsible for the periodic analyses of the balance sheet management, preparing a monthly report for the Finance and Risks Committee.

The metrics used to measure liquidity risk in the scope of the balance sheet management include the prudential ratios LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), as well as an extensive group of internal ratios related to: liquidity mismatches; concentration of the main counterparts; distribution of the reimbursement flows of the main liabilities; collateral of the repos operations; liquidity characteristics of assets; and immediate liquidity.

The Bank monitors the Net Stable Funding Ratio (NSFR), which supplements the LCR and has a wider temporal horizon – one year. This ratio has been developed to provide a sustainable maturity structure of assets and liabilities, aimed at promoting an adequate resilience over a longer temporal horizon, by establishing additional incentives for banks to fund their activities with more stable sources of funding on a regular basis.

Non-Financial Risks

Non-financial risks include operational, compliance, reputation and strategy risks. These risks consist of the probability of the occurrence of negative impacts on the results or on the capital arising from: (i) operational risk - operational failures, inadequacy of information and technology systems, errors of conduct or model weaknesses, (ii) compliance risk - non-compliance with laws and regulations, (iii) reputation risk - negative perception of the institution's public image; and (iv) strategy risk - inadequate plans and strategic decisions.

The management of non-financial risks has been gaining increasing relevance. In this context, advanced tools and methods have been developed, focused on the identification, evaluation, monitoring and control of these types of risks. Among others, these tools include risk matrices and controls, heat-maps and spider-charts, with inputs derived from an extensive and comprehensive process of self-assessment specifically directed at non-financial risks. This process serves as a basis for the definition of action plans for non-financial risks.

In addition to the maintenance of risk metrics, the Bank maintains an organized process for collecting and acting on the various categories of non-financial risks, as well as recording the resulting information in a database of non-financial risks. This database includes, among others, the recording of (i) events, (ii) potential associated losses, and (iii) corrective and/or mitigating measures implemented.

For ICAAP, although there is no historical record of material losses, the Bank has been using the Basic Indicator Approach (BIA) methodology to quantify operational risk and has internally developed methodologies to quantify compliance, reputation and strategy risks.

During the course of 2018, several training actions were carried out in the area of non-financial risks -- training on MiFID II, Prevention of Money Laundering, GDPR, Safety in the Workplace and Cybersecurity, among others. For 2019, the Bank will continue to focus on training as a form of reducing non-financial risks.

5 Financial Overview

Consolidated Results

The consolidated net profit reached € 38.6 million in 2018, a decrease of 9% from the € 42.3 million reported in the previous year.

Net interest income reached € 60.5 million, above the amount of the previous year, and net commissions and other income were € 12.6 million (€ 26.6 million in 2017). Impairment and provisions were € 4.9 million. Operating income after impairment and provisions was € 68.2 million (12% below 2017).

Operating expenses came in at € 24.9 million (€ 23.8 million in 2017). The efficiency ratio (cost-to-income) attained 34.0% at the end of 2018 (27.5% in 2017). ROE (before taxes) attained 10.2%.

The summary of the consolidated income statement for the financial years ended 31 December 2018 and 2017, is as follows:

€ millions	IFRS	
CONSOLIDATED INCOME STATEMENT	**31.12.2018**	**31.12.2017**
Net interest income	60.5	59.9
Net fee and commission income	12.6	26.6
Impairment and provisions	(4.9)	(8.9)
Operating income after impairments and provisions	**68.2**	**77.6**
Operating expenses	(24.9)	(23.8)
Profit before tax	**43.3**	**53.8**
Net profit for the period	**38.6**	**42.3**

Consolidated Balance Sheet

Total assets attained the amount of €2,028 million as at 31 December 2018, a circa 2% increase over the previous year:

€ millions	IFRS	
CONSOLIDATED BALANCE SHEET	31.12.2018	31.12.2017
Assets		
Cash and banks	120.7	66.8
Securities and loans portfolio	1,816.8	1,815.9
Other assets and amounts receivable	90.3	105.8
Total assets	**2,027.8**	**1,988.5**
Liabilities		
MM operations	11.4	40.4
Due to customers	900.9	802.5
Repos	647.8	610.5
Other liabilities	76.5	80.1
Total liabilities	**1,636.6**	**1,533.5**
Total shareholders' equity	**391.2**	**455.0**
Total liabilities and shareholders' equity	**2,027.8**	**1,988.5**

The securities and loans portfolio (comprising mainly available-for-sale fixed-income securities) remained at the level of the previous year.

Due to customers attained € 900.9 million, 12% more than the € 802.5 million recorded in 2017. This increase confirms the positive trend of recent years, in accordance with Banco Finantia's strategy of increasing its deposit base.

Shareholders' equity attained € 391.2 million, reflecting the payment of the dividend related to the previous year and the drop in the valuation of the fixed-income portfolio.

Solvency

> **Regulatory Capital**

The Bank's solvency ratios are calculated in accordance with the prudential framework established by Regulation (EU) no. 575/2013 (CRR) and by Directive 2013/36/EU (CRD IV), both issued by the European Parliament and Council, of 26 June 2013 ("Basel III").

The Bank maintains solid financial ratios, with the CET1 and total capital ratios both attaining 21.0% in 2018.

BASEL III	31.12.2018	31.12.2017
CET1 ratio	21.0%	23.0%
Total Capital ratio	21.0%	23.0%

Risk Weighted Assets (“RWA”) reached € 1,758 million (€ 1,876 million in 2017).

> Internal Capital Adequacy Assessment Process (“ICAAP”)

In addition to the regulatory perspective, the Bank uses an internal capital adequacy self-assessment process, so as to ensure that all the risks are assessed and that the internal capital is adequate vis-à-vis its risk profile, in line with Pillar 2 of Basel III and Instruction no. 15/2007 of the Bank of Portugal.

On this basis, both the risks and the available financial resources (Risk Taking Capacity “RTC”) are evaluated from an economic perspective, estimated on a going concern basis so as to assume that the Bank has the capacity to always settle all its liabilities, including deposits, on a timely basis.

To quantify those risks, the Bank has developed various models to calculate the economic capital requirements that estimate the potential maximum loss in the period of one year. These models cover the various types of material risks the Bank is exposed to, namely credit, operational, compliance, strategy and reputation risks.

The amounts of the economic capital required for each risk are aggregated, not considering, as a matter of prudence, the effects of the diversification between risks. In addition to the calculation of the economic capital requirements, the material risks are subject to stress tests in order to identify any weaknesses that the internal models may not have identified and that may come to jeopardize the solvency of the institution.

The analysis of the capital adequacy is carried out monthly. At the end of each year it is complemented by a prospective analysis of the capital requirements, associated with the respective risks, and of the financial resources available, over a three-year temporal horizon, considering the Bank’s funding and capital plan.

The ICAAP results are continuously monitored and permit concluding that the Bank’s capital is adequate to cover incurred or potential risks from both the regulatory and economic perspectives.

Treasury Stock

At the beginning of 2018, the Bank held 37,607 own shares. During the 2018 financial year there were no acquisitions or sales of own shares, so at the end of the year 2018 the Bank held the same 37,607 own shares.

IFRS 9 – Financial Instruments

On 1 January 2018, IFRS 9 - Financial Instruments came into force, an accounting standard that replaces IAS 39 and deals with the classification and measurement of financial assets and liabilities, impairment and hedge accounting.

The impact estimated by the Bank as at 1 January 2018, due to the implementation of this new accounting standard, represented an increase in provisions for impairment losses in the amount of circa € 6.3 million, related to the credit exposures classified in Stage 1 (€ 5.5 million) and Stage 2 (€ 0.8 million).

Of that total amount, approximately € 5.8 million refers to exposures classified in the portfolio of available-for-sale financial assets, which implies that the transition adjustment consisted of a transfer from fair value reserves to retained earnings, as a result of which only the remaining amount of € 0.5 million affected the Bank's consolidated shareholders' equity. Additionally, the adjustments related to the classification and measurement of financial assets, and the respective tax effect, originated a positive impact in equity in the order of € 1.8 million, for which reason the total impact on the Bank net consolidated shareholders' equity with the implementation of IFRS 9, as at 1 January 2018, was positive in € 1.3 million. This originated a change in the CET1 capital that translated into an increase of the ratio in 7 basis points, for which reason, for regulatory capital purposes, the Bank opted not to use any transition period.

In terms of hedge accounting, no significant impacts on the Bank's consolidated shareholders' equity were verified.

At the level of the governance structure, with regard to the management and monitoring of financial instruments, no significant impacts were verified, and the inherent processes and controls were duly updated in conformity.

6 Social Responsibility, Cultural Patronage and Education

Social Responsibility

Every year, on behalf of the Finantia team, various social solidarity projects are supported, aimed primarily at under-privileged children and youths and/or those with special education-needs. In 2018, Banco Finantia financed the following institutions:

ACADEMIA DOS CHAMPS (www.academiadoschamps.org) - founded in 2009 and with the status of an IPSS, is a social integration project aimed at children and young people between 5 and 18 years of age. The main objective is to demonstrate, through the practice of tennis, all the benefits of viewing sport as a philosophy of life. Much more than a simple project of playfully occupying leisure time, it aims to provide students with a real and concrete possibility of overcoming their own limits, opening their horizons to new, and better and more structured life prospects.

APSA – "ASSOCIAÇÃO PORTUGUESA DO SÍNDROME DE ASPERGER" (www.apsa.pt) - an IPSS (Private Social Solidarity Institution) set up in 2003 by a group of parents with the mission of supporting the personal and social development of children and youths with this neuro-behavioural specific disorder with a genetic origin. APSA has been operating the Casa Grande project since 2016, a unique, innovative and differentiated space that empowers young people with Asperger's Syndrome for autonomy, employability and social and community inclusion.

CAPITI (capiti.pt) - an IPSS created in 2016 aimed at ensuring the access of children and young people from poor families to health services in the area of neurodevelopment, in order to facilitate their integration into the family, school and society. CAPITI provides these families with services for the early identification and access to intervention and diagnosis throughout childhood and adolescence, through a regular monitoring with consultations in the area of child development.

LIGA DOS AMIGOS DO HOSPITAL DE S. JOÃO - an association created in 2006 to support needy children and the elderly in this hospital.

MERCEARIA SOCIAL da Junta de Freguesia de Santo António (Parish of Santo António), Lisbon - is a project intent on having an active role in the fight against the difficulties faced by the parish residents, creating a space where they can acquire the goods they need, without any associated costs.

SANTA CASA DA MISERICÓRDIA DE LISBOA - founded in 1498, this secular institution with Catholic roots has as its mission the improvement of the overall well-being of the person as a whole, primarily of those less protected. The Bank's support has been centred on a sponsorship programme of psychotherapy consultations of children living in a residential home of Santa Casa da Misericórdia.

Cultural Patronage

PALÁCIO NACIONAL DA AJUDA - Banco Finantia is a patron of the Palace since 1997, having financed the full restoration of the Sala do Corpo Diplomático (Diplomatic Corps Room) and the reacquisition of various decorative pieces previously belonging to the Palace's collection.

FUNDAÇÂO DE SERRALVES - Banco Finantia is a founding member since 1995, having sponsored various cultural and social programmes.

Education

ISEG – in 2018 the Bank continued its collaboration with ISEG – Instituto Superior de Economia e Gestão (Higher Institute of Economics and Management) of the Universidade Técnica de Lisboa (Technical University of Lisbon), attributing an award to the best first-year student of the Master's Degree in "International Economics and European Studies".

FUNDAÇÃO ECONÓMICAS - the Bank is also a founding member of Fundação Económicas – Fundação para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais (Economics Foundation – Foundation for the Development of the Economic, Financial and Business Sciences).

7 Future Prospects

Global growth is expected to decelerate in 2019, but maintain reasonable prospects - circa 3.5%. Growth in the developed countries is expected to reduce slightly to 2.0%, but the emerging economies are expected to have greater dynamism, with a GDP growth of circa 4.5%. In Portugal and Spain, projected growth is in the order of 1.8% and 2.2%, respectively.

In this context, the Bank will continue to maintain a conservative posture, capitalizing on its main competitive advantages: a strong presence in Portugal and Spain; an efficient coverage of emerging markets, with platforms in Portugal, Spain, London, New York, Miami, São Paulo and Malta; a cadre of highly qualified and internationally experienced professionals; strong relationships with a variety of customers, institutions and counterparts worldwide; a strong capital base; and a highly cost-efficient structure.

The Bank has, therefore, all the elements to continue to offer attractive opportunities and professionalized services to its corporate and institutional customers, and to provide high-quality private banking services to its private customers - expanding its customer base, the number of operations and the volume of assets.

In terms of business lines, the Bank plans to maintain the same orientation of the previous year, pursuing non-capital intensive activities, focusing primarily on fixed-income capital market operations and on loans, on financial advisory services, and on Private Banking. In terms of geographical coverage, besides the Iberian Peninsula, a greater international presence is foreseen, with a particular emphasis on Brazil.

The Capital Markets area is planning to expand its sales, distribution and market-making activities. Further improvements in efficiency are projected, increasing turnover in order to strengthen the capacity to fund companies and satisfy investor demands, while consuming less capital. This orientation is in line with the European Commission's initiative of gradually replacing bank credit with capital markets funding, thereby diversifying the companies' sources of funding.

Financial Advisory Services will continue to expand, focusing on cross-border transactions, simultaneously supporting the internationalization of Iberian companies and direct foreign investment in Portugal and Spain.

Finally, Private Banking will continue to grow in line with the trend of recent years, with the widening and diversification of its range of products and services. This will allow Banco Finantia to offer its customers more investment alternatives and to further increase its fee business.

8 Appropriation of Results

The Board of Directors proposes a dividend of 13 cents per share, that is, approximately half of the Net Profit.

Banco Finantia presents a CET1 ratio of 21% (full implementation), including the deduction of the dividend proposed, within the internal policies and the regulatory guidelines issued for the banking sector, maintaining capital ratios (CET1) sufficiently robust for the development of the respective activities.

9 Final Remarks

In a year marked by some challenges resulting from the geopolitical uncertainties in the markets in which the Bank operates, the Board of Directors extends its thanks to all those who supported its activities.

To our customers, shareholders, corporate bodies and auditors, a word of appreciation for the loyalty and the trust placed on us. To our employees, our thank-you for the dedicated and competent contribution, indispensable for the good functioning of our institution.

Translation Note

The present Management Report and accompanying Financial Statements for 2018 are a free translation of the original documents issued in the Portuguese language. In the event of discrepancies, the original versions prevail.

Banco Finantia

Financial Statements 2018

(CONSOLIDATED ACCOUNTS)

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Banco Finantia

Consolidated Balance Sheet
as at 31 December 2018 and 2017

EUR thousand	Notes	2018	2017
ASSETS			
Cash and deposits with central banks and other demand deposits	5	59,142	41,793
Financial assets held for trading	6	21,683	53,459
Financial assets at fair value through other comprehensive income	6	1,630,268	-
Available-for-sale financial assets	6	-	1,529,997
Financial assets at amortized cost	6	233,882	299,146
Hedging derivatives	7	17,770	9,248
Non-current assets held for sale		12	207
Investment properties		1,044	1,064
Other tangible assets	8	11,703	11,789
Intangible assets	9	231	195
Current tax assets		8,644	6,627
Deferred tax assets	10	19,589	893
Other assets	11	23,819	34,054
TOTAL ASSETS		**2,027,786**	**1,988,472**
LIABILITIES			
Financial liabilities held for trading	12	40,991	12,604
Financial liabilities at amortized cost	13	1,560,105	1,453,399
Hedging derivatives	7	10,000	7,434
Current tax liabilities		3,107	11,294
Deferred tax liabilities	10	2,854	13,423
Provisions	14	868	1,441
Other liabilities	14	18,654	33,926
TOTAL LIABILITIES		**1,636,579**	**1,533,521**
SHAREHOLDERS' EQUITY			
Share capital	15	150,000	150,000
Share premium	15	12,849	12,849
Treasury stock	15	(38)	(38)
Other acc. comprehensive income, retained earnings & other reserves	16	189,620	249,623
Net profit attributable to shareholders of the Bank		38,542	42,242
Total Equity attributable to shareholders of the Bank		**390,973**	**454,676**
Non-controlling interests		234	275
TOTAL SHAREHOLDERS' EQUITY		**391,207**	**454,951**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,027,786**	**1,988,472**

The attached Explanatory notes form an integral part of these Financial Statements

Banco Finantia

Consolidated Income Statement
for the years ended 31 December 2018 and 2017

EUR thousand	Notes	2018	2017
Interest and similar income	17	87,914	86,674
Interest expense and similar charges	17	(27,400)	(26,732)
NET INTEREST INCOME		**60,514**	**59,942**
Dividend income		-	5
Fee and commission income	18	3,025	5,985
Fee and commission expense	18	(429)	(655)
Net results from financial operations	19	11,749	22,327
Other operating income		143	529
Other operating expense		(1,898)	(1,604)
OPERATING INCOME		**73,105**	**86,529**
Staff costs	20	(14,370)	(12,902)
Other administrative expenses	21	(9,383)	(9,699)
Depreciation and amortization	8, 9	(1,103)	(1,164)
TOTAL OPERATING COSTS		**(24,856)**	**(23,765)**
OPERATING PROFIT BEFORE IMPAIRMENT AND PROVISIONS		**48,249**	**62,764**
Provisions or reversal of provisions	22	587	(48)
Impairment or reversal of impairment	22	(5,501)	(8,877)
PROFIT BEFORE TAX		**43,335**	**53,839**
Current income tax	10	(4,028)	(15,003)
Deferred income tax	10	(738)	3,433
NET PROFIT FOR THE YEAR		**38,568**	**42,269**
Attributable to:			
Shareholders of the Bank		38,542	42,242
Non-controlling interests		26	27

The attached Explanatory notes form an integral part of these Financial Statements

Banco Finantia

Consolidated Statement of Comprehensive Income
for the years ended 31 December 2018 and 2017

EUR thousand	**Notes**	**2018**	**2017**
NET PROFIT FOR THE YEAR		**38,568**	**42,269**
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income	16	(114,390)	n.a.
Available-for-sale financial assets	16	n.a.	35,523
Foreign exchange variations in foreign operational units	7	5,146	(12,482)
Net investment hedge in foreign operational units (effective part)	7	(4,236)	12,539
Taxes on income related to items that may be reclassified to profit or loss (-)	16	30,724	(9,577)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(82,756)**	**26,003**
COMPREHENSIVE INCOME FOR THE YEAR		**(44,188)**	**68,272**
Attributable to:			
Shareholders of the Bank		(44,151)	68,228
Non-controlling interests		(37)	44

The attached Explanatory notes form an integral part of these Financial Statements

Banco Finantia

Consolidated Statement of Changes in Equity
for the years ended 31 December 2018 and 2017

EUR thousand	Share capital	Share premium	Other accumulated comprehensive income	Retained earnings	Other reserves	Treasury stock	Net profit attributable to shareholders	Non-controlling interests	Total Shareholders' Equity
Balance as at 01 January 2017	**150,000**	**25,000**	**10,966**	**47,772**	**155,509**	**(12,151)**	**30,691**	**235**	**408,022**
Appropriation of results	-	-	-	14,353	10,200	-	(30,691)	(4)	(6,142)
Issue of ordinary shares	12,151	(12,151)	-	-	-	-	-	-	-
Share capital decrease	(12,151)	-	-	-	-	12,151	-	-	-
Dividends distribution [(a)]	-	-	-	(15,163)	-	-	-	-	(15,163)
Acquisition of treasury stock	-	-	-	-	-	(38)	-	-	(38)
Comprehensive income for the year	-	-	25,986	-	-	-	42,242	44	68,272
	-	**(12,151)**	**25,986**	**(810)**	**10,200**	**12,113**	**11,551**	**40**	**46,929**
Balance as at 31 December 2017	**150,000**	**12,849**	**36,952**	**46,962**	**165,709**	**(38)**	**42,242**	**275**	**454,951**
Impact of transition to IFRS 9 (Note 31)	-	-	5,925	(4,627)	-	-	-	(2)	1,295
Balance as at 01 January 2018	**150,000**	**12,849**	**42,877**	**42,335**	**165,709**	**(38)**	**42,242**	**273**	**456,246**
Appropriation of results	-	-	-	30,445	11,942	-	(42,242)	(2)	144
Dividends distribution [(a)]	-	-	-	(20,030)	(965)	-	-	-	(20,995)
Comprehensive income for the year	-	-	(82,693)	-	-	-	38,542	(37)	(44,188)
	-	**-**	**(82,693)**	**10,415**	**10,977**	**-**	**(3,700)**	**(38)**	**(65,039)**
Balance as at 31 December 2018	**150,000**	**12,849**	**(39,816)**	**52,750**	**176,686**	**(38)**	**38,542**	**234**	**391,207**

[(a)] Corresponds to a dividend of € 0.14 (2017: € 0.11) per outstanding share

The attached Explanatory notes form an integral part of these Financial Statements

Banco Finantia

Consolidated Statement of Cash Flows
for the years ended 31 December 2018 and 2017

EUR thousand	Notes	2018	2017
Cash flows arising from operating activities			
Interest and similar income received		85.667	86.089
Interest expense and similar charges paid		(22.909)	(19.552)
Fee and commission income received		3.074	4.222
Fee and commission expense paid		(429)	(655)
Recoveries of loans previously written-off		4.989	2.463
Cash payments to employees and suppliers		(23.909)	(25.804)
		46.484	**46.763**
Changes in operating assets:			
Mandatory deposits with central banks		77	(638)
Financial assets		(78.119)	(200.638)
Due from banks		(24.784)	52.355
Other credit operations		7.287	12.041
Other operating assets		(11.124)	(5.117)
Changes in operating liabilities:			
Derivative financial instruments		37.315	(5.692)
Due to banks		(28.987)	12.301
Due to customers		98.117	62.808
repurchase		35.531	113.757
Other operating liabilities		(90)	1.025
Net cash flows from operating activities before taxes		**81.708**	**88.965**
Income taxes paid		(14.232)	(22.912)
		67.476	**66.053**
Cash flows arising from investing activities			
Acquisition of property, equipment and intangible assets	8, 9	(1.164)	(615)
Disposals of tangible and intangible assets	8, 9	78	53
		(1.086)	**(562)**
Cash flows arising from financing activities			
Acquisition of treasury stock	15	-	(53)
Maturity and repurchase of subordinated debt		-	(20.234)
Dividends paid on ordinary shares		(20.995)	(15.163)
Net cash flows from financing activities		**(20.995)**	**(35.450)**
Effect of exchange rate variations on cash and cash equivalents		(18.077)	(11.710)
Net changes in cash and cash equivalents		**27.318**	**18.331**
Cash and cash equivalents at the beginning of the year	25	55.037	36.706
Cash and cash equivalents at the end of the year	25	82.355	55.037
		27.318	**18.331**

The attached Explanatory notes form an integral part of these Financial Statements

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1. Bases of presentation

Banco Finantia and its subsidiaries (the "Group") have as their main object the accomplishment of all the operations and the provision of all the services permitted to the Banking Institutions, having specialized on capital markets, money markets, advisory services (including mergers and acquisitions), credit operations and private banking activities.

