Banco Finantia

Consolidated Report and Accounts | 2019

16 March 2020

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KEY FIGURES
IFRS [1]

Euro million	2019	2018	Variation
BALANCE SHEET			
Total assets	2,157.3	2,027.8	+ 6 %
Fixed income and loan portfolio	1,983.3	1,816.8	+ 9 %
Customers deposits	943.4	900.9	+ 5 %
Shareholders' equity	462.3	391.2	+ 18 %
INCOME STATEMENT			
Net interest income	61.4	60.5	+ 2 %
Operating income, after impairment and provisions	73.9	69.5	+ 6 %
Net profit	47.8	43.3	+ 10 %
PROFITABILITY (%)			
Return on equity (ROE) [2]	11.1	10.2	+ 0.9 pb
Return on assets (ROA) [2]	2.2	2.1	+ 0.1 pb
CAPITAL ADEQUACY (BIS III, *fully loaded*) (%)			
CET1 Ratio	23.9	21.0	+ 2.9 pb
Total Capital Ratio	23.9	21.0	+ 2.9 pb
Liquidity and Funding Indicators (%)			
Liquidity Coverage Ratio (LCR) [3]	606	725	n.a.
Leverage Ratio [4]	20	18	+ 2.1 pb
PRODUCTIVITY/EFFICIENCY			
Cost-to-Income (%)	32.3	35.2	- 2.9 pb
Data per share (Euro)			
Net Profit	0.24	0.26	- 0.1 pb
Book Value	3.08	2.61	+ 0.5 pb
Weighted average no. of shares outstanding (million)	150	150	n.a.
Year end no. of shares outstanding (million)	150	150	n.a.

[1] International Financial Reporting Standards

[2] Values before tax

[3] High quality liquid assets (HQLA) / Total net cash outflows over the next 30 calendar days (average)

[4] Common Equity Tier 1 / On-balance and off-balance sheet exposures (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 areas of investment and private banking.

Banco Finantia has always been solid and profitable with capital ratios higher than the industry average.

In the 2019 financial year the ROE (before taxes) attained 11% and, at the end of 2019, Shareholders' Equity amounted to Euros 462 million and the Common Equity Tier 1 ratio stood at 22.5%, 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 transactions 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 the 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.

Best Private Banking
Portugal 2019
Global Banking & Finance

Best Private Bank
Portugal 2019
International Banker

Best Corporate Bank
Portugal 2019
Global Banking & Finance

1 Macroeconomic Framework

1.1 World Economy

Last year´s highlight was the weakening of global activity with 2019 growth being successively revised downwards. The IMF, in its October 2019 report, estimated that the global economy grew at a rate of 3% in 2019, compared with 3.6% in 2018. This slowdown was a consequence of the imposition of trade barriers, geopolitical uncertainties, idiosyncratic factors that caused tensions in several emerging economies and structural factors, such as low productivity growth and demographic aging in the more developed countries. The IMF estimated an economic growth in the more developed economies of 1.7% in 2019, a decrease from the 2.3% growth in 2018, while for the Emerging Market economies it estimated that they grew 3.9% in 2019 vs. 4.5% in 2018. GDP growth of the Emerging Asian countries was estimated at 5.9%, which compares with the 6.4% recorded in 2018. In relation to Latin America and the Caribbean, the expectation was that they grew by 0.2% in 2019, slowing down from 1% in 2018. Emerging European countries were estimated to have grown 1.8% in 2019 vs. 3.1% in 2018.

In the United States, the IMF estimated that growth fell from 2.9% in 2018 to 2.4% in 2019. This largely reflects the impact on investment of the uncertainty as regards international trade, despite employment and consumption, supported by a policy of stimuli, remaining robust. The Eurozone growth fell from 1.9% in 2018 to 1.2% in 2019 mainly due to a slowdown in exports. Brexit-related uncertainty continued to weaken UK growth with the IMF estimating 1.2% growth in 2019 vs. 1.4% in 2018. For China, a slight reduction in GDP growth from 6.6% in 2018 to 6.1% in 2019 was estimated, reflecting not only the increase in customs tariffs, but also the decrease in domestic demand as a result of the need for debt control measures. In some of the largest emerging economies 2019 growth will also have been lower than in 2018. For India, GDP growth in 2019 was estimated at 6.1% (6.8 % in 2018), for Brazil 0.9% (1.1% in 2018), for Turkey 0.2% (2.8% in 2018) and for Russia 1.1% (2.3% in 2018).

The main issues for 2020 are Covid-19, Brexit negotiations between the United Kingdom and the EU, the North American presidential elections, the trade war between China and the United States and potential conflicts with Iran or North Korea.

Given the Coronavirus pandemic any global growth forecast becomes obsolete. IMF estimated this January a global growth of 3.4% and more recently OECD presented two possible scenarios, a moderate one with a global growth of 2.4% and a more severe one with a global growth of 1.5%.

1.2 Iberian Peninsula

The Bank of Portugal (BoP) estimates that the country grew by 2% in 2019 (2.4% in 2018) and (before Covid-19) expected a 1.7% growth in 2020. This decrease reflected a drop in exports and industrial production, mitigated to some extent by a relatively immune service sector. The strength in the service sector allowed for a reduction in the unemployment rate from 7% in 2018 to 6.3% in 2019 with a forecast of 5.9% for 2020. However with the impact of Covid-19 these forecasts will change. The BoP expected before Covid-19 a moderate inflation of around 0.9%. The main risk factors for Portugal´s economic activity, according to the BoP, result largely from the possibility of a less favourable international context, for example an increase in barriers to trade or the transmission of the recent industry weakness, at the global level, to others sectors of the economy. The BoP estimated a 2.1% growth in demand in 2020, while public consumption was expected to grow 0.8%. Public debt was projected to decline to 116% of GDP in 2020 (119% in 2019).

The Bank of Spain estimates a GDP growth of 2% in 2019, a decrease from the 2.4% of 2018. Before Covid-19 the estimate for 2020 was 1.7%. The decrease in activity in Spain is partly due to the decrease in domestic demand and the external environment. However, the Spanish economy continued to grow at a rate higher than that of the Eurozone as a whole. The maintenance of easy financing conditions, largely due to the expansionary monetary policy of the ECB, as well as the ongoing financial restructuring of the private sector, are factors that have supported the consumption and investment decisions of families and companies. The Bank of Spain expected the unemployment rate to drop to 13.6% in 2020 (14.3% in 2019).

2 Operating Activities

World growth decline and the geopolitical uncertainties have created volatility in financial markets, slowing the volume of transactions and reducing business investment. On the other hand, the reaction of the main central banks, namely the inversion of the FED policy and the resumption of the expansionist policy by the ECB, contributed to the valuation of markets and created opportunities for issuers and investors.

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

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

Total assets increased to Euros 2,157 million. Following the market slowdown, capital market activity saw the transacted volume decline, but the number of corporate and institutional customers continued to increase. The number of private customers also increased, with deposits exceeding Euros 940 million.

2.1 Capital Markets

In a context of greater volatility and uncertainty in the financial markets, the Capital Markets business closed 2019 with an intermediation volume of around Euros 5.8 billion, slightly below the volume achieved the previous year.

The Group maintained its focus on the bond markets of the Iberian Peninsula, Latin America and Eastern Europe, registering an increase in the global customer base of circa 20%.

The focus on electronic platforms has helped to mitigate the increased competition observed throughout the year in the various markets in which the Bank is present. During 2019, the number of transactions carried out electronically increased 55% compared with the previous year, which resulted in an improvement in the profitability per transaction.

The Capital Markets Department maintained its international strategy, consolidating its presence in the geographic areas where it already operates, with a special focus on strengthening the presence in Latin America. The completion of the team's move to the new branch in Miami reinforced our proximity to customers in the region.

Regarding the development of the “primary” business, the Capital Markets Department reinforced its commitment to corporate customers with a focus on obtaining alternative financing through the capital markets.

In this sense, in the short-term financing market, Banco Finantia focused on a strategy to expand its presence in the Spanish *Pagarés* market, listed on the *Mercado Alternativo de Renta Fija* (MARF). This helped to mitigate the decrease in the Commercial Paper volumes placed in the Portuguese market, thereby allowing Portuguese companies to access a larger market and Spanish companies to access investors in the Portuguese market, diversifying their investor base.

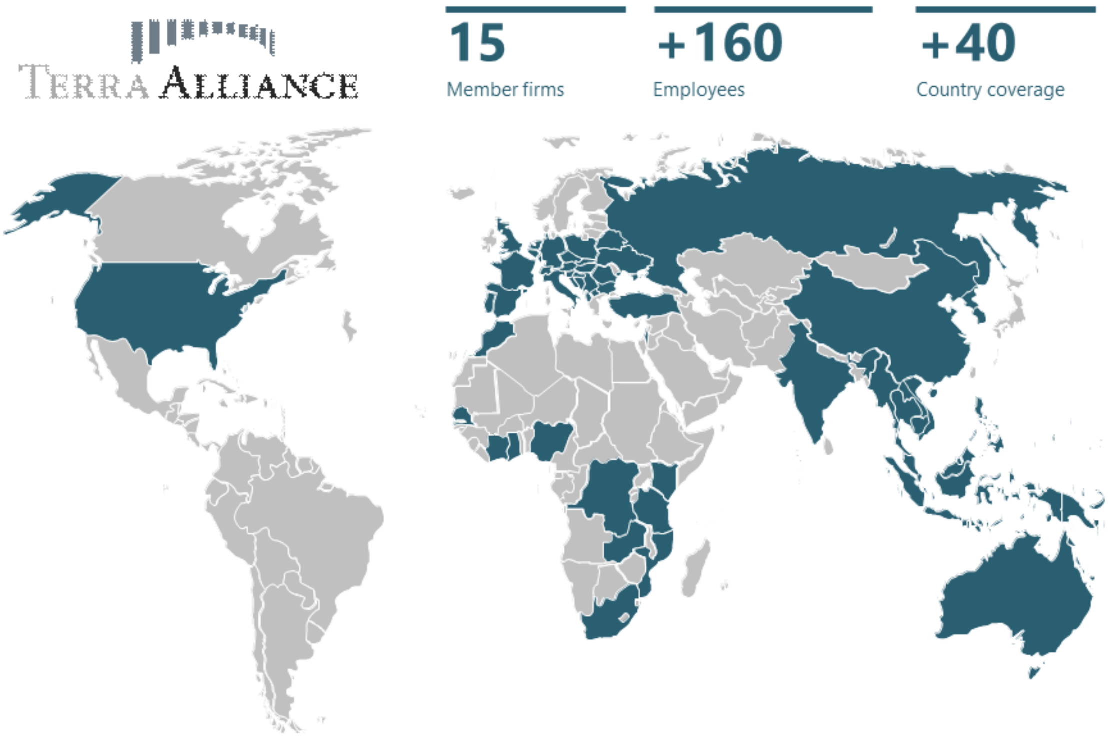
During 2019, circa Euros 350 million of Commercial Paper was placed, which represents a decrease of 14% from the value placed in 2018, following the trend in the domestic market. This reflects the increased competition from commercial banks and the result of the ECB's monetary policies. This decrease was offset by the increase in the placement of *Pagarés* in an amount of circa Euros 80 million.

In medium and long-term financing, Banco Finantia continues to assert itself as one of the reference counterparts for Portuguese and Spanish SMEs in the structuring and placement of bonds due to its increased customer base and its profound knowledge of the capital market. The Bank's participations in 2019 included: Lead Manager and Global Coordinator for the Public Exchange and Subscription Offer made for Mota-Engil, Placement Agent for the SIC issue and Co-Manager in an issue for Efacec. The latter was listed on MARF in Spain confirming the growing usage of this market by Portuguese issuers with the aim of diversifying their investor base.

2.2 Corporate Finance

2019 was a year of growth and 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 transactions.

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 contacts with a growing number of companies.



In the **Financial Advisory** area, of note is our continued participation in transactions of reference (e.g. sales process of Seguradoras Unidas), in originating sales mandates for Portuguese entities of reference, as well as in the structuring of innovative transactions in Portugal (e.g. credit lines dedicated to private equities´ capital calls).

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

In 2019, in order to intensify its international activity, 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,.

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.

2.3 *Corporate Banking*

In the Corporate Banking area, the Bank maintained its strategy - continuing to diversify its loan portfolio by country of origin and by sector and supporting the growth of companies in the various jurisdictions where Banco Finantia has operated for over two decades with a focus in Portugal and Spain.

Thus, during 2019, eight more transactions were made than in the previous year in the form of syndicated and bilateral loans, which makes a total of 28 transactions, 6 of which in the primary market. The Bank increased its focus and volume on transactions in the primary market, of note being its role as Mandated Lead Arranger and Lead Manager in the medium-term loans to

Belagroprombank and Imperia Intercontinental, respectively. The loan portfolio amount increased by circa 34% over 2018, closing the year with a total of Euros 174 million.

It should also be noted that the Bank has set up and structured an innovative transaction in Portugal to finance a Private Equity fund that invests in the Portuguese SME sector.

2.4 Private Banking

With the impact of the monetary policy imposed by the ECB on the economy, financial markets and the banking system, the market expectations are that the Euro short-term interest rates will remain negative until 2023. Low interest rates, or even worse, negative rates, penalize savings income.

Nevertheless, in 2019, Banco Finantia's Private Banking activity in Portugal and Spain continued to grow, attaining at the end of 2019 circa Euros 940 million in deposits (+ 5% over 2018).

Several factors contributed to this improvement:

i A highly qualified and flexible commercial team, capable of offering and executing financial services tailored to their customers needs;

ii Partnerships with entities that manage platforms specialized in raising funds from customers resident in several European countries, such as in Germany, France or Holland (Deposit Solutions/Raisin);

iii Promotion of the "Banco Finantia" brand, as an experienced market operator, via specialized digital communication channels;

iv Advertising campaigns of the Term Deposit product in Portugal and Spain for new customers.

2019 was also noteworthy due to the conclusion of the new PSD2 directive project, the strengthening of MIFID II and the implementation of a new Frontend application, optimizing internal procedures and improving the services provided to customers.