Banco Finantia is a privately owned bank with registered office in Portugal, at Rua General Firmino Miguel, no. 5, in Lisbon, which resulted from the transformation, in October 1992, of Finantia – Sociedade de Investimentos, S.A., which began its activity in July 1987. For such effect, the Bank has all the indispensable permits from the Portuguese authorities, central banks and all other regulatory agents operating in Portugal and in the other countries where the Bank operates through its branches and international subsidiaries. Its subsidiaries have branches and/or offices in Portugal, Spain, the United Kingdom, Brazil, the United States of America, Malta and the Netherlands.

The consolidated financial statements of the Bank are prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), as adopted for use in the European Union ("EU") in force as at 31 December of 2018, as established in Regulation (EC) no. 1606/2002 of the European Parliament and Council, of 19 July, and in Bank of Portugal Notice no. 5/2015, of 7 December. These financial statements are consolidated by Finantipar, S.A., with registered office at Rua General Firmino Miguel, no. 5, in Lisbon, Portugal.

During 2018, as described in Note 3, the Group adopted several amendments to existing standards issued by the IASB and adopted by the EU with mandatory application in that financial year, having opted not to early adopt those not mandatory in 2018. The accounting policies were applied consistently in all the entities of the Group and are consistent with those used in the preparation of the financial statements of the previous financial year, except as regards the changes introduced on the adoption of IFRS 9 – Financial Instruments ("IFRS 9").

These financial statements are expressed in thousands of Euros ("€ thousand") rounded to the nearest thousand, except where otherwise mentioned, and have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, available-for-sale financial assets, hedging and trading derivative financial instruments and hedged assets and liabilities, in respect of the component hedged.

The preparation of financial statements in accordance with IFRS requires the use of accounting estimates and assumptions. The areas involving a greater level of judgement or complexity are analysed in Note 4.

These financial statements have been approved for issue by the Board of Directors on 1 March 2019 and will be submitted to approval by the General Shareholders' Meeting.

Comparability of information

IFRS 9 is mandatory and replaces IAS 39 - Financial Instruments: Recognition and Measurement (IAS 39), for periods beginning on or after 1 January 2018. IFRS 9 establishes a new set of rules for the accounting and derecognition of financial instruments, introducing significant changes in the criteria for the classification and measurement of financial assets, recording of impairment and hedge accounting (excluding macro hedging). The main effects and equity impacts resulting from the adoption of IFRS 9 are retrospectively applied through the adjustment of the opening balance sheet as at the date of its initial application (1 January 2018). In this context, the impacts of the transition were recognized directly in retained earnings on 1 January 2018, as disclosed in Note 31 to the financial statements. In addition, the Group has decided not to restate the comparative information with reference to 2017, and so the comparative information with reference to 2017 is presented in accordance with IAS 39 and is not comparable with the information presented with reference to 2018.

With the entry into force of IFRS 9 at the beginning of 2018, the Group decided to adopt, whenever applicable, a separate and consolidated financial statement structure convergent with the guidelines of the Implementing Regulation (EU) 2017/1443, of 29 June 2017.

2. Main accounting policies

2.1 Bases of consolidation

These consolidated financial statements reflect the assets, liabilities, results and comprehensive income of Banco Finantia and its subsidiaries (the "Group").

All Group companies have consistently applied the accounting policies.

Investments (financial shareholdings) in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group exercises control. The Group exercises control when it is exposed to or has rights over the variable returns of an entity, as a result of its involvement with the entity, and has the ability of affecting those variable returns due to its power to affect the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

The accumulated losses of a subsidiary are proportionally attributable to non-controlling interests, which might imply the recognition of negative non-controlling interests.

In a business combination achieved in stages (step acquisition) where control is obtained, any previously held non-controlling interest is remeasured to fair value and the resulting gain or loss recognized in the income statement when determining the respective goodwill. At the time of a partial sale, which results in a loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to fair value at the date the control is lost and the resulting gain or loss is recognized in the income statement. The amount of the initial recognition of the remaining investments corresponds to the amount determined on the prior revaluation.

Any amounts previously recognized in other comprehensive income regarding ex-subsidiaries are reclassified to profit or loss, as if the Group has sold or liquidated the respective assets and liabilities.

The Group structure is presented in Note 30.

Investments (financial shareholdings) in associates

Associates are entities in respect of which the Group has significant influence over their financial and operational policies but no control. Generally, when the Group owns more than 20% of the voting rights, but no more than 50%, it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive Board of Directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that such influence ceases. The dividends received from associates are deducted from the investment initially realized by the Group.

In a step acquisition operation that results in the obtaining of significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

When the Group's share of losses in an associate equals or exceeds the accounting value of its interest in the associate, including any other unsecured medium- and long-term receivables in the associate, the equity method of accounting is interrupted, unless the Group has incurred legal or constructive obligations to recognize those losses or has made payments on behalf of the associate.

The Group realizes impairments tests on its investments in associates, on an annual basis and whenever impairment triggers are detected.

When the Group sells its shareholding in an associate, even if it does not lose control, it should record the transaction in profit or loss (gains/losses on disposal).

As at 31 December 2018 and 2017, the Group does not have any investments in associates.

Investments (financial shareholdings) in special purpose entities ("SPE")

The Group consolidates by the full consolidation method certain special purpose entities ("SPE"), specifically created to accomplish a well-defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, and independently of the percentage of the equity held.

The Group exercises control when it is exposed to or has rights over the variable returns of an entity, as a result of its involvement with the entity, and has the ability of affecting those variable returns due to its power to affect the relevant activities of the entity.

As at 31 December 2018 and 2017, the Group did not have financial shareholdings in SPEs.

Goodwill

The Group measures goodwill as the fair value of the consideration transferred, including the fair value of any previously held non-controlling interest, less the net recognized amount of the identifiable assets acquired and liabilities assumed, and any equity instruments issued by the Group, all measured as at the acquisition date. Transaction costs are expensed as incurred.

As at the acquisition date, non-controlling interests are measured at their proportional interest in the fair value of the assets acquired and liabilities assumed, without their corresponding portion of goodwill. As a result, the goodwill recognized in these consolidated financial statements corresponds only to the portion attributable to the shareholders of the Bank.

In accordance with IFRS 3 – Business Combinations, goodwill is recognized as an asset at its cost and is not amortized. Goodwill relating to the acquisition of associates is included in the book value of the investment in those associates, determined using the equity method. Negative goodwill is recognized directly in the income statement in the period the business combination occurs.

Impairment of goodwill is tested on an annual basis, and for that purpose the goodwill is allocated to the cash generating units ("CGUs"), or CGU groups, that are expected to benefit from the synergies created by business combinations. The Group assesses the recoverable amount of goodwill, as the higher of the fair value of the investment less estimated costs to sell and the value in use. The impairment losses are accounted, first, at the goodwill level, and only then at the level of the other remaining assets of the CGUs, or the CGU groups.

The recoverable amount of goodwill recognized as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognized directly in the income statement and are not reversible in the future.

As at 31 December 2018 and 2017, the Group does not have any goodwill.

Investments (financial shareholdings) in foreign subsidiaries and associates

The financial statements of each of the Group's entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates or as the currency in which funds/receipts from its activities are generated/retained. The consolidated financial statements of the Group are prepared in Euros, which is the Bank's functional currency.

The financial statements of each of the Group's entities that have a functional currency different from the Euro are translated into Euros as follows: (i) assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date; (ii) income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions; and (iii) all resulting foreign exchange variations are recognized in equity. When the entity is sold or partially disposed of and there is a reduction in its ownership interest and control ceases, such foreign exchange variations are recognized in the income statement as part of the gain or loss on disposal.

Balances and transactions eliminated on consolidation

Inter-company balances and transactions, including any unrealized gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealized losses provide evidence of an impairment loss that should be recognized in the consolidated financial statements.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transactions provides evidence of impairment.

Transactions with non-controlling interests

Acquisitions of non-controlling interests that do not result in a change of control over the subsidiary, are accounted for as transactions with shareholders and, therefore, no goodwill is recognized as a result of such transaction. Any difference between the consideration paid and the book value of the non-controlling interest acquired is accounted for directly in reserves and retained earnings. Likewise, gains or losses on disposals to non-controlling interests that do not result in a change of control over the subsidiary, are also recorded in reserves and retained earnings.

Gains or losses on dilutions or disposals of part of an interest in a subsidiary, with a change in control, are recognized by the Group in profit or loss.

Acquisitions and disposals of non-controlling interests that do not result in loss of control are accounted for in reserves.

2.2. Financial instruments

As mentioned in Note 1, the Group adopted on 1 January 2018 the accounting standard IFRS 9 - Financial Instruments in substitution of IAS 39 - Financial Instruments: Recognition and Measurement. The Group had not adopted any of the requirements of IFRS 9 in prior periods.

The Group applied the exception provided for in IFRS 9 that allows the non-restatement of comparative financial information of prior periods.

In addition, the business model determination, as well as the prior designation and/or revocation of certain financial assets in measurement classes at fair value through profit or loss, at fair value through other comprehensive income (for equity instruments that are not held for trading), was made by reference to the facts and circumstances existing as at the date of its initial application (1 January 2018).

2.2.1. Financial assets

2.2.1.1. Classification, initial recognition and subsequent measurement

IFRS 9 requires that all financial assets, for measurement purposes, be classified in one of the following categories:

1) Financial assets at amortized cost;

2) Financial assets at fair value through other comprehensive income (FVOCI); and

3) Financial assets at fair value through profit or loss.

To determine the classification and subsequent measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, be analysed, simultaneously, based:

a) on the entity's business model to manage financial assets; and

b) on the contractual characteristics in terms of cash flows of the financial asset (SPPI – “Solely Payments of Principal and Interest”).

Business model

According to IFRS 9, the business model reflects the way an entity manages its financial assets to achieve its business objectives, whether through the receipt of contractual cash flows, the sale of financial assets or both.

The standard identifies the following business models:

i) “Hold to collect” (HTC): A business model whereby financial assets are managed to collect contractual cash flows only through the receipt of capital and interest over the life of the instrument (SPPI).

ii) “Hold to collect and sell” (HTCS): The objectives of the business model are achieved either by collecting contractual cash flows (SPPI) or by selling same financial instruments.

iii) “Trading”: this business model caters for the remaining financial instruments that are managed in a fair value perspective or that are not included in the previous categories.

Business model evaluation

The assessment of the business model is determined so that it reflects how a set of financial assets are managed in order to achieve a business objective, not being, therefore, determined on an individual basis according to a specific asset, but rather for a set of assets, taking into account the frequency, value, timing of sales in previous years, the reasons for such sales and expectations regarding future sales. Sales may be compatible with the purpose of holding financial assets in order to collect contractual cash flows when same are made near the maturity date of the financial assets and the sales proceeds approach the value of the collection of the remaining contractual cash flows. Sales motivated by a significant increase in credit or to manage concentration risk, among others, may also, according to IFRS 9, be compatible with the model of holding assets to receive contractual cash flows (HTC).

The Group carried out, with reference to 1 January 2018, an assessment of the business model in which the financial instrument is held, having determined the following:

i) “Hold to collect” (HTC): the instruments presented in this portfolio are non-derivative financial assets with fixed or determinable payments and defined maturities. These investments are recorded at amortized cost, based on the effective interest rate method, and at each balance sheet date these are evaluated for evidence of impairment.

ii) “Hold to collect and sell” (HTCS): The instruments presented in this portfolio are non-derivative financial assets that the Group intends to hold for an indefinite period but may be sold at any time based on a good business opportunity, or so the Group considers.

iii) “Trading”: the debt financial instruments classified in this business model are measured at fair value through profit or loss, except as provided for in IFRS 9, where the Group irrevocably decides that all changes in the fair value of an equity instrument are recognized in the statement of comprehensive income. For these instruments, the accumulated gains and losses in equity are not reclassified to income, even at the time of their sale, with only their dividends being so classified.

SPPI – Solely Payments of Principal and Interest

As mentioned above, one of the conditions for the instruments to be allocated to the “Hold to collect” and “Hold to collect and sell” business models is that the contractual terms of the financial asset give rise, at defined dates, to cash which represents only principal repayments and interest payments on the outstanding principal.

Principal and interest are as follows:

1) Principal - Corresponds to the fair value of the asset on the initial recognition. This value may vary over time depending on whether amounts are transferred by the instrument holder;

2) Interest - interest shall take into account the following aspects: (i) time value of money and credit risk; (ii) other types of credit risk (e.g. liquidity risk); (iii) other associated costs; and (iv) a profit margin.

Regardless of the underlying business model, if the instrument does not meet the SPPI criteria mentioned above, it may not be classified at amortized cost or at fair value through other comprehensive income.

SPPI Evaluation - Solely Payments of Principal and Interest

The Group carried out, with reference to 1 January 2018, an assessment of the compliance with the SPPI criteria by the financial instruments held. In this evaluation, the Group considered the original contractual terms of the agreement, as well as the existence of situations in which the contractual terms may modify the periodicity and amount of the cash flows such that they do not meet the SPPI conditions.

A prepayment is consistent with the SPPI criterion if: i) the financial asset is acquired or originated with a discount premium in relation to the contractual nominal value; (ii) the prepayment represents substantially the nominal amount of the contract plus accrued but unpaid contractual interest (this may a include reasonable compensation for prepayment); and iii) the fair value of the prepayment is materially insignificant on the initial recognition.

After 1 January 2018 (date of implementation of IFRS 9), there were no reclassifications between financial assets.

2.2.1.1.1. Financial assets at amortized cost

Classification

A financial asset is classified in the category of “financial assets at amortized cost” if it meets all of the following conditions:

i) the asset is held in a business model which main purpose is the holding to collect its contractual cash flows (HTC); and

ii) its contractual cash flows occur on specific dates and correspond only to payments of principal and interest on the outstanding principal (SPPI).

This category includes due by banks, loans and advances to customers, loans and debt instruments managed based on the HTC business model and that meet the SPPI conditions.

Initial recognition and subsequent measurement

Due by banks and loans and advances to customers are recognized on the date the funds are made available to the counterparty (“settlement date”). Debt instruments are recognized on the trade date.

Financial assets at amortized cost are initially recognized at fair value, plus transaction costs, and subsequently measured at amortized cost. In addition, these financial assets are subject, from their initial recognition, to the determination of impairment losses for expected credit losses (Note 6), which are recognized against the caption “Impairment of financial assets at amortized cost”.

2.2.1.1.2. Financial assets at fair value through other comprehensive income (FVOCI)

Classification

A financial asset is classified in the category of “financial assets at fair value through other comprehensive income” if it meets all of the following conditions:

i) the asset is held in a business model which purpose is the collection of its contractual cash flows and/or the sale of that financial asset; and

ii) its contractual cash flows occur on specific dates and correspond only to payments of principal and interest on the outstanding principal (SPPI).

This category includes debt instruments as well as loans and advances to customers, managed on the basis of the HTCS business model and that meet the SPPI conditions.

Initial recognition and subsequent measurement

Debt instruments are recognized on the trade date.

Financial assets at fair value through other comprehensive income are initially recognized at fair value, plus transaction costs, and subsequently measured at fair value. Changes in the fair value of these financial assets are recorded against other comprehensive income and, at the time of their disposal, the respective gains or losses accumulated in other comprehensive income are reclassified to a specific caption of the income statement designated "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss". Foreign exchange variations are recognized in the income statement, in the case of monetary assets, and in other comprehensive income, in the case of non-monetary assets.

Debt instruments at fair value through other comprehensive income are also subject, from their initial recognition, to the determination of impairment losses for expected credit losses (Note 6). Estimated impairment losses are recognized in the income statement, in the caption "Impairment of financial assets at fair value through other comprehensive income", against other comprehensive income and do not reduce the carrying amount of the financial asset in the balance sheet.

Interest, premiums or discounts of financial assets at fair value through other comprehensive income are recognized in the caption "Interest and similar income" based on the effective interest rate method and in accordance with the criteria described in Note 2.3.

2.2.1.1.3. Financial assets at fair value through profit or loss

Classification

A financial asset is classified in the category of "financial assets at fair value through profit or loss" if the business model defined by the Group for its management or the characteristics of its contractual cash flows does not comply with the SPPI conditions to be measured at amortized cost, or at fair value through other comprehensive income.

The Group classified financial assets at fair value through profit or loss under the caption "financial assets held for trading". Financial assets classified under this heading are acquired with the purpose of being sold in the short term; at the time of the initial recognition they are included in a portfolio of financial assets identified and jointly managed for which there is evidence of recent actions with the objective of obtaining gains in the short term; or are derivative instruments that do not meet the definition of financial guarantee or that have not been designated as hedging instruments.

Initial recognition and subsequent measurement

Financial assets at fair value through profit or loss are initially recognized at their fair value, with the costs or income associated with the transactions being recognized immediately in the income statement at the initial moment. Subsequent changes in fair value are recognized in the income statement under "Gains or losses on financial assets and liabilities held for trading" (Note 19).

Interest, premiums or discounts of financial assets at fair value through profit or loss are recognized in the income statement in the caption "Interest and similar income" in accordance with the criteria described in Note 2.3. Dividends are recognized in income when the right to receive them is attributed.

Trading derivatives with a positive fair value are recognized under "Financial assets at fair value through profit or loss" and trading derivatives with a negative fair value are recognized under "Financial liabilities at fair value through profit or loss".

The Group may, at initial recognition, irrevocably record a financial asset as measured at fair value through profit or loss, if it considers that, in doing so, it eliminates or significantly reduces an incoherence in the measurement or recognition that would otherwise result from the measurement of assets or liabilities or the recognition of gains and losses on same on different bases.

2.2.1.2. Reclassification between categories of financial assets

Financial assets are reclassified to other categories only if the business model used in their management changes. According to IFRS 9, changes in the business model occur very infrequently. However, if they occur, all of the financial assets affected are reclassified prospectively at the date of reclassification, and no gains, losses (including impairment losses) or previously recognized interest are restated.

2.2.1.3. Modification and derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows resulting from the instrument expire or it substantially transfers all the risks and rewards of ownership of the financial asset in accordance with the derecognition requirements set forth in IFRS 9.

Credits written off

The Group recognizes a credit written off against assets in the period in which it is considered irrecoverable in whole or in part, with the gross carrying amount of a financial asset being reduced by the amount of such annulment, and coming to represent the estimated recovery amount. Credits written off are recorded as off-balance sheet items.

2.2.1.4. Financial assets purchased or originated with credit impairment

Financial assets purchased or originated with credit impairment (POCI) represent assets which credit losses have already occurred before they were acquired or originated by the Group. It is understood that an asset is impaired if one or more events that have occurred have a negative impact on the estimated future cash flows of the asset.

On the initial recognition, the POCI have no associated impairment, because the expected credit losses over the useful life are incorporated in the calculation of the effective interest rate adjusted to the credit risk. In this context, on the initial recognition of this type of asset, the gross book value of the POCI (acquisition cost) is equal to its net book value before being recognized as POCI, that is, the difference between the initial balance and the total discounted cash flows.

Securities considered as POCI are measured at amortized cost or FVOCI and the respective interest is recognized in the income statement in the caption "Interest and similar income".

The expected losses for POCI assets are always measured as expected losses over the useful life of the instrument. However, the amount recognized as a loss for these assets is not the estimated loss over the life of the instrument, but rather the absolute changes in the amounts receivable compared with the initially estimated amounts. Favourable changes are recognized as impairment gains, even if those gains are greater than the amount previously recognized in the income statement as an impairment loss.

Financial assets considered as POCI are considered to be "impaired", being monitored and analysed individually as if they were classified in stage 3, in order to monitor if the expected cash flows correspond to those initially defined.

As at 31 December 2018, the Group does not hold any financial instrument classified as POCI.

2.2.1.5. Impairment of financial assets

2.2.1.5.1. Financial instruments subject to impairment losses

The requirements of IFRS 9 determine that the recognition of expected losses, whether assessed on an individual or collective basis, take into account all reasonable, reliable and reasoned information that is available on each reporting date, including information in a forward looking perspective.

The Group recognizes impairment losses for financial assets measured at amortized cost and at fair value through other comprehensive income, as well as for other exposures that have an associated credit risk, such as bank guarantees and irrevocable commitments (Note 2.20).

Impairment losses on financial assets measured at amortized cost reduce the balance sheet value of those assets against the income statement caption: "Impairment or reversal of impairment".

Impairment losses on financial assets at fair value through other comprehensive income are recognized in the income statement, in the caption "Impairment or reversal of impairment", against the caption "Other accumulated comprehensive income" in equity, not reducing the balance sheet amount of these assets.

Impairment losses on exposures associated with credit commitments and bank guarantees (Note 14) are recognized in liabilities in the caption "Provisions" against the caption "Provisions or reversal of provisions" in the income statement.

2.2.1.5.2. Classification of financial instruments by category of credit risk (stages)

IFRS 9 introduces the Expected Credit Loss (ECL) model, in lieu of the incurred loss model (IAS39).

The ECL corresponds to the weighted average of the credit losses, using as weighting factor the probability of occurrence of default events. A credit loss is the difference between the cash flows due to an entity in accordance with the agreed contract, and the cash flows that the entity expects to receive, discounted at the original effective interest rate. To calculate expected cash flows, consideration should be given to amounts that may be generated by collateral or any other risk mitigant.

Impairment is measured as:

1) Expected credit losses for 12 months - expected losses resulting from possible default events of the financial instrument in the 12 months following the reporting date. It does not represent the loss of expected cash flows over the next 12 months,

instead it is the effect of any credit loss on an asset weighted by the likelihood that such loss will occur in the next 12 months;

2) Expected credit losses over the useful life of the instrument - expected losses that may occur from a default event over the life of a financial instrument. As the expected credit losses consider the amounts and the payment periods, the credit loss also occurs when there is a considerable delay in payments, even when the entity estimates the full receipt of the amounts. The ECL over the useful life of the asset represents the expected credit losses that result from all possible default events over the life of the financial instrument. The useful life of the instrument is understood as the maximum contractual period during which the Group is exposed to the credit risk related to that operation.

According to IFRS 9, the transition from expected credit losses for 12 months to expected credit losses over the useful life is based on the concept of a significant increase in credit risk (SICR, Note 2.2.1.5.1.3.) for the remaining life of the asset when compared with the credit risk at the time of its acquisition/origination.

In this context, the determination of impairment is based on the classification of the instruments into 3 stages, considering the changes in the credit risk of the financial asset since its initial recognition. The stages are defined as follows:

1) Stage 1: all operations for which there is no significant increase in credit risk since their initial recognition or that have a low credit risk at the reporting date are classified in this stage. For these assets, credit losses expected for 12 months are recognized and interest receivable is calculated on the gross book value of the asset using the effective interest rate method;

2) Stage 2: all operations in which there is a significant increase in credit risk since their initial recognition but do not, at the reporting date, evidence impairment (Note 2.2.1.5.4) are classified in this stage. For these assets, the credit loss recognized is that expected over the useful life of the instrument, but the interest receivable is calculated on the gross book value of the asset using the effective interest rate method;

3) Stage 3: includes instruments that present evidence of impairment at the reporting date (Note 2.2.1.5.4). For these assets, the credit loss recognized is that expected over the useful life of the asset and the interest receivable is calculated on the book value net of the provision for credit, using the effective interest rate method.

The Group assesses the need to apply curing periods for financial instruments in respect of which the criteria that materialize a significant increase in credit risk are no longer met.

2.2.1.5.3. Significant increase in credit risk (SICR)

The significant increase in credit risk (SICR) is determined according to a set of both quantitative and qualitative criteria.

Several approaches may be used to assess whether there has been a significant increase in credit risk, but the following elements should always be considered:

1) The change in the risk of non-compliance since the initial recognition;

2) The expected life of the instrument; and

3) Adequate support information that is available at no cost or significant effort, which may affect credit risk.

The main criteria used by the Group to assess whether there is a significant increase in credit risk are mainly based on the evolution of the external rating attributed to the issuer, based on the limits established internally in the rating migration matrix to capture significant credit risk deteriorations, significant negative fair value changes observed in the market, existence of signs of impairment and existence of depreciative market information.

The credit risk of a financial instrument is assessed without taking into account its collateral; this means that a financial instrument may not be considered as having a low credit risk simply because this is mitigated by its collateral. The collateral is only considered for the calculation of its recoverable amount.

2.2.1.5.4. Definition of default and signs of impairment

All instruments that show a default (delay) of more than 90 days in the payment of principal or interest, regardless of the amount owed, are considered in default. In addition, the following events are considered indicators of default (objective signs of impairment):

a) customers declared insolvent;

b) customers subject to recovery through judicial process;

c) customers with operations restructured due to financial difficulties;

d) customers subject to individual impairment analysis;

e) customers that register recidivism of operations restructured due to financial difficulties within a period of 24 months as from the demarcation of the default, resulting from the previous restructuring. If no default resulted from the previous restructuring, the 24 months count from the restructuring prior to that;

f) significant delays in payments to other creditors;

g) disappearance of the counterparty's active market;

h) the overall leverage of the counterparty has increased significantly or there is an expectation that this will happen; and

i) the counterparty has breached some of the contractual covenants.

2.2.1.5.5. Measurement of expected credit losses (ECL)

All financial instruments subject to impairment losses (Note 2.2.1.5.1) are considered under the expected credit loss measurement model (ECL).

The ECL model considers as inputs: i) information for the construction of future cash flows; ii) information regarding the stage of the instrument (Note *2.2.1.5.2*); and iii) forward-looking and point-in-time information on the expected loss.

The future cash flows as well as the "Exposure at Default" (EAD) of each financial instrument are calculated based on contractual and system information, namely, maturity date, coupon periodicity, coupon rate and amortized cost.

The EAD represents the expected exposure if the exposure goes into default. The Group derives the EAD values from the counterparty's current exposure and from potential changes to its current value as a result of contractual conditions, including amortizations and prepayments.

The expected forward-looking and point-in-time loss is determined based on the market-based curve spreads considered for each instrument. The methodology developed by the Group is based on the construction of the temporal structure of the Default Probabilities (PD) implicit in the market curves, in this manner incorporating forward-looking and point-in-time information, given that it reflects the current economic environment as well as future market expectations. This information is made available by entity or segmented based on currency, economic sector and rating. If a specific curve is not available for the instrument, a generic curve is assigned according to the asset segment analysed.

The Loss Given Default (LGD) rate corresponds to the percentage of debt that will not be recovered in the event of customer default. The calculation of the LGD is made based on internal historical and market information, considering the cash flows associated with the contracts from the moment of default until their settlement or until there are no relevant recovery expectations.

The Group has IT tools that support the calculation and management of the parameters considered in the ECL model for almost the entire credit portfolio and for the main risk segments. These tools are integrated in the monitoring and risk management process and are developed and calibrated according to the experience and strategy adopted.

Estimates of expected credit losses - Individual analysis

All instruments that are classified as stage 1 with signs of impairment and for which a SICR indicator exists and all the instruments classified in stage 2 or stage 3 are subject to individual analysis.

For instruments classified as stage 1 that show evidence of impairment and for which a SICR indicator exists, it is determined whether or not there is a significant increase in credit risk and, consequently, whether the instrument should be transferred to stage 2 or stage 3.

Estimates of expected credit losses - Collective analysis

Operations that are not subject to an individual impairment analysis are grouped taking into account their risk characteristics and subject to a collective impairment analysis.

The Group has a specialized credit portfolio, which results from the company Sofinloc's activity and is related to car loans, operating and finance lease contracts. The granting of this type of credit was discontinued in 2012-2013 and this is currently a residual portfolio in which most of the contracts are past due.

Considering that these are standard contracts, the SPPI test was performed for each type of contract existing, with it having been concluded that they comply with the SPPI criteria; accordingly, and considering the type of management of this portfolio, it is understood that this is a portfolio that fits into the HtC business model.

This portfolio is recorded in the caption "Financial assets at amortized cost - Other credit operations" (Note 6).

The expected credit losses are estimates of credit losses that are determined as follows:

- Financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive;

- Financial assets with impairment at the reporting date: the difference between the gross accounting value and the present value of the estimated cash flows.

The main inputs used to measure the expected credit losses on a collective basis include the following variables:

- Probability of Default – PD;

- Loss Given Default – LGD; and

- Exposure at Default – EAD.

These parameters are obtained through internal statistical models and other relevant historical data, taking into account previously existing models adapted in function of the requirements of IFRS 9.

2.2.2. Financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be made through the delivery of money or another financial asset, regardless of its legal form.

A financial liability (or a part of a financial liability) is removed from the balance sheet when, and only when, it is extinguished - that is, when the obligation specified in the agreement is satisfied or cancelled or expires. Reclassifications of financial liabilities are not permitted.

At the time of their initial recognition, financial liabilities are classified into one of the following categories: i) Financial liabilities held for trading or ii) Financial liabilities at amortized cost.

2.2.2.1. Financial liabilities held for trading

In this caption are classified the liabilities issued with the objective of repurchase in the short term, those that are part of a portfolio of identified financial instruments and for which there is evidence of a recent pattern of short-term profit taking or those that fall within the definition of derivative (except in the case of a derivative classified as a hedge).

Derivative financial liabilities and short positions are recognized at fair value on the balance sheet. Gains and losses arising on changes in the fair value of these instruments are recognized directly in the income statement.

2.2.2.2. Financial liabilities at amortized cost

Non-derivative financial liabilities are classified under this caption, and include “securities sold under repurchase agreements”, “due to banks”, “due to customers” and “debt instruments”.

These liabilities are (i) initially recorded at their fair value, plus transaction costs incurred and (ii) subsequently measured at amortized cost, based on the effective interest rate method.

Interest on financial liabilities at amortized cost is recognized in the caption “Interest expense and similar charges”, based on the effective interest rate method.

2.2.3. Derivative financial instruments and hedge accounting

The Group applies as from 1 January 2018 the provisions of IFRS 9 regarding the requirements for hedge accounting application. IFRS 9 aims to promote a greater alignment of the requirements inherent in the application of hedge accounting with the reality of the current risk management in institutions.

Besides the greater disclosure requirements and the technical notes documenting the hedges, there were no significant quantitative impacts.

The Group designates derivatives and other financial instruments to hedge interest rate risk and foreign exchange risk arising from financing and investing activities. Derivatives that do not qualify for hedge accounting are recorded as financial assets held for trading (Note 2.2.1.1.3).

Derivative financial instruments are recognized on the trade date at their fair value. Subsequently, the fair value of derivative financial instruments is revalued on a regular basis, and gains or losses are recorded directly in results for the period, except in respect of hedging derivatives. Recognition of fair value changes in hedging derivatives depends on the nature of the hedged risk and the hedging model used.

The fair value of derivative financial instruments corresponds to their market value, when available, or is determined on the basis of valuation techniques, including discounted cash flows and option valuation models, as appropriate.

Hedge accounting

The hedging relationship and its effectiveness are one of the main changes compared with the requirements of IAS 39, namely:

(i). Simplification in demonstrating the effectiveness of hedges;

(ii). Elimination of the retrospective efficacy measurement requirement;

(iii). Abandonment of the benchmark [80% to 125%] in assessing the effectiveness of the hedge; and,

(iv). Retrospective tests that should incorporate and promote internal criteria used in risk management and that admit components that are not only quantitative but also qualitative.

Under IFRS 9, derivative financial instruments used for hedging purposes may be classified as hedging instruments provided that they cumulatively meet the following conditions:

(i). Existence of an economic relationship between the hedged element and its hedging;

(ii). The effects inherent in the evolution of credit risk may not dominate the changes in value resulting from this relationship; and

(iii). Establishment of a hedging ratio between hedged and hedging items that is equivalent to that actually applied by the institution in the management of the economic hedges that are intended to be replicated.

The application of hedge accounting remains optional, but may no longer be discontinued while the requirements for its application continue to be verified.

The use of derivatives is framed in the Group's risk management strategy and objectives, namely:

- *Fair value hedge*

In a fair value hedge, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with the changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

When a hedging instrument expires or is sold, or when the hedging no longer meets the criteria required for hedge accounting or the entity revokes that designation, the derivative financial instrument is transferred to the trading book and hedged assets and liabilities cease to be adjusted for changes in their fair value. If the hedged asset or liability corresponds to an instrument measured at amortized cost, the revaluation adjustment is amortized to its maturity by the effective interest rate method and reflected in results of financial operations.

- *Net investment hedging in a foreign operational unit*

When a derivative (or a non-derivative financial liability) is designated as a hedging instrument in the hedging of a net investment in a foreign operational unit, the effective portion of the fair value variation is recognized directly in equity, in foreign exchange reserves (other comprehensive income).

Any non-effective part of this relationship is recognized in profit or loss. The gain or loss resulting from the hedging instrument related to the effective portion of the hedge that has been recognized in other comprehensive income (foreign exchange reserves) is reclassified from equity to the income statement as a reclassification adjustment on the full or partial disposal of the foreign operational unit.

Embedded Derivatives

An embedded derivative is a component of a hybrid contract, which also includes a main non-derivative host contract.

If the main instrument included in the hybrid contract is considered a financial asset, the classification and measurement of the entire hybrid contract is carried out in accordance with the criteria described in Note 2.2.1.1.

Derivatives embedded in contracts that are not considered financial assets in accordance with the requirements of IFRS 9, are treated separately whenever the economic risks and benefits of the derivative are not related to those of the main instrument, provided that the hybrid instrument (overall) is not, at the start, recognized at fair value through profit or loss. Embedded derivatives are recorded at fair value with the subsequent fair value changes being recorded in profit or loss for the period and are presented in the trading derivatives portfolio.

As at 31 December 2018 and 2017, the Group has no embedded derivatives.

2.3. Interest recognition

Interest income and expense are recognized in the income statement under interest and similar income or interest expense and similar charges for all financial instruments measured at amortized cost and for financial assets at fair value through other comprehensive income, using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction, except for financial assets and liabilities at fair value through profit or loss.

Interest income recognized in profit or loss associated with instruments classified as stage 1 or 2 is calculated by applying the effective interest rate of each contract on its gross balance sheet value. The gross balance sheet value of an instrument is its amortized cost, before deducting the respective impairment. For financial assets included in stage 3, interest is recognized in the income statement based on its net balance sheet value (net of impairment). The interest recognition is always made prospectively, and for financial assets that enter stage 3 interest is recognized on the amortized cost (net of impairment) in subsequent periods.

For financial instruments originated or acquired with credit impairment (POCI), the effective interest rate reflects the expected credit losses in the determination of the expected future cash flows receivable from the financial asset.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk and credit related derivatives, the interest component of the changes in their fair value is not separated out and is classified under financial assets and liabilities at fair value through profit or loss. For hedging derivatives of interest rate risk and credit related derivatives, the interest component of the changes in their fair value is recognized under interest and similar income or interest expense and similar charges.

2.4. Dividend income

Dividend income is recognized when the right to receive its payment is established.

2.5. Fee and commission income and expenses

Fee and commission income and expenses are recognized as follows: (i) fees and commissions that are earned or incurred on the execution of a significant act, such as loan syndication fees, are recognized in profit or loss when the significant act has been completed; (ii) fees and commissions earned or incurred over the period during which services are provided are recognized in profit or loss in the period the services are provided; and (iii) fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized in profit or loss using the effective interest rate method.

2.6. Foreign currency operations

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange variations arising on this translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into Euros at the foreign exchange rates ruling on the dates the fair value was determined.

Exchange differences related to cash flow hedges, hedging of net investments in foreign operational units or other items recognized in other comprehensive income are also recognized in other comprehensive income.

Changes in financial assets at fair value through other comprehensive income are divided between changes in fair value, and other changes the instrument may undergo. The prior should be recognized in other comprehensive income and the latter in profit or loss.

2.7. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the holding company by the weighted average number of ordinary shares outstanding, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as convertible debt and share options granted to employees. The dilutive effect translates into a decrease in earnings per share, resulting from the assumption that the convertible instruments are converted and that options granted are exercised.

The weighted average number of ordinary shares outstanding during the period and for all periods presented is adjusted to events, other than the conversion of potential ordinary shares, which have altered the number of ordinary shares outstanding without the corresponding changes in resources.

2.8. Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received on the sale an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions and assumes that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. Also according to IFRS 13, an entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests. Therefore, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

The fair value is obtained from quoted market prices or broker/dealer prices in active markets, if available. In their absence, fair value is based on the established price of recent market transactions or, in their absence, on the usage of valuation techniques. Valuation techniques include future cash flows discounted considering available observable market inputs.

2.9. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. This legally enforceable right may not be dependent on any future event, and should be enforceable in the regular activity of the Finantia Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterparty.

2.10. Purchase/sale operations with resale/repurchase agreements

Purchase operations with resale agreements ("reverse repos")

Securities purchased with agreements to resell ("reverse repos") at a fixed price or at the purchase price plus a lender's return are not recognized in the balance sheet, with the purchase price paid being recorded as financial assets at amortized cost – due from banks or loans and advances to customers, as appropriate. The difference between the purchase and the resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method and recognized in the income statement under the caption "Interest and similar income".

Securities sold under repurchase agreements ("repos")

Securities sold under repurchase agreements ("repos") at a fixed price or at the sales price plus a lender's return are not derecognized from the balance sheet. The corresponding liability is included in financial liabilities at amortized cost – securities sold under repurchase agreements ("repos"). The difference between the sale and the repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method and recognized in the income statement under the caption "Interest expense and similar charges".

Securities lent under lending agreements are not derecognized from the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.2.1.. Securities borrowed under borrowing agreements are not recognized in the balance sheet.

Securities received or given in guarantee in purchase operations with resale agreements ("reverse repos") and in sales operations with repurchase agreements ("repos") are disclosed as off-balance sheet items.

2.11. Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount will be recovered mainly through a sale transaction (including those acquired only for the purpose of selling them), the assets are available for immediate sale and the sale is highly probable.

Non-current assets held for sale are measured at the lower of their carrying amount on their initial recognition and their corresponding fair value less selling costs, and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

The Group obtains, for these assets, regular valuations from experts.

2.12. Tangible assets and investment properties

The Group's tangible assets are stated at cost less accumulated depreciation and impairment losses, if any. Additions and subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Costs incurred in the process of dismantling and removing installed assets in third party property are considered as part of the initial cost of the respective asset, when the amount is significant and reliably measurable.

Depreciation is calculated on the straight-line method at the following rates which reflect their estimated useful lives, which are reviewed at each reporting date:

Buildings:	50 years
Furniture and equipment:	5 to 10 years
IT equipment:	3 to 4 years
Furnishings:	10 years
Motor vehicles:	3 to 5 years
Other assets:	4 to 10 years

Land is not depreciated.

When there is an indication that an asset may be impaired, its recoverable amount is estimated and an impairment loss is recognized when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in future years, when the reasons that caused the initial recognition cease to exist. In that situation, the new depreciated amount shall not be greater than the one that would result if impairment losses had not been recognized on the asset, considering the depreciation the asset would have undergone.

The recoverable amount is determined as the higher of its net selling price and value in use, which is based on the net present value of the future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

Buildings classified as investment property relate to rented buildings owned by the Group, which are measured and depreciated similarly to the tangible assets.

2.13. Intangible assets

Acquired and developed computer software licenses are capitalized on the basis of the costs incurred by the Group to acquire and bring into use the specific software, eligible for capitalization as intangible assets. These costs are amortized on the basis of their expected useful lives, which is usually 3 years.

Costs that are directly associated with the development by the Group of identifiable specific software applications, which will probably generate economic benefits beyond one year, are recognized as intangible assets. These costs include employee costs directly associated with the development of the referred software.

Maintenance costs associated with software are recognized as an expense as incurred. The Group recognizes software development costs that fail to meet the recognition criteria as costs for the period, when incurred.

2.14. Leases

The Group classifies its lease agreements as finance leases or operating leases, at the beginning of each transaction, taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases (as lessee)

Payments made by the Group under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- *As lessee*

  Finance lease contracts are recorded at the inception date, under both assets and liabilities, at the lowest of the fair value of the leased assets and the minimum outstanding lease instalments contracted. Instalments comprise (i) an interest charge, which is recognized in the income statement and (ii) the amortization of principal, which is deducted from liabilities. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability in each period. The assets acquired under financial leases are depreciated over the shorter of the assets' useful life and the lease term.

- *As lessor*

  Assets leased out are recorded in the balance sheet as credit granted (finance lease principal), for an amount equal to the net investment made in the leased assets, together with any residual amount not guaranteed.

  Interest included in instalments charged to customers is recorded as interest income, while the amortization of the principal, also included in the instalments, is deducted from the amount of the credit granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.15. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, and evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognized under equity as a deduction from the proceeds. Consideration paid or received related to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly against equity as dividends, when declared.

2.16. Treasury stock

On the acquisition of own shares (treasury stock), the consideration paid is deducted from equity, not being subject to revaluation. When such shares are subsequently sold, any gain or loss, including the respective taxes, are recognized directly in equity, not affecting the profit or loss for the year.

2.17. Employee benefits

The Group is subject to the General Regime of the Social Security System in Portugal or to the equivalent system in the subsidiaries located abroad and, therefore, has no obligations for the payment of pensions or pension complements to its employees.

2.18. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates and rules enacted or substantively enacted at the balance sheet date in each jurisdiction.

Deferred tax is determined using the balance sheet liability method, on the timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets and liabilities correspond to the amount of tax recoverable/payable in future periods resulting from timing differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax assets are recognized to the extent it is probable that future taxable profits will be available against which the deductible timing differences may be utilized.

Deferred tax assets and liabilities are not recognized for taxable timing differences associated with investments in subsidiaries and associates when the Group controls the timing difference reversals and it is not probable that these will reverse in the future.

2.19. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition/contracting with an insignificant risk of change in fair value, including cash and deposits with banks. Cash and cash equivalents exclude restricted balances with central banks and collateral deposits.

2.20. Financial guarantee contracts and irrevocable commitments

Financial guarantee contracts and irrevocable commitments are initially recognized in the financial statements at fair value on the date the contract is issued.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortizations, calculated so as to recognize in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement.

Any liability remaining is recognized in the income statement when the guarantee is derecognized.

2.21. Provisions

Provisions are recognized when: (i) the Group has a present legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

3. Changes in accounting policies

3.1. Voluntary changes in accounting policies

During the year there were no voluntary changes in accounting policies from the ones used in the preparation of the previous year's financial statements presented as comparative information.

3.2. New standards and interpretations applicable in the year

As a result of the endorsement by the European Union (EU), the following issues, revisions, amendments and improvements of standards and interpretations took effect as from 1 January 2018.

3.2.1. New standards and interpretations applicable in the financial year with effects on the policies and disclosures adopted by the Group

On 1 January 2018, the Group applied the following issues, revisions, amendments and improvements of accounting standards and interpretations:

a) IFRS 15 Revenue from contracts with customers

This standard applies to all revenue arising from contracts with customers and replaces the following standards and interpretations: IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue – Barter Transactions Involving Advertising Services. The standard applies to all revenue from contracts with customers except if the contracts falls within the scope of IAS 17 (or IFRS 16 – Leases when it becomes effective).

It also provides a model for the recognition and measurement of sales of certain non-financial assets, including of property, equipment and intangible assets.

This standard highlights the principles that an entity must apply when it measures and recognizes revenue. The basic principle is that an entity must recognize revenue for an amount that reflects the consideration it expects to be entitled to in exchange for the goods and services promised under the contract.

The principles of this standard should be applied in five-steps: (1) identify the contract with the customer (i2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize the revenue when the entity satisfies a performance obligation.

The standard requires an entity to apply professional judgment in applying each of the model's steps, taking into account all the relevant facts and circumstances.

This standard also specifies how to account for incremental expenses in obtaining a contract and expenses directly related to the performance of a contract.

This standard is effective for annual periods beginning on or after 1 January 2018. The application is retrospective, and entities may choose to apply a "full retrospective approach" or a "modified retrospective approach".

There were no significant effects on the Group's financial statements arising from the adoption of this standard.

b) Clarifications of IFRS 15

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues. The amendments issued are the following:

- Clarify when a product or service promised is distinct under the contract;

- Clarify how the application guide is to be applied in the matter of principal versus agent, including the unit of measurement for the assessment, how to apply the control principle in a service transaction, and how to restructure the indicators;

- Clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer is entitled, this being one of the factors in determining whether the entity recognizes the revenue from a license over time or at a moment in time;

- Clarify the scope of the exemptions for sales-based and usage-based royalty-related exemptions related to IP licenses (the royalty constraint) when there are no other goods or services promised in the contract; and

- Add two practical opportunities to the transition requirements of IFRS 15: (a) complete contracts in the full retrospective approach; and (b) amendments of contracts at transition.