The Barcelona and Valencia branches were also modernized during the year.

Future commercial strategy is to expand the Bank's customer base, diversify the products and services offered and continue the improvement of the internal and customer digital facilitation means, always while enhancing our brand image and respecting the quality and discretion that characterizes the Bank.

3 Supporting Activities

3.1 Information and Development Systems

In 2019 significant advances were made in line with the strategy of constantly improving the efficiency and control of the Bank's Information Systems.

To support the Bank's business growth strategy, continuity was given to the Frontend Project, namely the opening of accounts and onboarding of new customers, reinforcing the reliability, flexibility and efficiency of the processes.

The IFlow solution (workflow solution) was extended to other internal control processes of the Bank, namely returns to tax authorities and access management, with important gains in efficiency and control.

Various automations of official reports for regulatory bodies were developed, namely the IRRBB Report for the BoP, the systematic Internalizing Report for the CMVM (Portuguese Securities' Commission) and the Instrument Reference Data Report for the United Kingdom's FCA.

Considered an important improvement in the correspondence issuance process, the development of the correspondence issuance module was completed, allowing for the total control and archiving of correspondence generated for our customers and its respective expedition by email, by post or by making it available on HomeBanking.

Within the scope of PSD2, Banco Finantia, as payment service provider, provided interfaces compatible with the requirements established in Decree-Law no. 91/2018, which permit common and secure communications with third party payment service providers, using new forms of customer authentication.

The security of data and of all systems continued to be a priority for the Bank. In this sense, new internal policies were developed, and a solution was implemented to support the Information Technology (IT) Risk Management, thus enabling the automation of some IT risk management related processes.

The Web Risk Monitoring Services were carried out, in order to proactively detect threats and events that could represent a risk for the Group. Intrusion tests were carried out on the internal and external infrastructure that supports the business in order to identify possible vulnerabilities.

Policies have been implemented in all workstations so that all information that needs to be transferred to external drives via USB ports, is encrypted, and the transfer of information through USB ports, to other external devices (e.g. mobile phones), is inhibited.

A number of awareness-raising measures have been put into effect to mitigate possible risks, namely the regular assessment of the level of maturity of the Bank's employees in the matter of Data Security and of their awareness of the risks involved when good security practices are not followed.

A dual authentication solution was made available, enabling its implementation in the access to the more critical applications, as was the process of recording mobile network calls, to be implemented with employees in the commercial area.

A hybrid Exchange solution was implemented, which allowed the migration of the mailboxes from the offices in the USA and Brazil to this solution, ensuring these emails are subject to additional security controls, as was an Endpoint Protection solution (anti-malware, anti-ransomware, disk and file encryption) in the workstations that provide the e-mail service.

New appropriate security measures and controls were added to ensure compliance with the current security requirements imposed by the Swift System in 2019.

In order to ensure the uniformity of the Group's computer inventory, upgrades were made to the workstations in the London office (hardware / software).

With regard to the Business Continuity Plan (BCP), in the Disaster Recovery Centre (DRC) upgrades were made to the Server infrastructure (hardware / software) with the consequent increase in its performance, decrease in the times to access information and in the Recovery Time Objective (RTO) of the critical business processes.

3.2 Operations

In 2019 Operations continued the strategy followed over the last few years. The training of the teams and the focus on process and security improvements were privileged. The growth in activity in some of the business areas allowed us to test the structure's capacity. The employee’s multidisciplinary abilities allowed for an adequate response throughout the year.

The spirit of initiative and the concern with continuous improvement resulted in circa 96 application development requests placed with the Development and Application Support department. Compared with 2018, 46 more requests were submitted.

In terms of new projects, we highlight the development of the entire process of account opening and customer maintenance, which allowed for reliability and efficiency gains. In the first quarter of 2020, the online account opening solution will become a reality.

Worthy of mention, too, is the progress in the negotiations with the German Deposit Solutions and Raisin, for access to new electronic deposit-taking platforms, both in Euros and Dollars, in different markets.

We had another demanding year in terms of new regulations, of note being the new reports as Systematic Internalizer (settlement and negotiation) and of customer balances in excess of € 50 thousand to the Tax Authority.

In 2019, Operations led the constitution of an interbank group with four national banks, which will allow for the close monitoring of the most relevant topics of the industry, regarding operational aspect and technological-solution´s sharing. This initiative aims at mitigating the risk of implementing new projects at the payment systems’ level and of the new regulations.

Throughout 2020, the Operations Department will continue to focus on mitigating operational risk and the continuous training of employees, in line with the strategy and objectives defined by the Bank.

3.3 Human Resources

At Banco Finantia we believe that our employees are the key to our success. Consequently, we seek to continually align the values, the culture and the mission of the Bank with that of our human capital.

We focus on the training, performance and career management of our employees, maximizing the individual and organizational potential. In this manner, we seek to position Banco Finantia as an employer of reference.

As at 31 December 2019, the Bank and its subsidiaries had a total of 264 employees, of which 171 in Portugal, with the rest in the foreign subsidiaries.

The average age of the employees is 43 years and their average employment period is 12 years. About 72% of the employees have a higher academic qualification (bachelor's / master's degrees).

Regarding gender distribution, at the end of 2019, 60% of the employees were male and 40% female.

As for employee distribution, for the same period, 36% of the Group's employees were senior staff, 56% mid-level staff and 8% administrative staff.

Internal mobility continues to merit a strong focus, to capitalize on the loyalty and commitment of the employees, simultaneously guaranteeing a balancing of their aspirations with the Bank's needs. Thus, in 2019, 7 internal moves in Portugal and 7 abroad were carried out.

Training at Banco Finantia is seen as a continuous development process of employees at the personal and professional level. The investment in training aims to improve and consolidate the performance of the employees and the teams, promote the quality of the service provided and increase the level of employee motivation and commitment to the Bank.

In 2019, 664 participations in training sessions were recorded, in a total of 174 actions of which 23 carried out internally, 121 carried out by external entities and 30 in an e-learning regime. The overall volume of hours of training in Portugal was approximately 7,500 hours (corresponding to an average of 45 hours of training per employee).

We also emphasize the realization of a Leadership Programme intended for the top management of the Bank and the attribution of worker-student status to 6 employees.

3.4 Financial Markets

In terms of monetary policy, and as a result of the loss of dynamism in the economy, the year was marked by the reversal of the Fed's policy and the resumption of the ECB's expansionary policy. The FED carried out a 75bps rate cut cycle and suspended the debt securities portfolio reduction plan. In Europe, the ECB opted for a 10bps rate cut, accompanied by the launch of a new medium-term refinancing programme (TLTRO), introduction of a tiering system and resumption of the asset purchase programme.

This more expansionary monetary policy triggered a rise in the equity and bond markets despite the climate of uncertainty and diminished economic activity in the main world economies.

In this context, the Financial Markets Department successfully implemented the strategy previously outlined and achieved its defined objectives - supporting the growth of the Bank’s activity in respect of liquidity management, monitoring of the Group's various financial flows, managing financial assets and liabilities, implementing the policy for mitigating interest rate and exchange rate risks, and further strengthening the relationships with other financial institutions.