These clarifications shall be applied simultaneously with the application of IFRS 15 for financial years beginning on or after 1 January 2018. The application is retrospective and entities may choose whether to apply the "full retrospective approach" or the "modified retrospective approach".

There were no significant effects on the Group's financial statements arising from the adoption of this standard.

c) IFRS 9 Financial instruments

The summary of this standard, by topic, is as follows:

Classification and measurement of financial assets

- All financial assets are measured at fair value at initial recognition, adjusted by transaction costs if the instruments are not accounted for at fair value through profit or loss (FVTPL). However, customer accounts without a significant financing component are initially measured at their transaction value, as defined in IFRS 15 - Revenue from contracts with customers.

- Debt instruments are subsequently measured based of their contractual cash flows and the business model under which the debt instruments are held. If a debt instrument has contractual cash flows that are only the repayment of principal and interest on the principal outstanding and is held within a business model which objective is the holding of the assets to collect the contractual cash flows, then the instrument is accounted for at amortized cost. If a debt instrument has contractual cash flows that are exclusively the repayment of principal and interest on the principal outstanding and is held within a business model which objective is the collection of the contractual cash flows and those of the sale of financial assets, then the instrument is accounted for at fair value through other comprehensive income (FVOCI) with subsequent reclassification to profit or loss.

- All other debt instruments are subsequently accounted for at fair value through profit or loss (FVTPL). In addition, there is a fair value option (FVO) that allows financial assets at initial recognition to be designated as FVTPL if that eliminates or significantly reduces a significant accounting mismatch in the profit or loss.

- Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option, on an instrument-by-instrument basis, to present changes in the fair value of non-trading instruments in the statement of other comprehensive income (OCI) (without subsequent reclassification to profit or loss).

Classification and measurement of financial liabilities

- For financial liabilities designated as FVTPL using the fair value option, the change in the fair value of such financial liabilities that is attributable to changes in credit risk should be presented in the statement of OCI, while the remainder of the change in fair value is presented in profit or loss, unless presentation in the statement of OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

- All the other IAS 39 Financial Instruments' classification and measurement requirements for financial liabilities have been transposed into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

- The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model.

- The ECL model applies to (i) debt instruments accounted for at amortized cost or at FVOCI, (ii) most loan commitments, (iii) financial guarantee contracts, (iv) contractual assets under IFRS 15 and (v) lease receivables under IAS 17 Leases/IFRS 16 - Leases.

- Entities are generally required to recognize 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For accounts receivable from customers without a significant financing component, and depending on the entity's choice of accounting policy for other receivables from customers and receivables from leases, a simplified approach may be applied in which the lifetime ECL is always recognized.

- The ECL measurement shall reflect the weighted probability of the result, the effect of the time value of money, and be based on reasonable and supportable information that is made available at no excessive cost or effort.

Hedge accounting

- Hedge effectiveness tests should be prospective and may be qualitative, depending on the complexity of the hedge, without the 80%-125% test.

- A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable.

- The time value of an option, any forward element of a forward contract and any foreign currency spread may be excluded from the hedging instrument designation and be accounted for as hedging costs.

- Wider groups of items may be designated as hedged items, including layer designations and some net positions.

The standard is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The application varies depending on the requirements of the standard, being partially retrospective and partially prospective.

The changes in accounting policies resulting from the application of IFRS 9 were, generally, applied retrospectively, with the exception of the following: the Group applied the exception that allows the non-restatement of comparative information from prior periods in respect of classification and measurement changes (including impairment). The differences in the balance sheet values of financial assets and liabilities resulting from the adoption of IFRS 9 are recognized in Reserves and Retained Earnings as at 1 January 2018. The impacts of the adoption of this standard are described in Note 31.

d) IFRIC 22 Foreign currency transactions and advance consideration

This interpretation clarifies that in determining the spot exchange rate to use at initial recognition of the related asset, expense or income (or part of it) associated with the derecognition of a non-monetary asset or non-monetary liability related to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability related to the advance consideration.

If there are multiple payments or receipts of an advance consideration, the entity shall determine the date of the transaction for each payment or receipt.

An entity may apply this interpretation on a full retrospective application basis. Alternatively, it may apply this interpretation prospectively to all assets, expenses and income that are within its scope that are initially recognized on or after:

(i) The beginning of the reporting period in which the entity applies the interpretation for the first time; or

(ii) The beginning of the reporting period presented as a comparative period in the financial statements of the year in which the entity applies the interpretation for the first time.

There were no significant effects on the Group's financial statements arising from the adoption of this interpretation.

e) Transfers of investment property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of, investment property.

The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

A mere change in the management body’s intentions for the use of a property does not provide evidence of a change in use.

These amendments are effective for annual periods beginning on or after 1 January 2018.

An entity shall apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies these amendments. Entities should reassess the classification of property held as at that date and, if applicable, reclassify property to reflect the conditions that existed as at that date.

There were no significant effects on the Group's financial statements arising from the adoption of this standard.

f) Annual improvements to the 2014-2016 cycle

In the annual improvements of the 2014-2016 cycle, the IASB introduced the following improvements that shall be applied retrospectively and are effective as from 1 January 2018 (another improvement related to IFRS 12 became effective as from 1 January 2017).

IFRS 1 First-time adoption of IFRS

This improvement has eliminated the short-term exemption for first-time adopters in paragraphs E3-E7 of IFRS 1, because it has already served its purpose (which were related to exemptions from certain disclosures of financial instruments under IFRS 7, exemptions at the level of employee benefits and exemptions at the level of investment entities).

IAS 28 Clarification that the measurement of financial shareholdings at fair value through profit or loss is a choice that is made on an investment-by-investment basis.

The improvement has clarified that:

- An entity that is a venture capital entity, or another qualifying entity, may choose, at initial recognition and on an investment-by-investment basis, to measure its investments in associates and/or joint ventures at fair value through profit or loss.

- If an entity that is not itself an investment entity holds an interest in an associate or joint venture that is an investment entity, the entity may, in applying the equity method, choose to maintain the fair value that those financial shareholdings apply in the measurement of their subsidiaries. This option is taken separately for each investment on the later date between (a) the initial recognition of the investment in that financial shareholding; (b) such financial shareholding becomes an investment entity; and (c) that financial shareholding becomes a parent company.

There were no significant effects on the Group's financial statements arising from the adoption of this standard.

3.2.2. New standards and interpretations applicable in the financial year not impacting the policies and disclosures adopted by the Group

As a result of the endorsement by the European Union (UE), the following issues, revisions, amendments and improvements of standards and interpretations took effect as from 1 January 2018, but did not have a significant impact on the accounting policies and disclosures adopted by the Group:

a) Application of IFRS 9 with IFRS 4 - Amendments to IFRS 4

The amendments address some concerns arising from the implementation of IFRS 9 before the implementation of the new insurance contracts standard that the IASB is developing to replace IFRS 4.

Temporary exemption from IFRS 9

- The temporary exemption option of IFRS 9 is available to entities which activity is predominantly related to insurance.

- This temporary exemption allows these entities to continue applying IAS 39 while they defer the application of IFRS 9 up to, at the maximum, 1 January 2021.

- In November 2018, the IASB decided to propose the deferral, for an additional year, of the application of IFRS 9 for insurance companies that qualify as such. This proposal is related to the proposal to change the date of entry into force of IFRS 17 for annual periods beginning on or after 1 January 2022.

- The option for the exemption should be assessed at the beginning of the annual reporting period preceding the date of 1 April 2016 and before IFRS 9 is implemented. In addition, this option may only be reviewed in rare situations.

- Entities applying this temporary exemption will have to make additional disclosures.

The overlay approach

- This approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust their gains or losses for eligible financial assets; effectively, this results in the application of IAS 39 to these eligible financial assets.

- The adjustments eliminate the accounting volatility that may arise in applying IFRS 9 without the new insurance contracts standard.

- Under this approach, an entity may reclassify amounts of gains or losses to other comprehensive income (OCI) items for designated financial assets.

- An entity must present a separate line for the impacts of this overlap adjustment in the income statement, as well as in the statement of comprehensive income.

The temporary exemption is first applied for annual periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

b) IFRS 2 Classification and measurement of share-based payment transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

Vesting conditions - its effects on the measurement of cash-settled share-based payment transactions.

- The amendments clarify that the methodology used to account for vesting conditions when measuring share-based payment transactions with equity instruments also applies to cash-settled share-based payment transactions.

Classification of share-based payment transactions with net settlement features, for the meeting of withholding tax obligations

- This amendment adds an exception to deal with the specific situation in which a net settlement is designed to comply with an entity's tax liability or other type of regulation, with respect to a withholding from an employee to meet a tax obligation, related to a share-based payment.

- This amount is then transferred, usually in cash, to the tax authorities on behalf of the employee. To comply with this obligation, the terms of the share-based payment arrangement may allow or require the entity to retain a number of equity instruments equivalent to the monetary value of the employee's tax liability, of the total equity instruments that would otherwise be issued to the employee on the vesting of the share-based payment (known as the net share settlement option).

- When a transaction meets this criterion, it is not divided into two components but is classified as a whole as a share-based payment transaction settled with equity instruments, if it would otherwise have been so classified were there no net share settlement option.

Accounting of a modification to the terms and conditions of a share-based payment transaction that changes its classification from cash-settled to equity settled

- The amendment clarifies that if the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes a share-based payment transaction settled with equity instruments, the transaction is to be accounted for as an equity-settled share-based payment transaction as from the date of such modification.

- Any difference (either a debt or a credit) between the book value of the derecognized liability and the amount recognized in equity on the date of the change is recognized immediately in profit or loss.

These changes are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods. However, retrospective application is permitted if elected for all three amendments and another criterion is met.

3.3. New standards and interpretations issued but not yet mandatory

The standards and interpretations recently issued by the IASB which application is mandatory only in periods beginning after 1 January 2018 or later and which the Group did not early adopt are analysed below.

The application of these standards and interpretations is not expected to produce material impacts on the Group's financial statements.

3.3.1. Already endorsed by the EU but not early adopted

a) IFRS 16 - Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar manner as finance leases under IAS 17. The standard includes two recognition exemptions: leases of ’low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term under 12 months). At the commencement date of a lease, a lessee will recognize a liability related to the lease payments to be made (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the “right-of-use” asset or ROU).

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (such as a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from the present accounting under IAS 17. Lessors will continue to classify all leases using the same classification principles as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The standard was endorsed on 31 October 2017 and is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 is also adopted. The application is retrospective, with entities being able to choose whether to apply the “full retrospective approach” or the “modified retrospective approach”.

The application of this standard is not expected to produce material impacts on the Group's financial statements.

b) IFRIC 23 – Uncertainty over income tax treatments

In June 2017, the IASB issued IFRIC 23 - Uncertainty over different income tax treatments (the Interpretation) which clarifies the application and measurement requirements of IAS 12 - Income tax when there is uncertainty as to the treatment to be given to the tax for the period.

The Interpretation addresses the accounting of income tax when tax treatments involve uncertainty and affect the application of IAS 12. The Interpretation does not apply to taxes or levies that are not within the scope of IAS 12, nor does it specifically include requirements related to interest or penalties associated with the uncertainty of tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers the uncertainties of tax treatments separately;

- The assumptions that an entity uses about the examination of tax treatments by the tax authorities;

- How an entity determines the taxable profit (loss), the tax base, unused tax losses, unused tax credits and tax rates;

- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider uncertainty over each tax treatment separately or in conjunction with one or more uncertain tax treatments. The approach that should be followed is the one that best predicts the outcome of the uncertainty.

The Interpretation was endorsed on 23 October 2018 and is applicable for annual periods beginning on or after 1 January 2019.

The application of this standard is not expected to produce material impacts on the Group's financial statements.

c) Prepayment features with negative compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument may be measured at amortized cost or at fair value through other comprehensive income provided that the implicit cash flows are “solely payments of principal and interest on principal outstanding” (the SPPI criterion) and the instrument is held in a business model that allows for such classification.

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstances that caused the early termination of the contract and regardless of which party pays or receives reasonable compensation for the early termination of the contract.

The concluding bases for this amendment clarify that the early termination may be a consequence of a contractual clause or an event that is beyond the control of the parties to the contract, such as a change of laws or regulations leading to early termination.

Modification or replacement of a financial liability that does not give rise to the derecognition of such liability.

In the concluding bases, the IASB also clarifies that the requirements of IFRS 9 for adjusting the amortized cost of a financial liability, when a modification (or replacement) does not result in its derecognition, are consistent with the requirements applied to a modification of an financial asset that does not result in its derecognition.

This means that the gain or loss resulting from the modification of that financial liability that does not result in its derecognition, calculated discounting the change in the cash flows associated with that liability at the original effective interest rate, is immediately recognized in the income statement.

The IASB made this comment in the concluding bases for this amendment as it believes that the current requirements of IFRS 9 provide a good basis for the accounting by companies of changes or substitutions of financial liabilities and that no formal change to IFRS 9 is required in respect of this matter.

This amendment was endorsed on 22 March 2018 and is effective for annual periods beginning on or after 1 January 2019. It should be applied retrospectively. This amendment has specific requirements to be adopted in the transition but only if companies adopt same in 2019, rather than in 2018 together with IFRS 9. Early adoption is permitted.

The application of this standard is not expected to produce material impacts on the Group's financial statements.

d) IFRS 10 and IAS 28 - Sale or contribution of assets by an investor to its associate or joint venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or transferred to an associate or joint venture.

The amendments to IAS 28 introduce different recognition criteria regarding the sale transaction or delivery of assets by an investor (including its consolidated subsidiaries) to its associate or joint venture depending on whether the transaction involves, or not, assets that constitute a business as defined in IFRS 3 Business Combinations.

When the transactions constitute a business combination under the required terms, the gain or loss shall be recognized, in its entirety, in the income statement for the period of the investor. However, if the assets transferred do not constitute a business, the gain or loss shall be recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

In December 2015, the IASB decided to defer the effective date of the amendment until such time as it has finalized any amendments that result from its research project on the equity method. Early application of the amendment is still permitted and must be disclosed. The amendments must be applied prospectively.

3.3.2. Not yet endorsed by the EU

a) Long-term interests in Associates or Joint Ventures - Amendments to IAS 28

The amendments clarify that an entity shall apply IFRS 9 to long-term interests in associates or joint ventures for which the equity method is not applied but which are, in substance, part of the net investment in that associate or joint venture. This clarification is relevant since it implies that the expected loss model of IFRS 9 should be applied to such investments.

The IASB also clarified that in applying IFRS 9 an entity does not take into account any losses of that associate or joint venture or impairment losses on the net investment, which have been recognized as an adjustment to the net investment arising from the application of IAS 28.

To illustrate how entities should apply the requirements of IAS 28 and IFRS 9 to long-term interests, the IASB published illustrative examples when it issued this amendment.

This change is effective for annual periods beginning on or after 1 January 2019. The amendment must be applied retrospectively, with some exceptions. Early adoption is permitted and must be disclosed.

b) Annual improvements to the 2015-2017 cycle

In the annual improvements of the 2015-2017 cycle, the IASB introduced improvements in the following four standards, summarized below:

IFRS 3 Business Combinations – pre-existing ownership interests in a joint venture

- The amendments clarify that when an entity obtains control of a joint venture, it must apply the requirements of the business combination in stages, including remeasuring the interest previously held in the assets and liabilities of the joint venture to its fair value.

- In doing so, the acquirer remeasures its interest previously held in that joint venture.

- This change is applicable to business combinations for which the acquisition date is on or after the beginning of the first reporting period that begins on or after 1 January 2019. Early adoption is permitted.

IFRS 11 Joint Arrangements - pre-existing ownership interests in a joint venture

- A party that participates but does not have joint control in a joint venture may obtain joint control over a joint venture which business activity is a business as defined in IFRS 3. This amendment clarifies that the interest previously held should not be remeasured.

- This amendment applies to transactions in which the entity obtains joint control that occur on or after the beginning of the first reporting period that begins on or after 1 January 2019. Early adoption is permitted.

IAS 12 Income Taxes – income tax consequences arising on payments related to financial instruments classified as equity instruments

- These amendments clarify that the dividend tax consequences are directly associated with the transaction or past event that generated distributable results to shareholders. As a result, the entity recognizes tax-level impacts in the income statement, comprehensive income or other equity instrument in accordance with the entity's past recognition of such transactions or events.

- These amendments are applicable for annual periods beginning on or after 1 January 2019. Early adoption is permitted. When the entity applies these changes for the first time, it shall apply same to the tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

- The amendment clarifies that an entity treats as part of the global loans any loan originally obtained for the development of the qualifying asset, when substantially all the activities necessary to prepare that asset for its intended use or for sale are complete.

- The changes are applicable to borrowing costs incurred on or after the commencement of the reporting period in which the entity adopts these changes.

- These changes are applicable for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

c) IFRS 17 Insurance contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance and reinsurance), irrespective of the type of entity issuing them, as well as certain guarantees and certain financial instruments with discretionary participation features. Some exceptions shall apply.

This standard is not applicable to the Group or any of its subsidiaries.

d) Definition of business activity- amendments to IFRS 3

This amendment clarifies the minimum requirements to be considered a business activity, removes the assessment as to whether the market participants are able to replace the missing elements, adds guidance as regards the assessment as to whether an acquired process is substantive, narrows the definitions of business activity and output and introduces an optional fair value test of the business activity.

Minimum requirements to be considered a business activity

The amendment clarifies that to be considered a business activity, an integrated set of activities must include at least one input and a substantive process that together contribute significantly to the creation of an output. It also clarifies that a business activity can exist without including all inputs and all processes necessary to create outputs. That is, the inputs and processes applied to these inputs “must be able to contribute to the creation of outputs” rather than “have to be able to create outputs”.

Ability of market participants to replace missing elements

Before the amendment, IFRS 3 foresaw that a business activity did not have to include all inputs or processes that the seller used in the operationalization of the business activity, “if market participants are able to acquire the business activity and continue to produce the productive process, for example, integrating the business activity with their own inputs and processes”. The reference to this integration has been eliminated from the standard and the assessment is based on what was acquired in its current state and conditions.

Assess whether an acquired process is substantive

The amendment clarifies that if a set of activities and assets do not have outputs at the acquisition date, an acquired process is considered a substantive one:

(a) if it is critical to the ability to develop and convert inputs acquired into outputs; and

(b) if the inputs acquired include either an organized workforce with the necessary skills, knowledge, or experience to carry out this process, or other inputs that this organized labour force can develop or convert into outputs.

In contrast, if a set of activities and assets acquired include outputs at the acquisition date, an acquired process has to be considered substantive:

(a) If it is critical to the ability to continue producing outputs and the inputs acquired include an organized workforce with the necessary skills, knowledge, or experience in carrying out this process; or

(b) If it contributes significantly to the ability to continue to produce outputs and is either unique or scarce, or cannot be replaced without significant cost, without significant effort or without significant delays in the ability to continue producing outputs.

Narrowing the definition of outputs

The amendment narrows the definition of outputs by focusing on goods or services provided to customers, return on investment (such as dividends or interest) or other income from ordinary activities. The definition of business activity in Appendix A of IFRS 3 has been amended accordingly.

Optional concentration test

The amendment introduces an optional test of the fair value of the merger to allow for a simplified valuation if a set of acquired activities are not a business activity. Entities may choose to apply this test on a transaction-by-transaction basis. The test is performed if substantially all the fair values of the gross assets acquired are concentrated in a single identifiable asset or in a similar group of identifiable assets. If the test is not carried out, or if the entity chooses not to apply the test to a particular transaction, a detailed valuation will have to be performed applying the requirements of the IFRS 3 standard.

This change is effective for transactions that are deemed to be business combinations or acquisition of assets for which the acquisition date occurred on or after the beginning of the first period beginning on or after 1 January 2020. These changes apply prospectively. Consequently, entities do not have to carry out valuations of acquisitions that occurred before that date. Early adoption is permitted and must be disclosed.

This change will also have an impact on other standards (e.g. where the parent loses control of the subsidiary and has early adopted the amendment to IFRS 10 and IAS 28 that contemplates the sale or delivery of assets by an investor to its associate or joint venture).

e) Definition of materiality – Amendments to IAS 1 and IAS 8

The purpose of this amendment was to make the definition of "material" consistent across all existing standards and to clarify certain aspects related to its definition. The new definition states that "information is material if its omission, error or concealment can reasonably be expected to influence the decisions that the primary users of the financial statements make on the basis of those financial statements, which provide financial information about a given reporting entity".

The amendment clarifies that materiality depends on the nature and magnitude of the information, or both. An entity has to assess whether certain information, either individually or in combination with other information, is material in the context of the financial statements.

Hidden information

The amendment explains that information is hidden if it is communicated in a way that has the same effect as if it were missing or contained errors. Material information may be hidden, for example, if the information related to a material item, a material transaction or other material event is dispersed throughout the financial statements, or is disclosed using language that is vague and unclear. Material information may also be hidden if dissimilar items, dissimilar transactions, or dissimilar events are aggregated inappropriately, or conversely, if similar items are disaggregated.

New materiality threshold

The amendment replaces the reference regarding the level of materiality "being able to influence", which suggests that any potential influence of users has to be considered, given the "reasonably expected to influence" definition of materiality. In the amended definition it is therefore clarified that the assessment of materiality has to take into account only the reasonably expected influence on the economic decisions of the primary users of the financial statements.

Primary users of financial statements

The current definition refers to "users" but does not specify their characteristics, the interpretation of which may imply that the entity has to take into account all possible users of the financial statements when deciding which information to disclose. Consequently, the IASB decided to refer only to primary users in the new definition to address concerns that the term "users" could be interpreted broadly.

This amendment is effective for periods beginning on or after 1 January 2020. This amendment must be applied prospectively. Early adoption is permitted and must be disclosed.

f) IAS 19 Changes to the pension plan or cuts or the liquidation of same

This amendment clarifies the accounting treatment to follow in the event of a change in the pension plan or a cut or the liquidation of same.

This standard is not applicable to the Group nor to any of its subsidiaries.

g) IFRS 14 Deferral accounts related to regulated activities

This standard allows an entity which activities are subject to regulated tariffs to continue to apply most of its previous accounting policies for deferred accounts related to regulated activities when adopting IFRS for the first time.

This standard is not applicable to the Group nor to any of its subsidiaries.

4. Main estimates and judgments used in the preparation of the financial statements

The IFRS establish a series of accounting treatments and requires the Board of Directors to make judgments and the necessary estimates in order to decide which accounting treatment is most appropriate. The main estimates and judgments used by the Group in the application of accounting principles are presented in this note, with the objective of improving the understanding of their application and the manner in which they affect the results reported by the Group and their disclosure.