The Financial Markets Department has a central role in the implementation of the strategy defined in the Internal Liquidity Adequacy Assessment Process (ILAAP), focusing its activity on mitigating liquidity risk, through the permanent maintenance of a considerable liquidity margin, the continuous effort placed on the diversification of financing sources and ensuring the stability of the Group's funding.

In 2019, the percentage of highly liquid assets (HQLA) eligible for the liquidity coverage ratio (LCR) attained a very high level, maintaining, thereby, an average annual ratio of 606%, well above the required regulatory minimum (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.

Regarding the main sources of financing, the highlight goes to the realization of funding transactions with longer maturities, and an increase in the volume and average term of the deposits, thus allowing for greater granularity and the reinforcement of a steady funding for the Group.

The debt instruments portfolio, denominated in Euros and US Dollars, was actively managed considering the criteria of liquidity, profitability, credit quality and diversification. Taking advantage of a favourable environment in the main debt markets, in 2019, the volume of transactions carried out increased by about 55%, without prejudicing the level of prudence guiding the Group’s asset management, while maintaining the diversification effort, the average risk rating of assets, as well as their average maturity.

In terms of the relationships with other financial institutions, national and international, we highlight the deepening of the relationships with correspondents and counterparts of the Bank, a relevant factor for the achievement of the implementation objectives of the strategies of diversification and mitigation of liquidity, interest and exchange rate risks.

Banco Finantia

Currently the Bank maintains relationships with more than twenty Financial Institutions active in the main money, foreign exchange and interest rates markets, spread over more than a dozen countries and five continents.

During 2019, and maintaining the practice of previous years, the Bank was represented in several international events. We note the annual meetings of the ITFA, ICMA, IMF and World Bank and the participation in SIBOS, besides regular visits to markets where we are physically present and/or active. Also, of note was the participation in another annual meeting of the Groupement Europèen de Banques (GEB) - an international cooperation banking group, formed by small and medium-sized private banks among which Banco Finantia occupies the Vice-Presidency.

4 Risk Management

4.1 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.

Such 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).

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 its decision-making process. In this manner, the risk management model has the active involvement of the entire Bank, including its Board of Directors, the Executive Directors, the intermediate management bodies and the Risk 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 Executive Directors 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, assessment 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 Department is independent and is responsible for the management of all the risks of the Bank. In this scope, the Risk 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; (viii) realizes an independent review of the ILAAP methodologies and results, and (ix) promotes the integration of the risk principles in the Bank’s daily activities.

In summary, the risk management model 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 in its 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 general and specific training actions. Focused on best practices, the Risk Department, among many other control and risk mitigation issues, actively participates in the planning and structuring of training actions related to the risk management processes as well as the capital adequacy and liquidity assessments known, respectively, as ICAAP and ILAAP, among many other risk control and mitigation exercises.

4.2 Risk Profile

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

To do this, the Bank considers 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 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 due to unfavourable fluctuations in foreign exchange rates and adverse changes in the foreign currency price of instruments.

It is the Bank's policy to transact 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 daily, both the spot as well as the forward positions.

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 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 transactions; liquidity characteristics of assets; and immediate liquidity.

The Bank monitors the 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 the 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, essentially, from: (i) operational risk, of operational failures, of inadequacy of information and technology systems, of errors of conduct or of model weaknesses, (ii) compliance risk, of non-compliance with laws and regulations, (iii) reputation risk, of negative perception of the institution's public image; and (iv) strategy risk, of 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, assessment, 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.

In 2019, improvements were introduced in the mapping of the non-financial risk factors, optimizing its structure to permit a more efficient control over this type of risk.

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 2019, several training actions were carried out in the area of non-financial risks, of note being the specific training on Prevention of Money Laundering, GDPR and Cybersecurity, among others. For 2020, the Bank will continue to focus on training as a form of contributing to the reduction of non-financial risks.

5 Financial Overview

5.1 Consolidated Results

In 2019, Banco Finantia increased its pre-tax income in 10% over the previous year, to €47.8 million (2018: €43.3 million). Operating income, after impairment and provisions, attained €73.9 million, +6% over that verified in 2018 (€69.5 million).

Net interest income reached €61.4 million, above the amount of the previous year (€60.5 million), and net commissions and other financial income came in at €19.2 million (€13.9 million in 2018). The caption "Impairment and provisions" totalled €6.8 million.

Operating expenses came in at €26.0 million, in line with that verified in 2018. The efficiency ratio (cost-to-income) attained 32% at the end of 2019, which compares favourably with the value obtained in 2018 (35%).

The ROE (before tax) attained 11.1%, above the value of 10.2% in 2018, and the net profit for the period came in at €36 million.

The summary of the consolidated income statement for the financial years ended 31 December 2019 and 2018, is as follows:

€ million	IFRS	
CONSOLIDATED INCOME STATEMENT	**31.12.2019**	**31.12.2018**
Net interest income	61.4	60.5
Commissions and other income	19.2	13.9
Impairments and provisions	(6.8)	(4.9)
Operating income after impairment and provisions	**73.9**	**69.5**
Operating expenses	(26.0)	(26.2)
Profit before tax	**47.8**	**43.3**
Net profit	**36.0**	**38.6**

5.2 Consolidated Balance Sheet

Total assets reached €2,157 million as at 31 December 2019, around 6% above the previous year:

€ million	IFRS	
CONSOLIDATED BALANCE SHEET	31.12.2019	31.12.2018
Assets		
Cash and banks	130.0	120.7
Fixed income and loan portfolio	1,983.3	1,816.8
Other assets	44.1	90.3
Total assets	**2,157.3**	**2,027.8**
Liabilities		
Customers deposits	943.4	900.9
MM takings and Repos	672.5	659.2
Other liabilities	79.1	76.5
Total liabilities	**1,695.0**	**1,636.6**
Total shareholders' equity	**462.3**	**391.2**
Total liabilities and shareholders' equity	**2,157.3**	**2,027.8**

The securities and loans portfolio (comprising mainly available-for-sale fixed-income securities) increased 9% to €1,983 million.

Deposits attained €943 million, 5% more than the €901 million recorded in 2018. This increase confirms the positive trend of recent years, in line with the strategy of increasing its customers' deposit base.

Shareholders' equity attained €462 million, an increase of 18% over 2018, reflecting, in part, the valuation of the fixed-income portfolio.

5.3 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 23.9% in 2019:

BASEL III	31.12.2019	31.12.2018
CET1 Ratio	23.9%	21.0%
Total Capital Ratio	23.9%	21.0%

Risk Weighted Assets ("RWA") reached €1,925 million (€1,758 million in 2018).

> Economic Capital

In complement 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 the guidance of Pillar 2 of Basel III and Instruction no. 3/2019 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, counterparty, interest rate and credit spread of the banking portfolio, market, foreign exchange, operational, compliance, strategy and reputation 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.

5.4 Treasury Stock

At the beginning of 2019, the Bank held 37,607 own shares. During the 2019 financial year there were no acquisitions or sales of own shares, so at the end of the year 2019 the Bank held the same 37,607 own shares.

6 Social Responsibility, Cultural Patronage and Education

6.1 Social Responsibility

Continuing its mission of supporting various social solidarity projects aimed primarily at under-privileged children and youths and/or those with special education needs, Banco Finantia, in 2019, financed the following institutions:

ACADEMIA dos CHAMPS (www.academiadoschamps.org) – IPSS founded in 2009, is a social integration project aimed at children and young people. The main objective is to demonstrate, through the practice of tennis, the benefits of viewing sport as a philosophy of life. Much more than a simple project of occupying leisure time, it aims to provide students with a real and concrete possibility of overcoming their own limits, opening their horizons to new, 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 more disadvantaged 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 has as its mission the improvement of the overall well-being of the person, 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.

ASSOCIAÇÃO DOENTES LUPUS – founded in 1992, the Associação de Doentes com Lúpus is a not-for-profit institution that has always sought to provide a bridge between patients and the various universes surrounding them: that of family and friends, of doctors and other medical staff, of politicians and of society in general. With more than 3,000 patient members, its main objective is to provide medical, social and educational assistance to patients with Lupus and their family.

APOIO À VIDA (https://www.apoioavida.pt/) – is an IPSS with over 20 years of existence which mission is to accompany pregnant women in situations of doubt or psychological, family or social difficulty, likewise accompanying their partners and families. Throughout its existence it has helped over 4,000 mothers and accompanies, every year, circa 350 families.

6.2 Cultural Patronage

PALÁCIO NACIONAL DA AJUDA - Banco Finantia is 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.

6.3 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).

MUN ANNUAL INTERNATIONAL CONFERENCE - Banco Finantia sponsored the first MUN Annual International Conference in Portugal. The United Nations Model is a simulation of the United Nations that is realized at the secondary and tertiary education level.

7 Future Prospects

Several factors related to the surge of Covid-19 could impair global growth in 2020. Market volatility, low interest rates and decrease in oil prices due to lower demand, among others, have created great uncertainty regarding global growth. Growth in the developed countries is expected to be substantially reduced although the emerging economies could have a somewhat greater dynamism.

In this context, the Bank will have a cautious 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 to its employees, professionalized services to its corporate and institutional customers, and high-quality private banking services to its private customers - expanding its customer base, the number of transactions and the volume of assets.

In terms of business lines, the Bank will adapt its strategic orientation to the evolving situation, pursuing non-capital-intensive activities, focusing primarily on fixed-income capital market transactions and loans, financial advisory services and Private Banking. In terms of geographical coverage, besides the Iberian Peninsula, the Bank will focus on a greater international presence, with an emphasis on Brazil.

The Capital Markets area is planning to continue its sales, distribution and market-making activities as well as strengthening its activity in the primary market. Improvements in efficiency are projected, increasing the sales and intermediation turnovers in order to strengthen the capacity to fund companies and satisfy investor demands, while consuming less capital.

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

Finally, Private Banking is expected to grow later in the year 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 that the total profit be used to strengthen reserves.

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 the institution.

Translation Note

The present Management Report and accompanying Financial Statements for 2019 are a free translation of the original documents issued in the Portuguese language. In the event of discrepancies, the original versions prevail.

Lisbon, 16 March 2020

The Board of Directors

António Vila Cova

Manuel Faria Blanc

Alzira Cabrita

José Archer

David Guerreiro

Ricardo Caldeira

Telma Oliveira

Banco Finantia

Financial Statements 2019

(CONSOLIDATED ACCOUNTS)

Consolidated Financial Statements

Banco Finantia

Consolidated Balance Sheet as at 31 December 2019 and 2018

EUR thousand	Notes	2019	2018
ASSETS			
Cash and deposits with central banks and other demand deposits	5	51,497	59,142
Financial assets held for trading	6	17,744	21,683
Financial assets at fair value through profit or loss	6	36	-
Financial assets at fair value through other comprehensive income	6	1,797,331	1,630,268
Financial assets at amortized cost	6	253,207	233,882
Hedging derivatives	7	1,800	17,770
Non-current assets held for sale		15	12
Investment properties		1,023	1,044
Other tangible assets	8	14,019	11,703
Intangible assets	9	424	231
Current tax assets	10	7,773	8,644
Deferred tax assets	10	1,486	19,589
Other assets	11	10,972	23,819
TOTAL ASSETS		**2,157,328**	**2,027,786**
LIABILITIES			
Financial liabilities held for trading	12	18,338	40,991
Financial liabilities at amortized cost	13	1,615,890	1,560,105
Hedging derivatives	7	33,970	10,000
Current tax liabilities		5,173	3,107
Deferred tax liabilities	10	8,164	2,854
Provisions	14	897	868
Other liabilities	14	12,605	18,654
TOTAL LIABILITIES		**1,695,038**	**1,636,579**
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	263,256	189,620
Net profit attributable to shareholders of the Bank		35,957	38,542
Total Shareholders' Equity attributable to shareholders of the Bank		**462,024**	**390,973**
Non-controlling interests		266	234
TOTAL SHAREHOLDERS' EQUITY		**462,290**	**391,207**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,157,328**	**2,027,786**

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

Banco Finantia

Consolidated Income Statement
for the financial years ended 31 December 2019 and 2018

EUR thousand	Notes	2019	2018
Interest and similar income	17	90,635	87,914
Interest expense and similar charges	17	(29,205)	(27,400)
NET INTEREST INCOME		**61,431**	**60,514**
Fee and commission income	18	2,466	3,025
Fee and commission expense	18	(459)	(429)
Net results from financial operations	19	17,115	11,749
Other net operating income / (expense)		115	(426)
OPERATING INCOME		**80,667**	**74,434**
Staff costs	20	(14,265)	(14,370)
Other administrative expenses	21	(10,199)	(10,712)
Depreciation and amortization	8, 9	(1,576)	(1,103)
TOTAL OPERATING COSTS		**(26,041)**	**(26,185)**
OPERATING PROFIT BEFORE PROVISIONS AND IMPAIRMENT		**54,627**	**48,249**
Provisions or reversal of provisions	22	(29)	587
Impairment or reversal of impairment	22	(6,757)	(5,501)
PROFIT BEFORE TAX		**47,842**	**43,335**
Current income tax	10	(9,057)	(4,028)
Deferred income tax	10	(2,813)	(738)
NET PROFIT FOR THE YEAR		**35,972**	**38,568**
Attributable to:			
Shareholders of the Bank		35,957	38,542
Non-controlling interests		15	26

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

Banco Finantia

Consolidated Statement of Comprehensive Income
for the financial years ended 31 December 2019 and 2018

EUR thousand	Notes	2019	2018
NET PROFIT FOR THE YEAR		**35,972**	**38,568**
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income	16	75,048	(114,390)
Foreign exchange variations in foreign operational units	7	2,002	5,146
Net investment hedge in foreign operational units (effective part)	7	(1,875)	(4,236)
Taxes on income related to items that may be reclassified to profit or loss (-)	16	(20,601)	30,724
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**54,574**	**(82,756)**
COMPREHENSIVE INCOME FOR THE YEAR		**90,545**	**(44,188)**
Attributable to:			
Shareholders of the Bank		90,480	(44,151)
Non-controlling interests		65	(37)