Considering that in some situations there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the Group could be different if a different treatment were chosen.

The Board of Directors considers that its choices are appropriate and that the financial statements present adequately the financial position of the Group and the result of its operations in all materially relevant aspects.

The analysis made below is presented only for a better understanding of the financial statements and is not intended to suggest that other alternatives or estimates may be more appropriate.

Classification and measurement of financial instruments

The classification and measurement of financial assets depends on an analysis of the business model associated with the financial asset and the results of the SPPI test (analysis of the characteristics of the contractual cash flows, to conclude whether they correspond only to payments of principal and interest on the outstanding principal).

The Group determines the business model taking into consideration how groups of financial assets are managed together to achieve a specific business objective. This evaluation requires judgment, since several aspects of a subjective nature have to be considered, among others, such as: i) the way in which the performance of the assets is evaluated; ii) the risks that affect the performance of the assets and the way these risks are managed; and iii) the form of remuneration of asset managers.

In this context, the Group monitors financial assets measured at amortized cost and at fair value through other comprehensive income which are derecognised before maturity, to understand the reasons associated with their sale, and to determine whether these are consistent with the objective of the business model defined for these assets. This monitoring is an integral part of the monitoring process of the financial assets that remain in the portfolio, in order to determine if the model is adequate and, if not, if there was a change in the business model and, consequently, a prospective change in the classification of these financial assets.

Impairment of financial assets at amortized cost and at fair value through other comprehensive income

Significant increase in credit risk (SICR)

Impairment losses correspond to the expected losses in a 12-month time horizon for the assets in stage 1 and the expected losses considering the probability of a default event occurring at some point up to the maturity date of the financial instrument, for assets in stage 2 and 3. An asset is classified as stage 2 whenever there is a significant increase in its credit risk since its initial recognition. In assessing the existence of a significant increase in credit risk, the Group takes into account qualitative and quantitative, reasonable and sustainable information (Note 2.2.1.5.3).

Definition, weighting and determination of relevant prospective information

In estimating expected credit losses, the Group uses reasonable and sustainable forecasting information that is based on assumptions about the future evolution of different economic drivers and how each driver impacts the remaining drivers.

Probability of default

The probability of default is a determining factor in the measurement of expected credit losses. The probability of default corresponds to an estimate of the probability of default in a given time period, which is calculated on the basis of historical data, assumptions and expectations about future conditions.

The Group determines that there is a likelihood of default whenever there is evidence of impairment resulting from one or more events that occurred after its initial recognition according to a broad set of indicators, including, inter alia, delays or defaults on payments of principal and/or interest, the sharp decline in the market price of the asset, the evolution of its credit risk, the continued or significant devaluation of its fair value, etc..

The determination as to whether the event verified is objective evidence of impairment requires judgment, and therefore the Group evaluates, among other factors, the normal volatility of asset prices and current market conditions. In addition, valuations are obtained through market prices or valuation models, which require the use of assumptions or judgments in the definition of fair value estimates.

Loss given default

This corresponds to an estimate of the loss in a default scenario. It is based on the difference between the contractual cash flows and those expected to be received, either through the cash flows generated by the customer's business or the credit collateral, if any. The calculation of the expected loss given default is based on, among other aspects, the different recovery scenarios, historical information, the costs involved in the recovery process and the valuation estimates of collaterals associated with credit operations.

Alternative methodologies and the use of different assumptions and estimates may result in a different level of recognized impairment losses, with a consequent impact on the results of the Group.

Fair value of financial instruments

IFRS 13 establishes that financial instruments should be valued at fair value. Fair value is based on market prices or, in the absence thereof, on prices of recent transactions, similar and carried out under market conditions and using valuation methodologies, which have underlying techniques involving the discounting of future cash flows considering the market conditions, the time value, the yield curve and volatility factors. These methodologies may require the use of assumptions or judgments in the estimate of fair value.

Consequently, the use of different methodologies, assumptions or judgments in the application of a particular model, may lead to financial results different from those reported.

Income tax

The Group is subject to the payment of income tax on profits in several jurisdictions. The determination of the total amount of income tax on profits requires certain interpretations and estimates. There are several transactions and calculations for which the determination of the final amount of tax payable is uncertain during the normal business cycle.

In addition, it should be noted that the reversal of deductible timing differences results in deductions in the determination of future taxable income. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it achieves sufficient taxable profits against which these deductions may be offset. On this basis, the Group recognizes deferred tax assets only when it is probable that taxable income will be available against which the deductible timing differences may be utilized.

Other interpretations and estimates could result in a different level of taxation on income, current and deferred, recognized in the period. The Portuguese Tax Authorities are entitled to review the calculation of the taxable income of the Company and its subsidiaries based in Portugal for a period of four years. In this way, it is possible that corrections to the taxable income may occur, mainly resulting from differences in the interpretation of tax legislation. However, it is the Board of Directors' belief that there will be no significant corrections to the income taxes recorded in the financial statements.

Going concern

The Board of Directors has assessed the Group's ability to continue as a going concern and is confident that it has the resources to continue its business for the foreseeable future.

In addition, the Board of Directors is not aware of any material uncertainties that may cast significant doubts on the Group's ability to continue as a going concern.

On that basis, the financial statements have been prepared on a going concern basis.

Provisions and contingent liabilities

The Bank and its subsidiaries operate in a regulatory and legal environment which, by its nature, has a marked degree of litigation risk inherent in its operations. On that basis, it is involved in legal and arbitration proceedings, arising from the normal course of its business.

When the Group can reliably measure the outflow of resources that incorporate economic benefits in relation to a specific case and consider those outflows to be probable, it records a provision for that purpose. When the outflow probability is considered remote, or probable but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group considers that the disclosure of these estimates on a case-by-case basis would jeopardize their outcome, no detailed and specific disclosures of the underlying situations are made.

Given the subjectivity and uncertainty in determining the probability and amount of the losses, the Group considers several factors, including legal advice, the stage of the proceedings and the historical evidence of similar incidents. Significant judgment is required in the determination of these estimates.

5. Cash and deposits with central banks and other demand deposits

EUR thousand	**31.12.2018**	**31.12.2017**
Cash	49	71
Deposits with central banks		
Bank of Portugal	17,724	9,901
Bank of Spain	2,899	2,581
	20,623	12,482
Deposits with banks in Portugal		
Demand deposits	25,965	27,612
	25,965	27,612
Deposits with banks abroad		
Demand deposits	12,505	1,628
	12,505	1,628
	59,142	**41,793**

The caption “Deposits with central banks” includes the amount of € 4,686 thousand (2017: € 4,763 thousand) to satisfy the legal requirements to maintain minimum cash reserves.

These deposits earn interest at the average rates for the main refinancing operations of the European System of Central Banks (ESCB) prevailing during the deposit period considered. In 2018, these rates stood at -0.40% (2017: -0.40%).

6. Financial assets

The financial assets held by the Group, classified by category, may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Financial assets held for trading	21,683	53,459
Financial assets at fair value through other comprehensive income	1,630,268	-
Available-for-sale financial assets	-	1,529,997
Financial assets at amortized costs	233,882	299,146
	1,885,833	**1,882,602**

The financial assets held by the Group, classified by instrument type, may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Debt instruments	1,696,741	1,715,202
Loans	114,861	93,050
Due from banks	50,767	16,092
Securities purchased with resale agreements	10,748	8,888
Commercial paper	5,203	7,663
Other credit operations	5,880	14,712
Trading derivatives (Note 7)	1,634	26,995
	1,885,833	**1,882,602**

The balance of financial assets by category, net of impairment, may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Financial assets held for trading		
Debt instruments		
Public entities	1,374	6,393
Banks	9,641	3,286
Companies	9,033	16,785
Trading derivatives (Note 7)	1,634	26,995
	21,683	**53,459**
Financial assets at fair value through other comprehensive income		
Debt instruments		
Public entities	541,689	-
Banks	258,745	-
Companies	802,720	-
Loans		
Public entities	9,446	-
Banks	7,927	-
Companies	9,740	-
	1,630,268	**-**
Available-for-sale financial assets		
Debt instruments		
Public entities	-	500,836
Banks	-	264,883
Companies	-	764,278
	-	**1,529,997**
Financial assets at amortized cost		
Debt instruments		
Public entities	-	49,614
Banks	-	1,034
Companies	73,537	108,093
Loans		
Public entities	9,042	10,777
Banks	26,887	36,059
Companies	51,818	46,214
Due from banks	50,767	16,092
Securities purchased with resale agreements	10,748	8,888
Commercial paper	5,203	7,663
Other credit operations	5,880	14,712
	233,882	**299,146**
	1,885,833	**1,882,602**

During 2018, interest income from the financial assets held for trading portfolio amounted to € 551 thousand (2017: € 730 thousand).

During 2018, interest income from the financial assets at amortized cost portfolio amounted to € 13,968 thousand (2017: € 14,174 thousand).

As at 31 December 2018, the caption “Financial assets at amortized cost” includes debt instruments in the amount € 29,745 thousand (2017: € 57,052 thousand) given as collateral in repo operations (Note 24).

As at 31 December 2018, the caption “Due from banks” includes deposits in the amount € 33,567 thousand (2017: € 6,924 thousand) given as collateral in repos, and interest rate and exchange rate derivatives.

The captions "Financial assets at fair value through other comprehensive income" and "Available-for-sale financial assets", may be analysed as follows:

	31.12.2018					
EUR thousand	**Acquisition cost**	**Impairment**	**Carrying amount**	**Fair value hedging adjustments**	**Changes in fair value**	**Total**
Financial assets at fair value through other comprehensive income						
Debt instruments						
Public entities	558,626	(1,544)	557,082	(2,427)	(12,966)	541,689
Banks	272,783	(3,062)	269,721	731	(11,707)	258,745
Companies	836,522	(6,100)	830,422	4,989	(32,691)	802,720
Loans						
Public entities	9,430	(13)	9,417	-	29	9,446
Banks	8,070	(64)	8,006	-	(79)	7,927
Companies	10,812	(83)	10,729	-	(989)	9,740
Total	**1,696,243**	**(10,866)**	**1,685,377**	**3,293**	**(58,402)**	**1,630,268**

	31.12.2017					
EUR thousand	**Acquisition cost**	**Impairment**	**Carrying amount**	**Fair value hedging adjustments**	**Changes in fair value**	**Total**
Available-for-sale financial assets						
Debt instruments						
Public entities	483,699	-	483,699	1,491	15,645	500,836
Banks	259,586	-	259,586	813	4,484	264,883
Companies	735,512	(22)	735,490	5,078	23,711	764,278
Loans						
Public entities	-	-	-	-	-	-
Banks	-	-	-	-	-	-
Companies	-	-	-	-	-	-
Total	**1,478,797**	**(22)**	**1,478,775**	**7,382**	**43,840**	**1,529,997**

During 2018, interest income from the financial assets at fair value through other comprehensive income portfolio amounted to € 73,101 thousand (available-for-sale financial assets in 2017: € 63,882 thousand). As at 31 December 2018 and 2017, there were no past due operations.

This portfolio includes the amount of € 768,328 thousand (2017: € 749,368 thousand) related to debt instruments given as collateral by the Group in repo operations (Note 24).

As at 31 December 2018 and as at the date of the transition to IFRS 9, the financial assets subject to the impairment requirements foreseen in IFRS 9, analysed by stage, may be presented as follows:

31.12.2018

EUR thousand	**Financial assets at fair value through other comprehensive income**				**Financial assets at amortized cost**			
	Not past due	Past due	Impairment	Net	Not past due	Past due	Impairment	Net
Stage 1								
Debt instruments and commercial paper	1,577,645	-	(8,725)	1,568,921	68,990	-	(258)	68,732
Loans and advances	27,273	-	(160)	27,113	149,952	-	(690)	149,262
Other credit operations	-	-	-	-	756	-	(3)	753
Stage 2								
Debt instruments and commercial paper	36,215	-	(1,982)	34,233	9,118	-	(414)	8,704
Loans and advances	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	29	(2)	27
Stage 3								
Debt instruments and commercial paper	-	-	-	-	-	13,435	(12,130)	1,305
Loans and advances	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	5,200	(101)	5,099
	1,641,134	**-**	**(10,866)**	**1,630,268**	**228,816**	**18,664**	**(13,598)**	**233,882**

01.01.2018

EUR thousand	**Financial assets at fair value through other comprehensive income**				**Financial assets at amortized cost**			
	Not past due	Past due	Impairment	Net	Not past due	Past due	Impairment	Net
Stage 1								
Debt instruments and commercial paper	1,579,584	-	(4,899)	1,574,685	78,896	-	(276)	78,620
Loans and advances	18,830	-	(85)	18,745	107,019	-	(235)	106,784
Other credit operations	-	-	-	-	2,134	-	(24)	2,110
Stage 2								
Debt instruments and commercial paper	21,013	-	(834)	20,178	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	327	(6)	321
Stage 3								
Debt instruments and commercial paper	-	-	-	-	20,591	17,196	(22,368)	15,419
Loans and advances	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	12,560	(300)	12,260
	1,619,427	**-**	**(5,818)**	**1,613,609**	**208,640**	**30,083**	**(23,208)**	**215,514**

As at 31 December 2018, the Group does not hold any financial instrument classified as POCI.

The movement in the impairment of financial assets subject to IFRS 9 in the financial year ended 31 December 2018, may be analysed as follows

EUR thousand	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2017	-	-	8,569	8,569
IFRS 9 transition reclassification (Note 31)	-	-	14,109	14,109
IFRS 9 transition revaluation (Note 31)	5,518	840	(9)	6,349
Reclassification of fair value reserve (Note 16, Note 31)	(4,984)	(834)	-	(5,818)
Balance as at 1 January 2018	**534**	**6**	**22,668**	**23,208**
Charges for the year, net of reversals (Note 22)	4,041	1,493	233	5,767
Reclassification of fair value reserve (Note 16)	(3,900)	(1,148)	-	(5,048)
Foreign exchange and other variations	276	65	643	984
Write-offs	-	-	(11,314)	(11,314)
Balance as at 31 December 2018	**951**	**416**	**12,231**	**13,598**

In the financial year ended 31 December 2017, the movement in the impairment may be analysed as follows:

EUR thousand	Available-for-sale financial assets	Loans and advances and other assets	Other credit operations	Total
Balance as at 1 January 2017	803	27,238	837	28,878
Charges for the year, net of reversals (Note 22)	4,259	1,196	1,836	7,291
Reclassification of fair value reserve (Note 16)	(4,245)	1,946	-	(2,299)
Foreign exchange variations	(74)	(2,154)	-	(2,228)
Write-offs	(721)	(19,989)	(2,364)	(23,074)
Balance as at 31 December 2017	**22**	**8,238**	**309**	**8,569**

As at 31 December 2018 and 2017, the caption “Charges for the year, net of reversals” is presented net of credit recoveries in the amount of € 4,989 thousand and € 2,459 thousand, respectively.

The movement in the caption of financial assets classified in stage 3 during the 2018 financial year was as follows:

	31.12.2018	
EUR thousand	**Exposure**	**Impairment**
Movement in Stage 3		
Balance as at 1 January 2018	50,347	22,668
Financial assets derecognized	(7,652)	279
Net changes in credit risk	(12,746)	512
Write-offs	(11,314)	(11,314)
Foreign exchange and other variations	-	643
Balance as at 31 December 2018	**18,635**	**12,231**

The movement in the impairment for expected losses in financial assets during the 2018 financial year was the following:

EUR thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2017	-	-	8,569	8,569
Transition to IFRS 9	534	6	14,100	14,640
Balance as at 1 January 2018	534	6	22,668	23,208
Financial assets originated or acquired	1,153	72	-	1,225
Financial assets derecognized	(985)	(381)	(279)	(1,645)
Net changes in credit risk	3,872	1,802	512	6,187
Write-offs	-	-	(11,314)	(11,314)
Reclassification of fair value reserve (Note 16)	(3,900)	(1,148)	-	(5,048)
Foreign exchange and other variations	276	65	643	984
Balance as at 31 December 2018	**951**	**416**	**12,231**	**13,598**

The caption "Other credit operations" refers to the specialized financing (previously denominated motor vehicle financing) that was carried out by the subsidiary Sofinloc. This activity was discontinued on 2012-2013 when the origination of new contracts practically came to an end and the portfolio entered into run-off.

Thus, this activity is, at present, essentially restricted to the management of non-performing assets, and may be analysed as follows:

EUR thousand	31.12.2018	31.12.2017
Performing credit	756	2,018
Past due up to 90 days	29	443
Past due between 90 days and up to 24 months	45	543
	830	**3,004**
Impairment for performing credit	(3)	(3)
Impairment for credit past due up to 90 days	(2)	(6)
Impairment for credit past due between 90 days and up to 24 months	(101)	(300)
	(105)	**(309)**
	725	2,695
Recoverable amount of overdue credit for more than 24 months	5,155	12,017
	5,880	**14,712**

The recoverable amount of overdue credit for more than 24 months corresponds to the amount, net of impairment, of credit agreements that have been in default for more than 24 months, and reflects the future cash flows which,, considering the respective expected losses, are still recoverable, based on the historical analysis and the Group's recovery management process.

Interest income from other credit operations includes interest received on overdue credit, which are reflected in net interest income (Note 17).

7. Derivative financial instruments and hedge accounting

The Group enters in derivative financial instrument transactions with the objective of hedging and managing the financial risks inherent in its activity, managing own positions based on expectations of market evolution, satisfying its customers' needs or hedging structural positions.

The fair value and notional value of derivative instruments in the portfolio are set out in the following table:

EUR thousand	31.12.2018			31.12.2017		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Hedging derivatives						
Interest rate derivatives	1,283,668	19,198	10,620	1,104,192	9,807	14,950
Foreign currency derivatives	740,658	206	27,352	670,391	25,921	276
	2,024,326	**19,404**	**37,972**	**1,774,583**	**35,728**	**15,227**
Other derivatives						
Credit related derivatives	-	-	-	8,338	515	-
	2,024,326	**19,404**	**37,972**	**1,782,921**	**36,243**	**15,227**
Of which subject to hedge accounting						
Interest rate derivatives	**1,135,050**	**17,770**	**10,000**	**849,397**	**9,248**	**7,434**

Foreign currency derivative, represents a contract between two parties and consists in the swap of currencies at a determined forward foreign exchange rate. It is an agreement for cash flow exchange, in which one of the parts agrees to pay interest on the principal in one currency, in exchange of receiving interest on the principal in another currency. At the end of the operation, the principal in foreign currency is paid and the principal in domestic currency is received. The purpose of these operations is the hedging and management of the liquidity risk in foreign currency inherent in future receipts and payments in foreign currency, through the elimination of the uncertainty of the future value of a certain foreign exchange rate.

Credit related derivative, consists in an agreement through which it is possible to invest or hedge a certain issuer's credit risk. When the Group assumes the selling position of credit hedging it receives an interest income in exchange of a payment conditioned on a credit event. If the credit event occurs, the seller of the credit hedging pays the buyer the amount contractually defined to cover the credit loss.

Interest rate derivative, consists, in conceptual terms, of a contract between two parties that agree to swap between them, for a nominal amount and period of time, an interest rate differential. Involving only one currency, it consists of the exchange of fixed cash flows for variable cash flows and vice-versa. It is mainly directed at the hedging and management of the interest rate risk related to the income on a deposit or the cost of a loan that a certain entity intends to realize at a certain time in the future.

Hedge accounting

The accounting treatment of hedging transactions varies according to the nature of the hedged instrument and whether the hedge qualifies as such for accounting purposes in accordance with Note 2.2.3. When hedge accounting is discontinued, and despite the hedging relations being maintained from a financial perspective, the respective hedging instruments are reclassified to financial assets and liabilities held for trading.

Fair value hedges of interest rate risk – fixed-income securities

These fair value hedges consist of the contracting of interest rate derivatives that are used to protect against changes in the fair value of fixed-rate debt instruments due to movements in market interest rates, namely to protect these against interest rate exposure.

For securities classified as 'financial assets at amortized cost' (see Note 6) the accumulated hedge adjustment as at 31 December 2018 amounts to € (232) thousand (2017: € 651 thousand). In 2018, the Group recognized in profit or loss the amount of € (829) thousand (2017: € (325) thousand) related to the fair value change of the hedged instruments in the financial year and the amount of € 1 thousand (2017: € (359) thousand) related to the gain on the amortization of the discontinued relations.

In addition, and for securities classified as 'financial assets at fair value through other comprehensive income', the Group recognized, in 2018, gains on hedging instruments amounting to € 4,269 thousand (2017: € 8,085 thousand) and losses on the respective hedged items of € 4,450 thousand (2017: € 8,147 thousand). These losses on hedged items attributable to the hedged risk are reclassified from the fair value reserve to profit or loss. The Group also recognized in profit or loss the amount of € 2,442 thousand (2017: € (439) thousand) related to the gain on the amortization of the discontinued relations.

In summary, the impacts of the hedging relations referred to above, outstanding in 2018 and 2017, may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Financial assets at amortized cost	**(8)**	**(4)**
Gains in hedge instruments	821	321
Losses in hedged items attributable to hedged risk	(829)	(325)
Financial assets at fair value through other comprehensive income	**(181)**	**(63)**
Losses in hedge instruments	4,269	8,085
Gains in hedged items attributable to hedged risk	(4,450)	(8,147)
Ineffectiveness of interest rate risk hedges (Note 19)	**(189)**	**(66)**

The impacts of the amortization of discontinued hedging relations may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Fair value hedges – securities in the "financial assets at amortized cost" portfolio	1	(359)
Fair value hedges - securities in the "financial assets at fair value through other comprehensive income" portfolio	2,442	-
Fair value hedges - securities in the "available-for-sale financial assets" portfolio	-	(439)
Amortization of discontinued hedging relations (Note 19)	**2,443**	**(798)**

Net investment hedge in foreign operational units

During 2018 and 2017, the Group used foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. As at 31 December 2018, the hedged investments held by the Group in foreign subsidiaries and the associated funding used to hedge these investments may be analysed as follows:

Company	Functional Currency	Net Investment USD' 000	Associated Debt USD' 000	Net Investment EUR' 000	Associated Debt EUR' 000
Finantia Holdings BV	USD	18,004	18,004	15,724	15,724
Finantia UK Limited	USD	99,000	99,000	86,463	86,463

The effective portion of the changes in fair value of the non-derivative financial liabilities (associated debt) designated as hedging instruments in the hedging of the net investments in the above mentioned foreign operations, was recognized directly in equity, in foreign currency reserve (other comprehensive income). In 2018 and 2017, there was no ineffectiveness in these hedging relations.