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

Banco Finantia

Consolidated Statement of Changes in Equity
for the financial years ended 31 December 2019 and 2018

EUR thousand	**Share capital**	**Share premium**	**Treasury stock**	**Other accumulated comprehensive income**	**Retained earnings and other reserves**	**Net profit attributable to shareholders**	**Non-controlling interests**	**Total Shareholders' Equity**
Balance as at 01 January 2018	**150,000**	**12,849**	**(38)**	**42,877**	**208,044**	**42,242**	**273**	**456,246**
Appropriation of results	-	-	-	-	42,242	(42,242)	-	-
Dividend distribution [(a)]	-	-	-	-	(20,995)	-	-	(20,995)
Comprehensive income for the year	-	-	-	(82,693)	-	38,542	(37)	(44,188)
Other reserves	-	-	-	-	146	-	(2)	144
	-	**-**	**-**	**(82,693)**	**21,393**	**(3,700)**	**(39)**	**(65,039)**
Balance as at 31 December 2018	**150,000**	**12,849**	**(38)**	**(39,816)**	**229,437**	**38,542**	**234**	**391,207**
Appropriation of results	-	-	-	-	38,542	(38,542)	-	-
Dividend distribution [(a)]	-	-	-	-	(19,495)	-	-	(19,495)
Comprehensive income for the year	-	-	-	54,523	-	35,957	65	90,545
Other reserves	-	-	-	-	66	-	(33)	33
	-	**-**	**-**	**54,523**	**19,113**	**(2,585)**	**33**	**71,083**
Balance as at 31 December 2019	**150,000**	**12,849**	**(38)**	**14,706**	**248,550**	**35,957**	**266**	**462,290**

[(a)] Corresponds to a dividend of € 0.13 (2018: € 0.14) per outstanding share

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

Banco Finantia

Consolidated Statement of Cash Flows
for the financial years ended 31 December 2019 and 2018

EUR thousand	Notes	2019	2018
Cash flows arising from operating activities			
Interest and similar income received		90,575	85,667
Interest expense and similar charges paid		(27,579)	(22,909)
Fee and commission income received		2,419	3,074
Fee and commission expense paid		(459)	(429)
Recovery of loans previously written-off		5,640	4,989
Cash payments to staff and suppliers		(24,374)	(23,909)
		46,222	**46,484**
Changes in operating assets:			
Deposits with central banks		919	77
Financial assets		(56,765)	(78,119)
Due from banks		(16,386)	(24,784)
Other operating assets		(4,378)	(3,837)
Changes in operating liabilities:			
Derivative financial instruments		19,487	37,315
Due to banks		5,512	(28,987)
Due to customers		42,121	98,117
Repos operations		6,650	35,531
Other operating liabilities		1,181	(90)
Net cash flows from operating activities before taxes		**44,564**	**81,708**
Income taxes paid		(2,178)	(14,232)
		42,386	**67,476**
Cash flows arising from investing activities			
Acquisition of tangible and intangible assets	8, 9	(3,990)	(1,164)
Disposal of tangible and intangible assets	8, 9	21	78
		(3,969)	**(1,086)**
Cash flows arising from financing activities			
Acquisition of treasury stock		-	-
Dividends paid on ordinary shares		(19,495)	(20,995)
Net cash flows from financing activities		**(19,495)**	**(20,995)**
Effect of exchange rate variations on cash and cash equivalents		(20,966)	(18,077)
Net changes in cash and cash equivalents		**(2,043)**	**27,318**
Cash and cash equivalents at the beginning of the year	25	82,355	55,037
Cash and cash equivalents at the end of the year	25	80,312	82,355
		(2,043)	**27,318**

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

Notes to the Financial Statements

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 Banking Institutions, having specialized itself 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 2019, 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 2019, 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 2019. 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 16 – Leases ("IFRS 16").

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, 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 16 March 2020 and will be submitted to approval by the General Shareholders' Meeting, which has the power to alter them. The Board of Directors believes these will be approved without significant changes.

Comparability of information

IFRS 16 is mandatory and replaces IAS 17 - Leases, for periods beginning on or after 1 January 2019. IFRS 16 establishes the principles applicable to the recognition, measurement, presentation and disclosure of leases. On 1 January 2019, IFRS 16 was adopted according to the modified retrospective approach that permits, on the transition date, the recognition of the cumulative effect of its initial application as an adjustment to the opening balance sheet, without the restatement of the comparatives. On 1 January 2019, the transition adjustments did not have an impact on shareholders' equity, with the assets for right of use and the respective lease liabilities being recorded on the balance sheet, as presented in Note 3.2.1 to the financial statements.

The Group adopted, whenever applicable, a separate and a 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. According to the requirements of IFRS 10 - Consolidated Financial Statements - 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 2019 and 2018, 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 2019 and 2018, 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 carrying 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 2019 and 2018, the Group does not have any goodwill.

Investments (financial shareholdings) in foreign subsidiaries and associates – translation of balances and transactions in foreign currency

The financial statements of each of the Group's subsidiaries and associates are prepared according to the currency used in the economic environment in which they operate (denominated "functional currency"). In the consolidated financial statements of the Group, the results and financial position of each subsidiary are stated in Euros, which is the Banco Finantia Group's functional currency.

In the consolidated financial statements, the assets and liabilities of entities with a functional currency different from the Euro are translated using the closing rate, while income and expenses are translated at the average rate for the year. The foreign exchange variations resulting under this method, are recognized in the caption "Other reserves" in shareholders' equity, with the respective balance being transferred to the income statement on the partial or total disposal of the Group entity, provided such disposal results in the loss of control over same.

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 provide 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 carrying 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

2.2.1. Financial assets

2.2.1.1. Classification, initial recognition and subsequent measurement

The Group classifies all financial assets, for measurement purposes, 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, all financial assets, other than equity instruments and derivatives, are analysed based, simultaneously:

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) – (Financial assets at amortized cost): 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.
ii) "Hold to collect and sell" (HTCS) – (Financial assets at fair value through other comprehensive income): The objectives of the business model are achieved either by collecting contractual cash flows and/or by selling said financial instruments.
iii) "Trading" – (Financial assets at fair value through profit or loss): 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 for the management of financial assets

The evaluation of the business model is determined so that it reflects the manner in which a set of financial assets are managed 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).

Evaluation of the characteristics of the cash flows of financial assets (SPPI)

For the instruments to be allocated to the "Hold to collect" or "Hold to collect and sell" business models, the contractual terms of the financial asset shall have to give rise, at defined dates, to cash which represents only principal repayments and interest payments on the outstanding principal, denominated the SPPI test.

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 consider 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, in the event 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.

Thus, the Group assesses the compliance with the SPPI criteria in respect of the financial instruments acquired. In this assessment, consideration is given to the original contractual terms of the agreement, as well as to 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.

2.2.1.1.1. Financial assets at amortized cost (HTC)

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 in 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.

Between 1 January 2018 and 31 December 2019, no reclassifications were made between financial asset categories.

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.

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 carrying 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 and 2019, 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 do not decrease the balance sheet value of these assets which remain at fair value. Instead, the expected credit losses of these assets are recognized in the income statement, in the caption "Impairment or reversal of impairment", against the caption "Other accumulated comprehensive income" in shareholders' equity.

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. Impairment Model

IFRS 9 has an underlying prospective expected credit loss model (ECL), which considers the expected losses throughout the life of the financial instruments.

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 2.2.1.5.3.) 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 gross book value net of the provision for credit, using the effective interest rate method.

The Group applies curing periods for financial instruments in respect of which the criteria that materialize a significant increase in credit risk are no longer met, which lead to their classification in stage 2, namely a curing period of at least 3 months for its classification in stage 1.

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 of impairment

All instruments that show a past due (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), among others:

a) customers declared insolvent;

b) customers subject to recovery through judicial process;

c) customers with operations restructured due to financial difficulties;

d) 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;

e) customers with significant delays in payments to other creditors;

f) customers with breach of some of the contractual covenants.

g) the customer was evaluated and it is considered that there is a low probability of the full compliance with the respective credit obligations without the execution of the guarantees, regardless of the existence of any past due amount or of the number of days in arrears.

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 (bond and loan portfolio)

All instruments that are classified as stage 1 with potential signs of impairment are subject to individual analysis so as to determine 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.

Instruments classified in stage 2 and stage 3 are monitored regularly through individual impairment analyses.

Other credit operations - 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 agreements. 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.

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 from other relevant historical data, considering market information including the specific yield curves of the entities or, in their absence, general curves considering factors such as the rating, currency, economic sector and country risk of the entity analysed.

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 has applied since 1 January 2018 the provisions of IFRS 9 regarding the requirements for hedge accounting application. The standard 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 derivative financial instruments used for hedging purposes are 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 is optional; however, it may not 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 effect of the credit risk dominates the fair value fluctuations, 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 2019 and 2018, 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.

For the derivative financial instruments, the credit and counterpart risks (DVA and CVA) are also analysed and, if material, are considered in the determination of the fair value of those instruments. As at 31 December 2019 and 2018, since the DVA and the CVA presented immaterial amounts, they were not considered in the fair value of these instruments.

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 under resale / repurchase agreements

Purchase operations under resale agreements (“reverse repos”)

Securities purchased under resale agreements (“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 in 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 in 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 under resale agreements (“reverse repos”) and in sales operations under 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. Cost of acquisitions or subsequent expenditures related to the asset are deducted of 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 carrying 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

As mentioned in Note 1, the Group adopted on 1 January 2019 the accounting standard IFRS 16 - Leases (IFRS 16), replacing IAS 17 - Leases (IAS 17) that was in effect until 31 December 2018. The Group had not adopted any of the requirements of IFRS 16 in previous periods.

The Group applied the modified retrospective approach that allowed it, on the transition date (1 January 2019), to recognize the cumulative effect of the initial application of IFRS 16 as an adjustment to the opening balance in the caption “Retained earnings”, without restating the comparatives.

In accordance with the provisions set out in IFRS 16, on the transition date, the Group chose not to apply this standard to short-term lease agreements (less than or equal to 12 months) and to lease agreements in which the underlying asset has a reduced value, considering the amount of Euros 5 thousand for this purpose. In addition, the Group also exercised the option foreseen of not applying this standard to leases of intangible assets (IAS 38) and also opted for the practical expedient provided for in the standard of not re-assessing whether a contract is, or contains, a lease under the new lease definition.

The adoption of IFRS 16 implies changes in the Group's financial statements, namely the recognition of:

a) in the income statement: i) the interest cost related to lease liabilities in the caption “Other interest and similar expense”; ii) the cost of the amounts relating to short-term lease agreements and lease agreements of low-value assets in the caption “Other administrative expenses”; and iii) the depreciation cost of assets under right of use in the caption “Depreciation and amortization”.

b) in the balance sheet: i) the assets under right of use in the caption “Other tangible assets” and ii) the lease liabilities in the caption “Other liabilities”.

c) in the statement of cash flows: i) the amounts related to short-term lease agreements and lease agreements of low-value assets in the caption “Cash flows from operating activities - Cash payments to staff and suppliers” and ii) the amounts related to payments of the principal of the lease liability in the caption “Change in operating liabilities - Other operating liabilities”.

Definition of lease

As from 1 January 2019, the Group assesses whether a contract is or contains a lease in accordance with the requirements set out in IFRS 16 - Leases, namely and based on the following definition: a contract is, or contains, a lease if it includes the right to control the use of an identified asset for a certain period of time, in exchange for compensation.

As lessee

The Group recognizes for all leases, except for short-term leases (less than or equal to 12 months) or leases in which the underlying asset has a reduced in value:

i) an asset under right of use, initially measured at cost, taking into account the net present value of the lease liability, plus payments made (fixed or variable) less any lease incentives received, penalties for termination, as well as any direct costs of dismantling or restoration, when there is an obligation to bear them. Subsequently, the asset is amortized on a straight-line basis in accordance with the respective contractual term and subject to impairment tests (IAS 36).

ii) a lease liability, initially measured at the present value of the future cash flows of the lease not yet realized on that date, using as the discount rate, the interest rate that the lessee would obtain on contracting, with a similar term and guarantee, the funds necessary to obtain an asset of equivalent value to the asset under right of use in a similar economic context. Subsequently, the liability is valued at amortized cost using the effective interest rate method and is revalued (with the corresponding adjustment to the related asset under right of use) when there is a change in the future payments in the event of negotiations, changes in the index or rate in in the event of a new assessment of the contract options.

Given the impossibility of easily determining the interest rate implicit in the lease, lease payments are discounted according to the lessee's incremental financing interest rate, which is the Group's average financing rate on 1 January 2019.

As lessor

When the Bank acts as lessor, it determines, at the beginning of the agreement, whether it is a finance or an operating lease.

To classify each lease, the Bank globally assesses whether the lease transfers substantially all the risks and rewards inherent in the ownership of the underlying asset. If this is the case, the lease is a finance lease, if not, it is an operating lease. As part of this assessment, the Bank considers some indicators such as whether the lease comprises the largest part of the asset's economic life.

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 statement of cash flows, 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 financial year with effects on the policies and disclosures adopted by the Group

On 1 January 2019, the Group applied the following issues, revisions, amendments and improvements of accounting standards and interpretations:

a) IFRS 16 Leases

As mentioned in Note 1, the Group adopted on 1 January 2019 the accounting standard IFRS 16 - Leases (IFRS 16), replacing IAS 17 - Leases (IAS 17) that was in effect until 31 December 2018. The Group had not adopted any of the requirements of IFRS 16 in previous periods.

The Group applied the modified retrospective approach that allows it, on the transition date (1 January 2019), to recognize the cumulative effect of the initial application of IFRS 16 as an adjustment to the opening balance in the caption "Retained earnings", without restating the comparatives.

IFRS 16 establishes the principles applicable to the recognition, measurement, presentation and disclosure of leases, which objective is to ensure the disclosure of relevant information that accurately represents these transactions.