8. Other tangible assets

EUR thousand	**Buildings**	**Office equipment**	**IT equipment**	**Motor vehicles**	**Other assets**	**31.12.2018**	**31.12.2017**
Acquisition cost:							
Opening balance	21,233	6,673	3,271	1,810	1,216	34,202	34,748
Additions	-	90	433	284	186	993	460
Disposals/write-offs	-	(56)	(49)	(271)	(40)	(415)	(924)
Fx var./transfers	21	10	2	-	4	38	(81)
Closing balance	**21,254**	**6,718**	**3,657**	**1,824**	**1,366**	**34,818**	**34,202**
Accumulated depreciation:							
Opening balance	10,837	6,134	3,118	1,195	1,130	22,413	22,460
Depreciation charge	286	84	204	321	62	948	822
Disposals/write-offs	-	(56)	(49)	(193)	(39)	(337)	(872)
Fx var./transfers	19	19	59	-	(16)	81	3
Closing balance	**11,142**	**6,180**	**3,332**	**1,324**	**1,136**	**23,115**	**22,413**
Net book value	**10,112**	**538**	**325**	**500**	**229**	**11,703**	**11,789**

9. Intangible assets

EUR thousand	**Software**	**Other intangible assets**	**Work in progress**	**31.12.2018**	**31.12.2017**
Acquisition cost:					
Opening balance	5,035	405	48	5,488	6,067
Additions	188	-	17	171	155
Disposals/write-offs	-	-	-	-	(729)
Fx var./transfers	9	0	2	10	(5)
Closing balance	**5,232**	**405**	**33**	**5,669**	**5,488**
Accumulated amortization:					
Opening balance	4,888	405	-	5,293	5,692
Amortization charge	135	-	-	135	330
Disposals/write-offs	-	-	-	-	(728)
Fx var./transfers	8	-	2	10	(1)
Closing balance	**5,032**	**405**	**2**	**5,438**	**5,293**
Net book value	**200**	**-**	**31**	**231**	**195**

As at 31 December 2018 and 2017, other intangible assets and work in progress include software licenses and other expenditure incurred with software implementation and development.

During 2018 and 2017, there were no intangible assets generated internally.

10. Taxes

Income tax recognized in the income statement in 2018 and 2017 may be analysed as follows:

EUR thousand	31.12.2018	31.12.2017
Current tax		
Current tax on profit for the year	(5,147)	(14,244)
Extraordinary banking sector levy	(698)	(713)
Current tax related to prior years	1,816	(47)
	(4,028)	**(15,003)**
Deferred tax		
Origination and reversal of timing differences	(36)	3,062
Tax losses carried forward	(702)	372
	(738)	**3,433**
Total income tax recognized in results	**(4,767)**	**(11,570)**

The deferred tax assets and liabilities recognized in the balance sheet in 2018 and 2017 may be analysed as follows:

EUR thousand	31.12.2018			31.12.2017		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Financial assets at fair value through other comprehensive income	14,578	-	14,578	-	-	-
Available-for-sale financial assets	-	-	-	3	(14,078)	(14,075)
Impairment/Provisions	2,090	-	2,090	1,270	-	1,270
Tax losses carried forward	-	-	-	702	-	702
Other	3,596	(3,528)	68	3,163	(3,590)	(428)
Deferred tax assets/(liabilities)	**20,264**	**(3,528)**	**16,736**	**5,138**	**(17,669)**	**(12,530)**
Set-off of deferred tax assets and liabilities	(674)	674	-	(4,245)	4,245	-
Net deferred tax assets/(liabilities)	**19,589**	**(2,854)**	**16,736**	**893**	**(13,423)**	**(12,530)**

The Group offsets, as established in IAS 12, paragraph 74, the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

At the end of each reporting period, the Group reassesses unrecognized deferred tax assets, and recognizes a previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered. As at 31 December 2018, deferred tax assets related to tax credits for international double taxation amount to € 454 thousand (2017: € 748 thousand). As at 31 December 2018, deferred tax assets related to tax losses carried forward not recognized in the financial statements amount to € 701 thousand (2017: € 677 thousand).

During the year ended 31 December 2018, income taxes recognized in reserves related to available-for-sale financial assets (see Note 16) amount to € 30,724 thousand (2017: € (9,577) thousand), and relate solely to deferred taxes, corresponding to € 28,653 thousand in the movement for the financial year and € 2,071 thousand on the transition to IFRS 9 (Note 31).

As at 31 December 2018, there are deferred taxes recognized in retained earnings amounting to € 41 thousand (2017: € 330 thousand) for other adjustments related to deferred taxes. In addition, on the transition to IFRS 9 there was a movement of € 1,311 thousand in deferred taxes (Note 31).

The reconciliation of the effective income tax rate may be analysed as follows:

EUR thousand	31.12.2018		31.12.2017	
	%	**Amount**	**%**	**Amount**
Profit before income tax		43,335		53,839
Statutory income tax rate	27.5%		27.5%	
Income tax calculated based on the statutory income tax rate		**11,917**		**14,806**
Tax losses used		631		(15)
Effect of inter-group dividends		(7,409)		(4,863)
Impairment and provisions		-		(219)
Tax benefits		(471)		(902)
Autonomous taxation		109		123
Other		(708)		1,927
Income tax		4,069		10,857
Extraordinary banking sector levy		698		713
Income tax recognized in profit or loss		**4,767**		**11,570**
Current tax		4,028		15,003
Deferred tax		738		(3,433)
Tax under reconciliation		**4,767**		**11,570**

11. Other assets

EUR thousand	31.12.2018	31.12.2017
Debtors and other advances	8.165	7.186
Accrued income	258	290
Operations pending financial settlement (Note 14)	14.422	25.540
Other assets	973	1.037
	23.819	**34.054**

The caption "Operations pending financial settlement" refer to outstanding operations resulting from the Group's normal activity.

The caption "Debtors and other advances" is presented net of impairment. The movement of impairment losses may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Balance as at 1 January	4,267	2,749
Net charge for the year (Note 22)	(266)	1,586
Usage	(8)	(67)
Balance as at 31 December	**3,993**	**4,267**

12. Financial liabilities held for trading

This caption may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Trading derivatives (Note 7)	27,972	7,792
Short positions	13,019	4,812
	40,991	**12,604**

13. Financial liabilities at amortized cost

This caption may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Due to customers		
Time deposits	864,533	771,886
Demand deposits	36,341	30,631
	900,874	802,517
Securities sold under repurchase agreements (repos)		
Banks	536,645	459,936
Other financial companies	111,195	150,547
	647,840	610,483
Other financial liabilities at amortized cost		
Money market operations	11,391	40,399
	11,391	40,399
	1,560,105	**1,453,399**

The securities sold under repurchase agreements (repos) are collateralized with debt instruments as referred to in Note 6.

14. Provisions and other liabilities

The caption “Provisions” may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Bank guarantees and irrevocable commitments	14	-
Other provisions	854	1,441
	868	**1,441**

The movement occurring in the caption “Provisions” during the 2018 financial year was as follows:

EUR thousand	**Bank guarantees and commitments**	**Other provisions**	**Total**
Balance as at 1 January 2018	-	1,441	1,441
Application of IFRS 9 (Note 31)	14	-	14
Net charge for the year (see Note 22)	-	(587)	(587)
Balance as at 31 December 2018	**14**	**854**	**868**

The caption “Other provisions” refers to provisions for other risks and charges to cater for contingencies arising in the scope of the Group’s activity.

The caption “Other liabilities” may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Accrued expenses	5,979	6,135
Amounts owed to the public sector	539	559
Creditors of specialized finance operations	316	385
Other liabilities	11,820	26,847
	18,654	**33,926**

The caption “Other liabilities” include the amount of € 11,475 thousand (2017: € 26,581 thousand) related to transactions pending financial settlement, arising in the Group’s normal course of business (Note 11).

15. Share capital, share premium and treasury stock

Share capital and share premium

As at 31 December 2018 and 2017, the Bank’s share capital amounts to € 150 million and is represented by 150,000,000 ordinary shares with voting rights and a nominal value of € 1 each and is fully paid up.

The caption “Share premium” in the amount of € 12,849,132 relates to the amount paid by the shareholders in share capital increases realized.

Treasury stock

During 2018 and 2017, the movement in treasury stock may be analysed as follow:

EUR thousand, except number of shares	2018		2017	
	No. shares	**Cost**	**No. shares**	**Cost**
Balance at the beginning of the year	37,607	53	12,150,868	20,183
Share capital decrease	-	-	(12,150,868)	(20,183)
Share capital increase	-	-	47	-
Acquisitions	-	-	37,560	53
Balance at the end of the year	**37,607**	**53**	**37,607**	**53**

16. Other accumulated comprehensive income, retained earnings and other reserves

The caption "Other accumulated comprehensive income, retained earnings and other reserves" may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Other accumulated comprehensive income	(39,816)	36,952
Retained earnings	52,750	46,962
Other reserves	176,686	165,709
	189,620	**249,623**

The caption "Other accumulated comprehensive income" represents the unrealized gains and losses arising on the financial instruments classified according to the "hold to collect and sell" (HTCS) business model, at fair value through other comprehensive income, net of impairment losses recognized in the income statement in the year/previous years. This caption also includes the fair value component of the reclassified financial assets and the effective part of the changes in fair value of hedging derivatives for exposure to the variability in fair value.

The caption "Other reserves" includes the legal reserve. According to Article 97 of the General Regime for Banks and Financial Companies, Banco Finantia must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of the share capital or the sum of the free reserves and the retained earnings. In accordance with Article 296 of the Portuguese Companies Code, the legal reserve may only be used to cover accumulated losses or to increase share capital.

The remaining Group companies with registered offices in Portugal must transfer to a legal reserve at least 5% of their annual net income until this reserve is equal to 20% of their issued share capital.

The movements occurring in these captions in 2018 and 2017 were as follows:

EUR thousand	Other accumulated comprehensive income			Retained earnings and other reserves		
	Financial assets at fair value through other comprehensive income	Net investment hedge in foreign currency	Sub-Total	Retained earnings	Other reserves	Total
Balance as at 31 December 2017	**37,147**	**(195)**	**36,952**	**46,962**	**165,709**	**249,623**
Impact of transition to IFRS 9 (Note 31)	5,925	-	5,925	(4,627)	-	**1,297**
Balance as at 1 January 2018	**43,072**	**(195)**	**42,877**	**42,335**	**165,709**	**250,920**
Changes in fair value	(114,327)	-	**(114,327)**	-	-	**(114,327)**
Net investment hedge in foreign currency (Note 7)	-	910	**910**	-	-	**910**
Deferred taxes (Note 10)	30,724	-	**30,724**	-	-	**30,724**
Constitution/(transfer) of reserves	-	-	**-**	10,415	10,977	**21,393**
Balance as at 31 December 2018	**(40,532)**	**715**	**(39,816)**	**52,750**	**176,686**	**189,620**

EUR thousand	Other accumulated comprehensive income			Retained earnings and other reserves		
	Available-for-sale financial assets	Net investment hedge in foreign currency	Sub-Total	Retained earnings	Other reserves	Total
Balance as at 31 December 2016	**11,217**	**(251)**	**10,966**	**47,772**	**155,510**	**214,247**
Changes in fair value	35,507	-	**35,507**	-	-	**35,507**
Net investment hedge in foreign currency (Note 7)	-	56	**56**	-	-	**56**
Deferred taxes (Note 10)	(9,577)	-	**(9,577)**	330	-	**(9,247)**
Other movements	-	-	**-**	(6,380)	(88)	**(6,468)**
Constitution/(transfer) of reserves	-	-	**-**	5,240	10,287	**15,527**
Balance as at 31 December 2017	**37,147**	**(195)**	**36,952**	**46,962**	**165,709**	**249,623**

The captions “Other accumulated comprehensive income” and “Fair value reserve - financial assets at fair value through comprehensive income”, excluding non-controlling interests, may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Acquisition cost of financial assets at fair value through other comprehensive income (OCI)	1,696,243	-
Amortized cost of available-for-sale financial assets	-	1,478,797
Accumulated impairment recognized in the balance sheet (Note 6)	(10,866)	(22)
Amortized cost of financial assets, net of impairment	1,685,377	1,478,775
Fair value of financial assets (Note 6)	1,630,268	1,529,997
Estimated gains/(losses) recognized in OCI	(65,975)	-
Estimated gains/(losses) recognized in the fair value reserve	-	51,222
Stage 1 and 2 impairment for financial assets at fair value through OCI	10,866	-
Deferred taxes (Note 10)	14,578	(14,075)
	(40,532)	**37,147**

The movement in the fair value reserve - financial assets at fair value through other comprehensive income may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Balance at the beginning of the year	37,147	11,217
Transition to IFRS 9 (Note 31)	5,925	-
Change in fair value	(96,847)	50,748
Disposals in the period (see Note 19)	(24,534)	(28,183)
Reclassification to impairment (Note 7)	5,048	4,245
Amortization of reserve of reclassified financial assets (Note 29)	-	111
Fair value hedges (Note 7)	(2,007)	14,155
Deferred taxes recognized in reserves in the period (see Note 10)	30,724	(9,577)
Balance at the end of the year	**(40,532)**	**37,147**

17. Net interest income

EUR thousand	**31.12.2018**	**31.12.2017**
Interest and similar income		
Debt instruments	77,466	79,010
Loans	5,852	3,054
Other credit operations	4,302	3,876
Other interest and similar income	294	733
	87,914	**86,674**
Interest and similar expense		
Securities sold under repurchase agreement	(15,122)	(8,865)
Due to customers	(9,321)	(10,680)
Hedging derivatives	(2,447)	(6,715)
Other interest and similar expense	(510)	(471)
	(27,400)	**(26,732)**
	60,514	**59,942**

18. Net fee and commission income

EUR thousand	**31.12.2018**	**31.12.2017**
Fee and commission income		
From banking activity	2,426	4,901
From specialized finance activity	599	1,084
	3,025	**5,985**
Fee and commission expense		
On third-party banking services	(382)	(542)
On specialized finance activity	(47)	(113)
	(429)	**(655)**
	2,596	**5,330**

As at 31 December 2018, the caption “Fee and commission income - from specialized finance activity” includes the amount of € 188 thousand (2017: € 396 thousand) related to commission from insurance intermediation.

19. Net results from financial operations

As at 31 December 2018 and 2017, this caption may be analysed as follows:

EUR thousand	31.12.2018	31.12.2017
Gains or losses from derecognition of financial assets at fair value through other comprehensive income (Note 6)	24,534	33,752
Gains or losses from derecognition of financial assets at amortized cost	5,972	6,220
Gains or losses from financial assets and liabilities held for trading	(1,937)	3,288
Gains or losses from hedge accounting (Note 7)	2,254	(6,901)
Gains or losses from foreign exchange operations	(19,064)	(14,160)
Other gains or losses from financial operations	(11)	128
	11,749	**22,327**

The gains or losses from financial assets and liabilities held for trading include: (i) the effect of the purchases and sales and change in fair value of the debt instrument of the trading portfolio and (ii) the results of the derivative financial instruments. As at 31 December 2018, it includes the amount of € (2,229) thousand (2017: € (1,539) thousand), related to operations with interest rate derivatives.

The gains or losses from derecognition of financial assets at fair value through other comprehensive income include the effect of the derecognition of the hedged assets in the amount of € 7,197 thousand (2017: € (5,569) thousand).

The gains or losses from derecognition of financial assets at amortized cost include the effect of the derecognition of hedged assets in the amount of € 756 thousand (2017: € (467) thousand).

20. Staff costs

EUR thousand	31.12.2018	31.12.2017
Remuneration	11,050	10,040
Mandatory social charges	2,300	2,167
Other	1,019	694
	14,370	**12,902**

As at 31 December 2018 and 2017, the remuneration, including respective mandatory social charges, paid to the Group's management and supervisory bodies amounted to € 1,134 thousand and € 928 thousand, respectively.

The number of employees, by category, may be analysed as follows:

	31.12.2018	31.12.2017
Senior management	91	89
Management	147	134
Professional staff	24	36
	262	**259**

21. General and administrative expenses

EUR thousand	31.12.2018	31.12.2017
Specialized services	4,923	5,363
Maintenance services	1,466	1,337
Rentals	698	666
Communication	494	475
Travelling and expenses	516	597
Other	1,286	1,262
	9,383	**9,699**

22. Impairment and provisions

As at 31 December 2018 and 2017, the amounts of impairment and provisions recognized in the income statement may be analysed as follows:

EUR thousand	31.12.2018	31.12.2017
Financial assets at amortized cost	1,002	3,032
Financial assets at fair value through other comprehensive income	4,765	n.a.
Available-for-sale financial assets	n.a.	4,259
Impairment or reversal of impairment (-) (Note 6)	5,767	7,291
Impairment or reversal of impairment (-) of non-financial assets (Note 11)	(266)	1,586
Provisions or reversal of provisions (-) (Note 14)	(587)	48
	4,914	**8,925**

During 2018, the total amount of interest recognized in the income statement from impaired financial assets is € 1,617 thousand (2017: € 3,904 thousand).

23. Earnings per share

Basic earnings per share

EUR thousand, except number of shares	31.12.2018	31.12.2017
Net profit attributable to the shareholders of the Bank	38,542	42,242
Weighted average number of ordinary shares outstanding (thousand)	149,962	144,925
Basic earnings per share (in Euros)	**0.26**	**0.29**
Number of ordinary shares outstanding at year-end (thousand)	**149,962**	**149,962**

The earnings per share as at 31 December 2018 and 2017 suffered no impact as a result of the transition to IFRS 9.

Diluted earnings per share

The diluted earnings per share do not differ from the basic earnings per share since the Group does not have any potential ordinary shares with a dilutive effect as at 31 December 2018 and 2017.

24. Off-balance sheet items

EUR thousand	31.12.2018	31.12.2017
Guarantees issued		
Assets given in guarantee ("repos")	816,975	717,529
Guarantees and endorsements issued	11,811	1,423
	828,786	**718,952**
Guarantees received		
Assets received in guarantee ("reverse repos")	9,310	8,509
Other guarantees received	-	4,596
	9,310	**13,105**
Contingent assets		
Irrevocable credit lines	1,500	1,500
	1,500	**1,500**
Contingent liabilities		
Revocable credit lines	-	3,300
Other contingent liabilities	2,559	2,529
	2,559	**5,829**
Responsibilities for services rendered		
Securities and items held for safekeeping	282,452	259,995
	282,452	**259,995**

As at 31 December 2018 and 2017, all assets recorded in the off-balance sheet items captions are classified in Stage 1. As at 31 December 2018, impairment was recognized (Stage 1) for credit risk in the amount of € 14 thousand (Note 14).

The caption "Assets given in guarantee ("repos")" refers to the nominal amount of securities sold under repurchase agreements and includes operations with central banks, including operations with securities issued by Group companies and with securities received in the scope of purchase operations with resale agreements ("reverse repos"). The balance sheet amount of the securities included in these operations amounted, as at 31 December 2018, to € 798,074 thousand (2017: € 742,725 thousand).

As part of the purchase operations with resale agreements ("reverse repos"), the Group receives securities as collateral that it is allowed to sell or give as collateral. The balance sheet amount of the securities included in these operations amounted, as at 31 December 2018, to € 10,541 thousand (2017: € 8,763 thousand).

As at 31 December 2018, the caption "Other contingent liabilities" includes the amount of € 2,500 thousand (2017: € 2,500 thousand) related to commercial paper issues of third parties, guaranteed by the Group, not yet placed.

25. Cash and cash equivalents

For purposes of the presentation of the cash flow statement, cash and cash equivalents comprise the following balances, with maturities under three months:

EUR thousand	**31.12.2018**	**31.12.2017**
Cash (Note 5)	49	71
Demand deposits with central banks (Note 5)	15,937	7,719
Deposits with other banks (Note 5)	38,470	29,241
Due from banks	27,899	18,006
	82,355	**55,037**

The amount Due from banks considered as cash and cash equivalents relates only to balances with maturities under 3 months and excludes the collateral deposits referred to in Note 6.

26. Balances and transactions with related parties

The Group enters into transactions, in its normal course of business, with other Group companies and other related parties. Group companies are identified in Note 30 and the respective balances and transactions are eliminated in the consolidation process.

The main shareholders of Banco Finantia with which there are balances and transactions as at 31 December 2018, may be analysed as follows:

Shareholder	**Registered office**	**Direct shareholding %**	**Effective shareholding %**
Finantipar, S.A.	Portugal	63.0	63.1
Natixis	France	9.9	9.9
VTB Capital PE Investment Holding (Cyprus) Ltd.	Cyprus	9.7	9.7
Erste Abwicklungsanstalt AoR (EAA) *	Germany	8.9	8.9

* previously named Portigon AG

The balances and transactions with related parties as at 31 December 2018 and 2017, may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Assets		
Debt instruments	13,537	13,732
Due from banks	-	720
Liabilities		
Due to customers	563	1,156
Securities sold under repurchase agreements (“repos”)	-	35,299
Other liabilities	385	-
Income		
Interest and similar income	905	879
Gains from financial operations	723	308
Expense		
Interest expense and similar charges	209	618
Losses from financial operations	144	286
Off-balance sheet items		
Assets given in guarantee	-	42,525
Other irrevocable commitments	-	720
Interest rate derivatives	-	20
Securities and items held for safekeeping	17,800	20,300

Transactions with related parties are made under normal market conditions.

The amount of the remuneration paid to the Group’s management and supervisory bodies is disclosed in Note 20.

27. Activity risk management

The overall risk management of the Banco Finantia Group is the responsibility of the Board of Directors, with the implementation and maintenance of the risk management model being the responsibility of the directors with executive functions. There is also a Finance and Risks Committee which main function is the overall monitoring of the risks to which the Group is exposed, including the limits and tolerances of the “Risk Appetite Framework” (RAF).

The Group also has a central and independent Risk Management Department to analyse and control the risks, being responsible for the management of all Group risks (Risk Management Function). In this context, the Risk Management Department (i) ensures the effective application of the risk management model by continuously monitoring its adequacy and effectiveness, as well as the measures taken to correct any weaknesses, (ii) provides advice to the Management, Executive, Middle-management and Supervisory bodies, (iii) prepares and updates the risk matrices and evaluates risks, (iv) prepares and presents periodic reports on risk management, (v) actively participates in the business and capital planning, and carries out stress tests, (vi) prepares the Internal Capital Adequacy Assessment Process and actively participates in the preparation of the RAF; and (vii) promotes the integration of the risk principles into the Group's daily activities.

The risk profile of the Group is determined by the analysis of risk matrices and subsequent justification of the materiality of the risks, taking into account the applicable legislation on the risk management system and the activity developed by the Group.

To do this, the Group takes into account the following risk categories: credit, market, interest rate, foreign exchange rate, liquidity, operational (including operating, information systems, behaviour and modelling risks), compliance, reputation and strategy.

In the scope of ICAAP, the Group allocates capital to the above risk categories. As at 31 December 2018, the Group presented an own capital utilization ratio for the economic capital requirements of 50.0% (50.6% as at 31 December 2017).

Regarding risk appetite, during 2018 the metrics included in the RAF were always within the limits and tolerances approved for the Group, with the exception of the limit for exposure by country (10% of total assets). This limit was introduced in September 2018, being set below the effective exposure to Turkey and Brazil. To ensure compliance with this limit plans to reduce the exposure to both countries were implemented and at the end of the year the exposure to Brazil was framed within the limit, with the resolution of the situation for Turkey being foreseen for the first quarter of 2019.

All risk categories contributing to the Group's risk profile are analysed, discussed and monitored monthly by the Finance and Risks Committee on the basis of exposure levels (and possible measures to increase effectiveness and risk mitigation), economic capital and stipulated limits of risk appetite.

Credit risk

Credit risk arises not only from the possibility of a counterpart defaulting but also from the degradation in the credit quality of a certain financial instrument. The Group's objective is to maintain a high quality asset portfolio, based on a prudent credit policy and a careful analysis of all credit proposals. The Group also has a constant concern to diversify its own portfolio, as a form of mitigating the credit concentration risk.

The Group’s maximum exposure to credit risk before collateral and impairment may be analysed as follows:

EUR thousand	**31.12.2018**	**31.12.2017**
Cash and banks (Note 5)*	38,470	29,240
Debt instruments (Note 6)	1,709,549	1,731,123
Loans (Note 6)	115,541	93,050
Due from banks (Note 6)	50,777	16,092
Securities purchased with resale agreements (“reverse repo”) (Note 6)	10,748	8,888
Trading derivatives (Note 6)	1,634	26,995
Other credit operations (Note 6)	5,985	15,021
Other assets (Note 11)	27,811	38,321
	1,960,514	**1,958,730**
Guarantees and endorsements issued (Note 24)	54,812	57,624
Credit related derivatives(Note 7 – notional value)	-	8,338
	54,812	**65,962**

* excludes the amounts of cash and demand deposits with central banks

** excludes credit related swaps

Considering the Group's credit risk exposure, by rating, as at 31 December 2018, 76% (2017: 76%) of the total exposure of the Group relates to OECD or investment grade countries, with the remaining exposure spread over fourteen countries, as follows:

EUR thousand	31.12.2018		31.12.2017	
OECD countries	1,048,870	52%	1,009,457	51%
Investment grade (non-OECD) countries	502,533	25%	511,211	26%
Other countries	479,211	24%	474,432	24%
	2,030,614	**100%**	**1,995,100**	**100%**

As previously mentioned, the Group developed an expected credit loss model (ECL), in light of the new requirements of IFRS 9, where the ECL corresponds to the weighted average of credit losses, using as weighting factor the probability of the occurrence of default events.

A credit loss is the difference between the cash flows that are due to an entity in accordance with the agreed contract, and the cash flows that the entity expects to receive, discounted at the original effective interest rate. To calculate the expected cash flows, consideration should be given to amounts that may be generated by collateral or any other risk mitigant.

On that basis, impairment is measured as: (i) Expected credit losses for 12 months: corresponding to the expected losses resulting from possible default events of the financial instrument in the 12 months following the reporting date and (ii) Expected credit losses over the useful life of the instrument: corresponding to the expected losses that may occur from a default event over the entire useful life of a financial instrument.

The method of calculating impairment is based on the classification of the instruments into three stages, taking into account the changes in the credit risk of the financial asset since its initial recognition, as follows:

1) Stage 1: where the ECL is recognized for 12 months;

2) Stage 2: where the ECL is recognized over the useful life of the assets; and

3) Stage 3: where ECL is recognized over the useful life of the asset, with its respective PD being 100%.

The model is, thus, sensitive to its main risk parameters, PD and LGD, and for a change of +/- 10% in the PD of each credit operation the impact on the total value of the impairment would be circa +/- € 1.2 million, of which circa +/- € 1.0 million in Stage 1 and +/- € 0.2 in Stage 2.

Offsetting financial assets and financial liabilities

The Group receives and gives collateral in the form of cash or securities in respect of over-the-counter derivatives, securities sold under repurchase agreements ("repos") and purchase operations with resale agreements ("reverse repos").

This collateral is subject to the rules and regulations of these markets and is based on industry standard bilateral contracts, as published respectively by the ISDA - International Swaps and Derivatives Association (Master Agreement and Credit Support Annex) or the ICMA - International Capital Market Association (GMRA). These contracts also operate as netting agreements whereby, in the event of a contractual termination for non-compliance, only the net amount of all transactions entered into under the contract may be demanded, thus allowing for the offsetting of debit positions in a transaction with credit positions in other transactions.

As at 31 December 2018, financial assets and liabilities subject to offsetting agreements, regardless of being offset or not, may be analysed as follows:

EUR thousand	Gross amounts of recognized financial assets/ liabilities	Net amounts of recognized financial assets/liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
			Financial instruments received/ (given) as collateral	Cash collateral received/ (given)	
Financial assets					
Derivatives	19,404	19,404	-	-	19,404
Reverse repos	10,748	10,748	10,580	-	168
Total	**30,152**	**30,152**	**10,580**	**-**	**19,572**
Financial liabilities					
Derivatives	37,972	37,972	-	(15,588)	22,383
Repos	647,839	647,839	(798,074)	(12,188)	(162,423)
Total	**685,811**	**685,811**	**(798,074)**	**(27,777)**	**(140,040)**

As at 31 December 2017, financial assets and liabilities subject to offsetting agreements, regardless of being offset or not, may be analysed as follows:

EUR thousand	Gross amounts of recognized financial assets/ liabilities	Net amounts of recognized financial assets/liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
			Financial instruments received/ (given) as collateral	Cash collateral received/ (given))	
Financial assets					
Derivatives	36,243	36,243	-	-	36,243
Reverse repos	8,888	8,888	8,509	-	379
Total	**45,131**	**45,131**	**8,509**	**-**	**36,621**
Financial liabilities					
Derivatives	15,227	15,227	-	(859)	14,368
Repos	610,483	610,483	(753,915)	472	(142,960)
Total	**625,710**	**625,710**	**(753,915)**	**(387)**	**(128,592)**

As at 31 December 2018 and 2017, there are no financial assets or liabilities offset in the balance sheet.

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the balance sheet on the following bases: derivatives - fair value, repos and reverse repos - amortized cost. The corresponding financial instruments received/given as collateral are presented at fair value.

Interest rate risk

The interest rate risk stems from the probability of negative impacts caused by unfavourable changes in interest rates due to the existence of maturity mismatches between assets and liabilities.

The Group adopted the strategy of minimizing the interest rate risk associated with its fixed-rate assets through the use of hedging instruments for this type of risk, thereby maintaining a balanced structure between assets and liabilities in terms of the fixed-interest rate mismatch.

The Group monitors the distribution of its fixed-rate assets across temporal buckets, net of the corresponding fixed-rate liabilities and the hedging instruments used.

Considering the nature and characteristics of the Group's business, as well as the processes implemented for the monitoring and mitigation of interest rate risk, the Group also analyses the behaviour of VaR ("Value at Risk") related to interest rate risk. VaR is calculated using the historical simulation approach, based on a one-year rate history, a one-day holding period, and a confidence interval of 99%. This model is validated with back tests. For 2018, the average daily VaR for interest rate risk was € 1.97 million (€ 2.53 million in 2017), which corresponds to less than 1% of Tier I own funds.

The classification of on-balance and off-balance sheet asset and liability captions by repricing intervals, following the recommendations of Basel III (Pillar 2) and Instruction no. 34/2018 of the Bank of Portugal, may be analysed as follows:

EUR thousand

31 December 2018	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	277,006	50,427	31,509	512,449	1,045,556
Liabilities	(458,475)	(348,990)	(374,169)	(378,436)	(25)
Off-balance sheet items	1,118,734	130,000	(61,135)	(366,812)	(820,786)
Gap	**937,265**	**(168,563)**	**(403,795)**	**(232,799)**	**224,745**

EUR thousand

31 December 2017	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	193,057	49,464	17,307	467,853	1,125,687
Liabilities	(533,069)	(281,920)	(354,782)	(283,592)	-
Off-balance sheet items	1,012,162	90,010	-	(361,021)	(741,152)
Gap	**672,150**	**(142,446)**	**(337,475)**	**(176,760)**	**384,535**

Foreign exchange rate risk

Foreign exchange rate risk is characterized by the probability of negative impacts due to unfavourable changes in foreign exchange rates and adverse variations in the price of foreign currency instruments.

It is Group policy to deal only in assets and liabilities denominated in EUR and USD (positions in other currencies are sporadic and insignificant).

The Group adopted the strategy of minimizing foreign exchange rate risk associated with its assets and liabilities. Hence, foreign exchange rate risk is regularly hedged in order to ensure a comfortable foreign currency exposure margin considering the pre-established limits, with said exposure being monitored on a daily basis, for both the spot and the forward positions.

For 2018, based on the methodology described above, the average daily VaR for foreign exchange rate risk was € 2.71 million (€ 4.04 million in 2017), which corresponds to about 1% of Tier I own funds.

The breakdown of assets and liabilities denominated in currencies other than the Euro may be analysed as follows:

EUR thousand	31.12.2018	
	USD	**Other currencies**
Assets		
Cash and banks	13,037	1,286
Debt instruments	1,131,197	-
Loans	70,236	-
Due from banks	18,332	-
Securities purchased with resale agreements (“reverse repo”)	1,661	-
Derivative instruments (Note 7)	19,208	-
Other credit operations	-	-
Other assets	14,112	2,167
Total assets	**1,267,782**	**3,453**
Liabilities		
Short positions	2,895	-
Derivative instruments (Note 7)	2,996	-
Due to banks	-	-
Due to customers	9,548	-
Securities sold under repurchase agreement (“repo”)	550,493	-
Foreign currency derivatives	703,930	-
Other liabilities	11,291	1,411
Total liabilities	**1,281,153**	**1,411**
Net regulatory position	**(13,371)**	**2,042**
Fair value reserve	(44,851)	-
Net book value	**31,480**	**2,042**

EUR thousand	31.12.2017	
	USD	**Other currencies**
Total assets	1,286,652	1,088
Total liabilities	1,237,359	4,786
Net regulatory position	**49,293**	**(3,968)**
Fair value reserve	35,121	-
Net book value	**14,172**	**(3,698)**

Liquidity risk

Liquidity risk is defined as the possibility of an institution being unable to meet its obligations as they come due, because of an inability to liquidate assets, obtain funding or refinance liabilities under appropriate conditions.

The Group's objective in liquidity risk management is to ensure a stable and robust liquidity position based on liquid assets, controlling liquidity gaps and including a liquidity buffer to respond to increased contractual outflows in stressful situations.

Liquidity risk management is carried out so as to maintain liquidity levels within predefined limits, according to two distinct parameters: i) the cash flow management, through a control system of the financial flows that allows for the daily calculation of the treasury balances over an extended time horizon and the maintenance of an excess of liquidity that ensures the normal functioning even under unfavourable conditions; ii) the management of the balance sheet, with the daily calculation of liquidity metrics, allowing for the maintenance of the main liquidity indicators within the limits pre-defined by the Group.

The Financial Markets Department controls the Group's cash flow and balance sheet management on a daily basis. The Risk Management Department is responsible for periodic analyses related to the management of the Group's balance sheet, preparing a monthly report for the Finance and Risks Committee.

The metrics used to measure liquidity risk in the scope of the balance sheet management include, among others, the prudential ratios Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as well as a broad set of internal ratios related to liquidity mismatches, concentration of major counterparties, distribution of the repayment flows of the main liabilities, collateral of repo operations, asset liquidity and immediate liquidity characteristics.

The Group also monitors the Net Stable Funding Ratio (NSFR), which complements the LCR and has a wider time horizon - one year. This ratio was established to impose a sustainable framework of asset and liability maturities, with the aim of promoting adequate resilience over a longer time horizon, by providing additional incentives for banks to finance their activities through more stable sources of financing on a regular basis.

Cash flows due by the Group related to non-derivative financial liabilities and the assets held for liquidity risk management are undiscounted and include principal and interest as contractually determined, adjusted based on the respective behavioural maturities.

As at 31 December de 2018, they may be analysed as follows:

EUR thousand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Liabilities					
Due to banks	10,221	106	1,006	-	11,333
Due to customers	148,577	365,030	402,164	-	915,771
Securities sold under repurchase agreements ("repos")	261,493	318,629	77,387	-	657,509
Short positions	-	-	6,617	5,070	11,687
Liabilities by contractual maturity dates	**420,291**	**683,765**	**487,174**	**5,070**	**1,596,300**
Assets held for liquidity risk management	**161,573**	**129,126**	**955,240**	**1,251,487**	**2,497,426**

As at 31 December de 2017, they may be analysed as follows:

EUR thousand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Liabilities					
Due to banks	35,999	-	-	-	35,999
Due to customers	171,029	275,854	358,806	-	805,689
Securities sold under repurchase agreements ("repos")	278,396	336,080	-	-	614,476
Short positions	61	141	3,580	1,824	5,606
Liabilities by contractual maturity dates	**485,485**	**612,075**	**362,386**	**1,824**	**1,461,770**
Assets held for liquidity risk management	**103,667**	**118,406**	**850,471**	**1,259,867**	**2,332,411**

For derivative financial instruments, the contractual undiscounted cash flows may be analysed as follows:

As at 31 December de 2018:

EUR thousand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Assets' cash flows	249,438	513,689	171,221	69,149	1,003,497
Liabilities' cash flows	260,870	509,648	99,621	45,175	915,314

As at 31 December de 2017:

EUR thousand	Up to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Assets' cash flows	255,171	452,997	84,075	44,638	836,880
Liabilities' cash flows	240,061	451,000	72,376	32,123	795,561

Non-financial risks

The non-financial risks for the Group include operational, compliance, reputation and strategy risks. These risks consists of the likelihood of negative impacts on results or capital arising from (i) for operational risk, failures of an operational nature, of inadequacy of IT systems and technology, of behavioural errors or inadequacy of the models, (ii) for compliance risk, of non-compliance with the laws and regulations, (iii) for reputation risk, of the negative perception of the public image of the institution and (iv) for strategy risk, of inadequate plans and strategies.

The management of non-financial risks has been gaining increasing relevance in the Group. In this context, the Group relies on advanced tools and methods focused on the identification, evaluation, monitoring and control of these types of risks. Among others, these tools include risk matrices and controls, heat-maps and radar-charts, which inputs derive from an extensive and comprehensive self-assessment process specifically targeting non-financial risks. This process serves as a basis for the definition of dedicated action plans on non-financial risks.

In addition to the maintenance of risk matrices, the Group maintains an organized process of collecting and acting on the various categories of non-financial risks, as well as the recording of the resulting information in a database of non-financial risks. This database includes, among others, the registration of (i) events, (ii) any associated losses and (iii) corrective and/or mitigation measures implemented.

In the scope of ICAAP, although there is no historical record whatsoever of material losses, the Group has been using the Basic Indicator Approach (BIA) methodology to quantify operational risk and internally developed methodologies to quantify compliance, reputation and strategy risks.

During the course of 2018, several training actions were carried out in the area of non-financial risks, with an emphasis on specific training on MiFID II, Prevention of Money Laundering, GDPR, Safety in the Workplace and Cybersecurity, among others. For 2019, the Group will continue to focus on training as a means to reducing non-financial risks.

28. Capital management

The Group's capital management and control is performed in a comprehensive manner with the objective of guaranteeing the institution's solvency, complying with regulatory requirements and maximizing profitability, being determined by the strategic goals and by the risk appetite defined by the Board of Directors.

Accordingly, some objectives were defined in terms of capital management for the Group:

- Establish a capital planning appropriate for the actual and future needs (so as to help the business develop), complying with the regulatory requirements and associated risks;
- Ensure that, under stress scenarios, the Group maintains enough capital to accommodate the needs inherent to a risk increase;
- Optimize capital allocation, from a regulatory and economic capital perspective, considering the Group's risk appetite, the expected growth and the strategic goals.

The main capital ratios of the Group in 2018 and 2017 are presented in the table below.

Minimum own funds requirements ("Pilar 1 requirements") include a common equity tier 1 ratio ("CET 1") of 4.5%, a level 1 own funds ratio ("Tier 1") of 6% and a total own capital ratio ("Total capital") of 8%, as defined in Article 92 of Regulation (EU) no. 575/2013 of the European Parliament and Council, of 26 June ("CRR").

Additionally, during 2018 and in accordance with Notice no. 6/2016 of the Bank of Portugal, a capital conservation buffer was implemented of 1.875% (2017: 1.25%) that is to increase progressively until 2019, in order to reach 2.5% of total own funds.

EUR millions	**31.12.2018**	**31.12.2017**
Common Equity Tier 1 (CET1)	369.9	431.5
Tier 1	369.9	431.5
Total Capital	369.9	431.5
Risk weighted assets	1,758.5	1,875.8
CET 1 ratio	21.0%	23.0%
Tier 1 ratio	21.0%	23.0%
Total Capital ratio	21.0%	23.0%

The risk weighted assets are measured using the standard approach. This measurement considers the nature of the assets and the respective counterparts and also the existence of associated collateral and guarantees.

During 2018 and 2017, the Group and the entities in its consolidation perimeter complied with all the regulatory capital requirements to which they are subject.

29. Fair value of financial assets and liabilities

Fair value hierarchy

IFRS requires that an entity classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in the measurement, considering whether the inputs are observable or not. On that basis, the Group's assets and liabilities are measured in accordance with the following levels:

Quoted market prices (Level 1) – is this category are included prices quoted on official markets and those disclosed by market providers for the respective assets/liabilities when the market is considered active;

Valuation techniques based on observable market inputs (Level 2) – this category includes a part of the securities portfolio which valuation is obtained through quotes published by independent entities but in respect of which the markets are not considered official or have a lower level of liquidity. It also includes other financial instruments which valuations are based on prices/quotations on active markets for similar assets or liabilities and financial instruments valued based on internal valuation models, including discounted cash flow models, which involve the use of estimates and require judgments which vary according to the complexity of the products being valued, namely derivative financial instruments. Notwithstanding, the Group uses as inputs in its models observable market data, such as interest rate curves, credit spreads, volatility and market indexes; and

Valuation techniques based on non-observable market inputs (Level 3) – consists of the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The Group's fair value hierarchy for assets and liabilities measured at fair value may be analysed as follows:

EUR thousand		31.12.2018			31.12.2017		
	Notes	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets							
Financial assets at fair value through other comprehensive income	6	1,212,774	417,493	-	-	-	-
Available-for-sale financial assets	6	-	-	-	1,386,250	143,744	-
Financial assets held for trading	6	13,675	6,374	-	22,917	3,548	-
Derivative financial instruments	7	-	19,404	-	-	36,243	-
Liabilities							
Derivative financial instruments	7	-	37,972	-	-	15,227	-
Short positions	12	-	13,019	-	-	4,811	-

The fair value of financial instruments traded on active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if prices/quotations are readily and regularly available with transparency, and those prices/quotations represent actual and regular market transactions occurring on an arm's length basis.

The fair value of financial instruments that are not traded on an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If the significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

The fair value of interest rate derivatives is calculated as the present value of the estimated future cash flows based on observable yield curves, considering counterpart credit risk.

Disregarding own credit risk, the fair value of interest rate derivatives and credit related derivatives amounts to € 19,198 thousand and € 10,620 thousand, respectively (2017: € 10,322 thousand and € 14,950 thousand, respectively). As at 31 December 2018 and 2017, the fair value of the derivatives was not adjusted for counterpart credit risk, given the collateral deposits as at those dates and/or the ratings of each counterpart.

The fair value of foreign currency derivatives is determined using forward exchange rates as at the balance sheet date, with the resulting value discounted back to its present value.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The main assumptions and inputs used during financial years 2018 and 2017, in the valuation models are presented as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market and for the long term the figures represent interest rate derivatives' quotations for the respective periods:

	31.12.2018		31.12.2017	
	EUR	**USD**	**EUR**	**USD**
Overnight	-0.356	2.378	-0.346	1.429
1 month	-0.363	2.503	-0.368	1.564
3 months	-0.309	2.808	-0.329	1.694
6 months	-0.237	2.876	-0.271	1.837
1 year	-0.117	3.005	-0.186	2.107
3 years	-0.077	2.590	0.032	2.167
5 years	0.198	2.570	0.328	2.247
7 years	0.469	2.624	0.579	2.312
10 years	0.811	2.705	0.888	2.399
15 years	1.170	2.801	1.260	2.488
20 years	1.327	2.836	1.426	2.532
30 years	1.377	2.838	1.513	2.538

Foreign exchange rates

The foreign exchange rates (European Central Bank) as at the balance sheet date for the main currencies used in valuing the Group's financial instruments in foreign currency may be analysed as follows:

Exchange rate	31.12.2018	31.12.2017
EUR/USD	1.1450	1.1993
EUR/GBP	0.89453	0.88723
EUR/CHF	1.1269	1.1702
USD/BRL [(a)]	3.8812	3.3127

[(a)] Calculated in accordance with the EUR/USD and EUR/BRL exchange rates

The Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of financial assets and liabilities presented in the Group's balance sheet at amortized cost:

EUR thousand	Notes	31.12.2018			31.12.2017		
		Carrying amount	Fair value Level 1	Fair value Level 2	Carrying amount	Fair value Level 1	Fair value Level 2
Assets							
Cash and banks	5	59,142	59,142	-	41,793	41,793	-
Financial assets at amortized cost	6	228,003	102,554	125,546	276,690	120,499	160,844
Other credit operations	6	5,880	-	5,913	14,712	-	14,814
Liabilities							
Due to banks	13	11,391	11,391	-	40,399	40,399	-
Due to customers	13	900,874	900,874	-	802,517	802,517	-
Repurchase agreements	13	647,839	647,839	-	610,483	610,483	-

Fair value is based on market prices, whenever these are available. The main methods and assumptions used in estimating the fair values of financial assets and liabilities accounted for at amortized cost, are analysed as follows:

Cash and banks: Considering the short-term nature of these financial instruments, their carrying amount is a reasonable estimate of their fair value.

Portfolio of securities and loans and other credit operations: For the specialized finance portfolio, the fair value is estimated based on the update of the expected cash flows of principal and interest, considering that instalments are paid on the contractually defined dates. For debt instruments, fair value is estimated based on market prices/quotes.

Due from/to banks and to central banks: For repos and deposits with banks, due to their short-term nature, it is considered that their carrying amounts are a reasonable estimate of their fair value. The fair value of medium- and long-term deposits and loans is estimated based on the discounted expected future cash flows (principal and interest), considering that instalments are paid on the contractually defined dates.

Due to customers: The fair value of these financial instruments is based on the discounted expected future cash flows (principal and interest), considering that instalments are paid on the contractually defined dates. Considering that the applicable interest rates are variable and that the period to maturity is substantially lower than one year, there are no significant differences between the fair value and the carrying amount.

Debt instruments issued and Subordinated debt: The fair value of these financial instruments is based on market prices when available or, if not available, the fair value is based on the discounted expected future cash flows (principal and interest).

30. Group structure

As at 31 December 2018, the Group structure may be analysed as follows:

Subsidiary	Year of incorporation	Year of acquisition	Registered office	Activity	% Shareholding	Consolidation method
Banco Finantia, S.A.	1987	1987	Portugal	Banking	-	-
Banco Finantia Spain, S.A. [(a)]	1993	2001	Spain	Banking	99,7	Full
Finantia UK Limited	1993	1997	United Kingdom	Finance	100	Full
Finantia Malta Ltd. [(b)]	2004	2004	Malta	Finance	100	Full
Finantia PH Limited [(b)]	2004	2004	Malta	Holding company	100	Full
Finantia USA, Ltd.	1995	1997	USA	Broker-Dealer	100	Full
Finantia Brasil, Lda.	1997	1997	Brazil	Advisory services	100	Full
Finantia Holdings BV	2004	2004	Holland	Holding company	100	Full
Sofinloc, S.A. [(c)]	1983	1992	Portugal	Administrative services and company support	100	Full
Finantia Corporate, S.A. [(d)]	1989	1989	Portugal	Advisory services	100	Full
Esprin - Española de Promociones, S.L.	2000	2001	Spain	Advisory services and Holding company	100	Full

[(a)] Previously named Banco Finantia Sofinloc, S.A.

[(b)] In February 2019, the merger by incorporation of Finantia Malta Ltd. in Finantia PH Ltd was finalized

[(c)] As from 10 December 2018, Sofinloc ceased its specialized credit activities

[(d)] Previously named Finantia Serviços - Prestação de Serviços Empresariais, Lda.

Additionally, it should be noted that Finantia Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (“Finantia SGFTC, S.A.”) which had not carried out any economic activity since 2016, was voluntarily dissolved by decision of its sole shareholder, Banco Finantia, S.A., in May 2018.

31. Impacts resulting from the application of IFRS 9

As indicated in Note 1, the Group adopted IFRS 9 - Financial Instruments for the first time on 1 January 2018. This standard replaces IAS 39 - Financial Instruments: Recognition and Measurement and establishes new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for calculating impairment and the application of hedge accounting rules.

In this context, this standard implied a detailed and complex implementation process transversal to the main areas of the Group, to analyse the impacts and potential changes that its implementation would imply on processes, governance and business strategy.

The requirements presented by IFRS 9 were, as a rule, applied retrospectively by adjusting the opening balance sheet as at the date of initial application (1 January 2018). The impact of adopting IFRS 9 on the Group's equity attributable to the shareholders of the Bank, with respect to 1 January 2018, was positive in € 1,295 thousand (positive impact of € 1,297 thousand on the Group's total shareholders' equity, including non-controlling interests).

The accounting policies in force in the Group at the level of financial instruments after the adoption of IFRS 9 on 1 January 2018, are described in Note 2.2.

31.1. Classification and measurement of financial instruments

As described in Note 2.2, IFRS 9 had an impact on the classification and measurement of financial assets held on 1 January 2018, with no material changes being verified in the measurement criteria associated with the financial liabilities of the Group.

IFRS 9 generally maintains the requirements of IAS 39 regarding the classification of financial liabilities. However, under IAS 39, changes in the fair value of financial liabilities designated at FVTPL (Fair Value Option) that were recognized in the income statement, are now, under IFRS 9, presented as follows: the value related to the change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income ("OCI") and the remaining amount of the change in fair value is presented in results.

The classification, measurement category and accounting value of financial assets, in accordance with IAS 39 and IFRS 9, as at 1 January 2018, are presented below:

EUR thousand

IAS 39			IFRS 9		
Category	**Measurement**	**Book value (1 Jan 2018)**	**Category**	**Measurement**	**Book value (1 Jan 2018)**
Cash and deposits with central banks and other demand deposits	Amortized cost	41,793	Cash and deposits with central banks and other demand deposits	Amortized cost	41,793
Financial assets held for trading – Debt instruments	FVTPL	26,464	Financial assets held for trading – Debt instruments	FVTPL	28,188
Financial assets held for trading – Derivative financial instruments	FVTPL	26,995	Financial assets held for trading – Derivative financial instruments	FVTPL	26,995
Available-for-sale financial assets	FVOCI	1,529,997	Financial assets at fair value through other comprehensive income – Debt instruments	FVOCI	1,594,864
			Financial assets at fair value through other comprehensive income – Loans and advances	FVOCI	18,745
Financial assets at amortized cost – Due from banks	Amortized cost	24,980	Financial assets at amortized cost – Due from banks	Amortized cost	24,977
Financial assets at amortized cost – Debt instruments	Amortized cost	158,741	Financial assets at amortized cost – Debt instruments	Amortized cost	94,039
Financial assets at amortized cost – Loans	Amortized cost	100,713	Financial assets at amortized cost – Loans	Amortized cost	81,807
Financial assets at amortized cost – Other credit operations	Amortized cost	14,712	Financial assets at amortized cost – Other credit operations	Amortized cost	14,692
Hedging derivatives	FVTPL	9,248	Hedging derivatives	FVTPL	9,248

Notes: i) FVOCI – At fair value through other comprehensive income and ii) FVTPL – At fair value through profit or loss

31.2. Impairment – Financial Assets, Commitments and Financial Guarantees

IFRS 9 replaces the "loss incurred" model of IAS 39 with an "expected credit loss (ECL)" model, which considers the expected losses over the useful life of the financial instruments. In this context, the determination of the ECL takes into account macroeconomic factors as well as other forward-looking information, which changes impact the expected losses.

The impact of the adoption of IFRS 9 on the Group's shareholders' equity related to impairment losses on financial assets, guarantees and other commitments was negative in € 545 thousand.

31.3. Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and liabilities; there were no significant quantitative impacts.

31.4. Hedge accounting

The Group applies as from 1 January 2018 the provisions of IFRS 9 in relation to hedge accounting since it considers this option to be that most in line with its risk management strategy.

The Group presents formal documentation of the hedging relationship that includes the identification of the hedging instrument and the hedged item, the nature of the risk to be hedged and evaluates whether the hedging relationship meets the hedge effectiveness requirements. In accordance with IFRS 9, for the effectiveness requirement to be verified:

i) there must be an economic relationship between the hedged item and the hedging instrument;

ii) the credit risk of the counterparty of the hedged item or the hedging instrument should not have a dominant effect on the changes in value resulting from this economic relationship; and

iii) the hedge ratio subjacent to the hedge accounting, understood as the part of the item covered by the hedge, should be the same as the hedge ratio used for management purposes.

In addition to the greater disclosure requirements and the technical notes documenting the hedges, there were no significant quantitative impacts.

31.5. Impacts of the transition

Changes in accounting policies resulting from the application of IFRS 9 were, as a rule, applied retrospectively. The Group applied the exception that allows for the non-restatement of comparative information of previous periods regarding changes in classification and measurement (including impairment).

The impact of the adoption of IFRS 9 on the Group's financial statements, is detailed below.

Impact of IFRS 9 on shareholders' equity

EUR thousand	**Impact on equity**
Other accumulated comprehensive income (OCI)	
Balance as at 31 December 2017 (IAS 39)	37,147
Reclassification of loans at amortized cost to fair value through OCI	71
Reclassification of financial instruments at amortized cost to fair value through OCI	2,107
Impairment (IFRS 9) related to financial instruments at amortized cost reclassified to fair value through OCI	5,818
Deferred taxes (Nota 10)	(2,071)
	5,925
Balance as at 1 January 2018 (IFRS 9)	**43,071**
Retained earnings	
Balance as at 31 December 2017 (IAS 39)	46,961
Reclassification of financial instruments at amortized cost to held for trading	57
Impairment (IFRS 9) related to financial instruments reclassified	(6,361)
Deferred taxes	1,311
Current taxes	365
	(4,627)
Balance as at 1 January 2018 (IFRS 9)	**42,334**
Non-controlling interests	**(2)**
Total impact of the transition to IFRS 9 on shareholders' equity	**1,295**

The impact on total shareholders' equity arising from the application of IFRS 9 as at 1 January 2018 amounts to € 1,295 thousand after taxes and arises mainly from the change in the methodology for determining impairment losses of financial instruments based on the concept of expected credit losses (ECL) defined in IFRS 9 and the reclassifications/remeasurements made based on the business model and SPPI test, versus the requirements set forth in IAS 39 and previously applied.

On this basis, the full impact of the implementation of IFRS 9 implied an increase in the consolidated CET 1 ratio of circa 7 base points at the transition date, for which reason the Group opted not to benefit from the transitional period of absorption of the prudential impact foreseen for the first application of IFRS 9.

Impact of IFRS 9 on the Balance Sheet

EUR thousand	**2017 (IAS 39)**	**Reclassific ations**	**Remeasure ment (ECL)**	**Other**	**1 Jan 2018 (IFRS 9)**
ASSETS					
Cash and deposits with central banks and other demand deposits	41,793	-	-	-	41,793
Financial assets held for trading					
Debt instruments	26,464	1,724	-	-	28,188
Derivative financial instruments	26,995	-	-	-	26,995
Financial assets at fair value through other comprehensive income					
Debt instruments	n.a.	65,684	-	1,529,180	1,594,864
Loans	n.a.	18,745	-	-	18,745
Available-for-sale financial assets	1,529,997	(817)		(1,529,180)	n.a.
Financial assets at amortized cost					
Due from banks	24,980	-	(3)	-	24,977
Debt instruments	158,741	(64,427)	(276)	-	94,039
Loans	100,713	(18,674)	(232)	-	81,807
Other credit operations	14,712	-	(20)	-	14,692
Hedging derivatives	9,248	-	-	-	9,248
Deferred tax assets	893	-	-	1,311	2,204
Other assets	53,936	-	-	-	53,936
TOTAL ASSETS	**1,988,472**	**2,235**	**(531)**	**1,311**	**1,991,487**
LIABILITIES					
Financial liabilities held for trading		-	-	-	
Derivative financial instruments	7,792	-	-	-	7,792
Short positions	4,812	-	-	-	4,812
Financial liabilities at amortized cost		-	-	-	
Due to customers	802,517	-	-	-	802,517
Securities sold under repurchase agreements	610,483	-	-	-	610,483
Other financial liabilities at amortized cost	40,399	-	-	-	40,399
Hedging derivatives	7,434	-	-	-	7,434
Current tax liabilities	11,294	-	-	(365)	10,929
Deferred tax liabilities	13,423	-	-		13,423
Provisions	1,441	-	14	-	1,455
Other liabilities	33,926	-	-	2,071	35,997
TOTAL LIABILITIES	**1,533,521**	**-**	**14**	**1,706**	**1,535,663**
Equity attributable to shareholders of the Bank	454,676	2,235	(543)	(394)	455,973
Non-controlling interests	275	-	(2)	-	273
TOTAL SHAREHOLDERS' EQUITY	**454,951**	**2,235**	**(545)**	**(394)**	**456,246**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,988,472**	**2,235**	**(531)**	**1,311**	**1,991,909**

As at 1 January 2018, the Group reclassified its financial assets to the portfolios established in IFRS 9 (Note 2.2), as follows:

i) loans and debt instruments are recorded in the portfolio of financial assets at amortized cost, with the exception of:

- debt instruments where it is not possible to conclude that the contractual cash flows of these instruments correspond only to payments of principal and interest on the outstanding principal ("SPPI tests") and that have been reclassified to the portfolio of financial assets held for trading (€ 1,724 thousand); and

- loans and debt instruments managed with a business model that did not fit into the "hold to collect" category and which were reclassified to the portfolio of financial assets at fair value through other comprehensive income (€ 84,429 thousand).

ii) debt instruments classified in the category of available-for-sale financial assets as at 31 December 2017 (€ 1,529,997 thousand) were reclassified as follows:

- securities managed with a business model which purpose combines the receipt of contractual cash flows and their sale ("hold to collection and sell") were reclassified to the portfolio of financial assets at fair value through other comprehensive income (€ 1,529,180 thousand); and

- securities that were reclassified to financial assets at amortized cost (€ 817 thousand).

Impact of the transition on impairment/provisions

The reconciliation between the accounting values of impairment/provisions in accordance with the measurement categories of IAS 39 and IFRS 9 at the date of initial application (1 January 2018) is as follows:

EUR thousand

Measurement category	Credit impairment IAS 39/ Provision IAS 37	Reclassification	Remeasurement (ECL)	Impairment loss/ Provision IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9):				
Debt instruments	8.260	14.109	276	22.644
Other assets	4.267	-	-	4.267
Provisions	1.441	-	-	1.441
Other credit operations	309	-	20	329
Loans	-	-	232	232
Due from banks	-	-	3	3
	14.276	**14.109**	**531**	**28.916**
Available-for-sale financial instruments (IAS 39)/ Financial assets at fair value through other comprehensive income (IFRS 9):				
Debt instruments	-	-	5.733	5.733
Loans	-	-	85	85
	-	**-**	**5.818**	**5.818**
Commitments and financial guarantees issued (Note 14)	-	-	14	14
	14.276	**14.109**	**6.363**	**34.748**

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Statutory Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Banco Finantia, S.A. (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2018 (showing a total of 2.027.786 thousand euros and a total equity of 390.973 thousand euros, including a net profit for the year of 38.542 thousand euros), and the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Banco Finantia, S.A. as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

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

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

Key audit matters

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

The key audit matters in the current year audit are the following:

1. Implementation of International Financial Reporting Standard 9 – Financial Instruments: Classification, measurement and impairment

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
As presented in the balance sheet and as further disclosed in note 6, the value of financial assets net of impairment amounted to 1.885.833 thousand euros ("m €") representing 93% of total assets. As disclosed in note 1 – Bases of Presentation, International Financial Reporting Standard 9 – Financial Instruments, with mandatory application for periods beginning on or after 1 January 2018, establishes a new set of rules for the accounting for and derecognition of financial instruments, introducing significant changes in	We performed the identification and assessment of the audit risk that led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) a global response with an effect on the way the audit was conducted and (ii) a specific response which resulted in the design and implementation of additional procedures, including tests of controls and substantive procedures, namely: • We obtained an understanding of the business model determined by the Group for the management of its financial assets, namely (i) the

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
the criteria for the classification and measurement of financial assets and recording of impairment. To determine the classification and subsequent measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, be analysed, simultaneously, based on the entity's business model to manage financial assets and on the contractual characteristics in terms of cash flows of the consolidated financial asset. In addition, the impairment losses reflect (i) expected losses resulting from possible default events of the financial instrument in the 12 months following the report date or (ii) expected losses that may occur from a default event over the life of a financial instrument. The transition from expected credit losses for 12 months to expected credit losses over the useful life is based on the concept of a significant increase in credit risk for the remaining life of the asset when compared with the credit risk at the time of its acquisition/origination. The impacts of the transition are disclosed in note 31 to the financial statements. Given the complexity and subjectivity inherent in the calculation of expected losses as described above, it was necessary to utilize internal statistical models and other relevant historical data to determine the parameters, namely: (i) probability of default ("PD"); (ii) loss given default ("LGD") and (iii) exposure at the default date ("EAD") which should also contain forecasts of future economic conditions containing different scenarios. The detail of the accounting policies, methodologies, concepts and assumptions used are disclosed in the accompanying notes to the financial statements (note 2.2.1.5 and note 4). The use of alternative approaches, models or assumptions may have a material impact on the estimated impairment value. Considering the degree of subjectivity and complexity associated with the classification, measurement and impairment of the financial assets involved, we have defined this matter as a key audit matter.	ownership of financial assets for collecting contractual cash flows; (ii) collecting contractual cash flows and selling the financial assets or (iii) selling financial assets; • We obtained an understanding, evaluated the design and tested the operating effectiveness of internal control procedures over the process of classification, measurement and quantification of impairment losses, specifically for the portfolio of debt instruments and loans; • We performed analytical review procedures on the evolution of financial asset items, comparing them with the previous period; • We obtained the documentation prepared by the Group regarding the classification and measurement of financial assets; • We selected a sample of debt instruments and loans to analyze the cash flow characteristics of each financial asset and corroborate the classification and subsequent measurement determined by the Group; • We identified and analysed the indications of financial assets significant increase in credit risk; • With the support of internal risk specialists, we assessed the reasonableness of the parameters used in the impairment calculation, namely: i) understanding of the methodology adopted and approved by management and comparison with the one actually used; ii) evaluation of changes made to the models in order to determine parameters that reflect the expected loss; (iii) based on a sample, comparison of the data used to calculate the risk parameters to source information; iv) evaluation of the consistency of the calculation of risk parameters throughout the historical analysis; and (v) inquiries to the Bank's specialists responsible for the implementation of the model; • We obtained an understanding, evaluated the design over the process of the expected loss calculation model, we reperformed the impairment calculation, assessed the assumptions used to fill gaps in the data, compared the parameters used with the results of the estimation models, and compared the results with the amounts presented in the financial statements; • We analysed the reasonableness of the defined criteria and the consistency of their application in the measurement and impairment calculation of the Group's financial asset portfolio;

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
	• We analysed the internal documents that supported the decision to book the impairment amount, specifically for those financial assets with indicators of deterioration in credit risk; and • We analysed the disclosures included in the notes to the financial statements, based on the requirements of International Financial Reporting Standards.

2. Hedging derivatives

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
As disclosed in note 7 to the consolidated financial statements, the Group entered into transactions with derivative financial instruments to hedge the financial risks inherent in its activity. The accounting policy is disclosed in the accompanying notes to the financial statements included in Note 2.2.3. At 31 December 2018, hedging derivatives included current asset amounts of 17.770 thousand euros and current liabilities of 10.000 thousand euros, respectively related to interest rate derivatives. When deciding on whether to enter into a fair value hedge, the Group must comply with a strict number of requirements as defined by International Financial Reporting Standard 9 - financial instruments - such as: • Formal documentation about the hedging relationship and the objective and risk management strategy of the Group to perform the hedging operation; • Performance of prospective hedge effectiveness testing. The technical conditions required for hedge accounting to be adopted, as well as the potential implications, in case of ineffectiveness, for the income statement, were determining factors in classifying this as a key audit matter.	Our approach towards this risk included the following procedures: • We analysed and assessed the documentation prepared by the Group to address the requirements established by IFRS 9 and to qualify the designation of the derivatives as hedges; • We obtained the prospective tests performed by the Group entities and we have also recalculated those tests in order to conclude on the effectiveness of the hedging; • We analysed the documentation prepared by the Group in support of the discontinued hedge accounting in 2018 and compliance with the requirements of IFRS 9; and • We analysed the consistency and completeness of the disclosures related to derivative financial instruments and assessment of compliance with the disclosure requirements of International Financial Reporting Standards.

3. Current and deferred tax estimations

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
At 31 December 2018, the Group financial statements include deferred tax assets and liabilities amounting to 19.589 thousand euros and 2.854 thousand euros, respectively.	Our approach towards this risk included the following procedures:

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
In addition, they include current tax assets and liabilities amounting to 8.644 thousand euros and 3.107 thousand euros, respectively. The Group operates in different countries with different tax jurisdictions, some of them being extremely complex in terms of interpretation and, accordingly, we consider this to be a key audit matter.	• We included in our local audit team internal specialists in domestic and international tax matters in order to evaluate whether the tax procedures performed by the Group were in compliance with the local tax rules established by the respective Tax Authorities; • We tested the completeness and reasonableness of the amounts recorded as current and deferred taxes; and • We analysed the consistency and completeness of the disclosures related to current and deferred taxes and the assessment of their compliance with the disclosures requirements of International Financial Reporting Standards.

4. Related Party Transactions

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
As disclosed in Note 26 to the consolidated financial statements, the Group enters into transaction in its normal course of business with related parties (including shareholders), namely those associated with the purchase and sale of securities, derivative instruments as well repurchase and resale agreements, and, accordingly, the income statement is influenced by the gains and losses arising from those transactions. Having regard to the fact that, if not performed at market prices, the impact of related party transactions may lead to distorted results in the Group with respect to the normal market conditions, we have defined this matter as a key audit matter.	Our approach towards this risk of material misstatement included the following procedures: • We obtained an understanding of the appropriateness of management's process for identifying and recording related party transactions; • For a sample of transactions, we analysed supporting documentation to understand the nature of the transactions as well as their purpose in the context of the bank's activity; • For the same sample, we compared the prices charged between related parties with the reference prices available in the market, assessing their further impact on the financial statements; • We analysed the consistency and completeness of the related party disclosures with our understanding of the business gained through the performance of our audit procedures.

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

Management is responsible for the supervision of the process of preparation and disclosure of financial information of the Group.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion; and

- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Banco Finantia, S.A (Group's Parent Entity) for the first time in the shareholders' general meeting held on 27 July 2015 for a mandate from 2015 to 2016. We were reappointed in the shareholders' general meeting held on 27 November 2017 for a second mandate from 2017 to 2019;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on 20 of March 2019;
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Group in conducting the audit; and
- We declare that, in addition to the audit, we provided the Group with the following services as permitted by law and regulations in force:
  - Issuance of a report on a half yearly evaluation of Impairment of the credit portfolio, in accordance with the requirements of instruction 5/2013 issued by the Bank of Portugal, republished by instruction 18/2018 of Bank of Portugal;
  - Issuance of reports, in compliance with Notice 5/2008 issued by the Bank of Portugal, considering the technical directives of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas");
  - Issuance of a report, as required by Article 304.º of the Securities Code, and in accordance with the requirements of the directives for Reviews and Audits nº 825 ("Diretriz de Revisão e Auditoria nº 825");

- Procedures for the purposes of issuing a report to the Supervisory Board on the internal control system for the prevention of money laundering and financing of terrorism (Notice 2/2018) of Banco Finantia.

Lisbon, 20 March 2019

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

António Filipe Dias da Fonseca Brás - ROC nr. 1661
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