In this context, the standard establishes the following:

i) from the perspective of the lessee, a single accounting model for lease agreements is introduced, based on the recognition of the assets under right of use representative of their rights to use the underlying assets and the liabilities of the lease representative of their obligations to make lease payments, except in the case of short-term lease agreements (less than or equal to 12 months) or which apply to low-value assets. In these situations, the lessee may opt for the recognition exemption provided for in IFRS 16, with the lease payments associated with these agreements being recognized as expenses.

ii) from the perspective of the lessor, the accounting remains identical to the accounting policies already existing in IAS 17 - Leases, and the leases may be classified as finance or operating.

In accordance with the provisions set out in IFRS 16, on the transition date, the Group chose not to apply this standard to short-term lease agreements (less than or equal to 12 months) and to lease agreements in which the underlying asset has a reduced value, considering the amount of Euros 5 thousand for this purpose. Additionally, the Group also exercised the option foreseen of not applying this standard to leases of intangible assets (IAS 38) and also opted for the practical expedient provided for in the standard of not re-assessing whether a contract is, or contains a lease in accordance with the new lease definition established in IFRS 16, for contracts identified as leases in accordance with IAS 17 - Leases and IFRIC 4 - Determine whether a contract contains a lease, prior to the date transition.

The Group applies the standard in accordance with the accounting principles disclosed in Note 2.14 to the financial statements.

On 1 January 2019, the transition adjustments had no impact on equity, with assets under right of use in the amount of € 908 thousand and lease liabilities in the amount of € 809 thousand being recorded in the balance sheet. The difference between the right of use and the lease liability, in accordance with paragraph c) of no. 24 of IFRS 16, refers to a reclassification from the caption "Tangible assets" to the caption "Assets under right of use", in the amount of € 99 thousand, related to works carried out

b) IFRIC 23 (interpretation) 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.

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.

The changes should be applied whenever the amount of the prepayment approaches the unpaid amounts of principal and interest plus or minus an amount that reflects the change in the benchmark interest rate. This implies that the prepayment amount recognized at its current fair value or at a value that includes the fair value of the cost of terminating an associated hedging instrument, should normally satisfy the SPPI criterion, but only if other elements of the fair value change, such as the credit or liquidity risk effect, are reduced.

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.

d) IAS 19 (amendment) Amendments, curtailments or settlement of the plan

This amendment clarifies the accounting treatment to be followed in the event of an amendment to the plan, or if there is a curtailment or liquidation of the plan.

e) 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.

f) 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:

<u>IFRS 3 Business Combinations – pre-existing ownership interests in a joint venture</u>

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.

<u>IFRS 11 Joint Arrangements - pre-existing ownership interests in a joint venture</u>

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.

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

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.

IFRS 10 and IAS 28 - Sale or delivery 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.

As at the date of the approval of these financial statements, the standards and interpretations endorsed by the European Union but which mandatory application occurs in future financial years, are as follows:

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.

The conceptual framework for financial reporting

The conceptual framework establishes a comprehensive set of concepts for: (i) financial reporting, (ii) the definition of standards (iii) the development of consistent accounting principles; and (iv) supporting the understanding and interpretation of standards.

The revised conceptual framework includes: (i) some new concepts, (ii) revised definitions and criteria for the recognition of assets and liabilities; and (iii) clarifications on important concepts.

The conceptual framework for the revised financial reporting is not a standard and none of its concepts prevails over the concepts present in standards or other requirements of some of the standards. It is applicable to entities that develop their accounting principles based on the conceptual framework for financial years beginning on or after 1 January 2020

Reform of the interest rate reference indices - changes to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which include the first phase of the work developed to respond to the effects on the financial reporting of the IBOR (Interbank Offered Rates) reform.

These changes provide temporary expedients that allow hedge accounting to be maintained during the period of uncertainty that precedes the replacement of the currently existing reference interest rate with an alternative reference interest rate.

3.3. Standards and Interpretations issued by the IASB but not yet endorsed by the European Union

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, were not, until the date of approval of these financial statements, endorsed by the European Union:

<u>Definition of business activity - amendments to IFRS 3</u>

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.

<u>IFRS 17 (new) - Insurance contracts (to be applied in financial years beginning on or after 1 January 2021)</u>

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. The general objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

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 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 (SPPI test).

The business model takes 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 derecognized 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 in a given time period, which is calculated based on historical data, assumptions and expectations about future conditions.

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 (see Note 29). 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	**31.12.2019**	**31.12.2018**
Cash	73	49
Deposits with central banks		
Bank of Portugal	20,988	17,724
Bank of Spain	15,798	2,899
	36,786	20,623
Deposits with banks in Portugal		
Demand deposits	14,568	25,965
	14,568	25,965
Deposits with banks abroad		
Demand deposits	69	12,505
	69	12,505
	51,497	**59,142**

The caption "Deposits with central banks" includes the amount of € 3,766 thousand (2018: € 4,686 thousand) to comply with 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. During 2019, and up to 31 October, these rates varied between -0.40% and -0.50% (2018: remained at -0.40%). As from 1 November 2019, the amount of up to six times the value of the minimum reserves became exempt from paying this rate, which, in the meantime, changed to -0.50%.

6. Financial assets

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

EUR thousand	**31.12.2019**	**31.12.2018**
Financial assets held for trading	17,744	21,683
Financial assets at fair value through profit or loss	36	-
Financial assets at fair value through other comprehensive income	1,797,331	1,630,268
Financial assets at amortized cost	253,207	233,882
	2,068,319	**1,885,833**

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

EUR thousand	**31.12.2019**	**31.12.2018**
Debt instruments	1,819,564	1,696,741
Loans	155,788	114,861
Due from banks	71,836	50,767
Purchase operations under resale agreement (“reverse repos”)	6,624	10,748
Commercial paper	7,968	5,203
Trading derivatives (Note 7)	3,340	1,634
Other credit operations	3,164	5,880
Equity instruments	36	-
	2,068,319	**1,885,833**

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

EUR thousand	**31.12.2019**	**31.12.2018**
Financial assets held for trading		
Debt instruments		
Public entities	2,370	1,374
Banks	4,348	9,641
Companies	7,687	9,033
Trading derivatives (Note 7)	3,340	1,634
	17,744	**21,683**
Financial assets at fair value through profit or loss		
Equity instruments		
Companies	36	-
	36	**-**
Financial assets at fair value through other comprehensive income		
Debt instruments		
Public entities	488,013	541,689
Banks	276,895	258,745
Companies	991,135	802,720
Loans		
Public entities	10,428	9,446
Banks	14,228	7,927
Companies	16,632	9,740
	1,797,331	**1,630,268**
Financial assets at amortized cost		
Debt instruments		
Public entities	-	-
Banks	-	-
Companies	49,116	73,537
Loans		
Public entities	8,126	9,042
Banks	13,576	26,887
Companies	92,797	51,818
Due from banks	71,836	50,767
Purchase operations under resale agreements (“reverse repos”)	6,624	10,748
Commercial paper	7,968	5,203
Other credit operations	3,164	5,880
	253,207	**233,882**
	2,068,319	**1,885,833**

During 2019, interest income from the financial assets held for trading portfolio amounted to € 471 thousand (2018: € 551 thousand).

During 2019, interest income from the financial assets at amortized cost portfolio amounted to € 13,850 thousand (2018: € 13,968 thousand).

As at 31 December 2019, the caption “Financial assets at amortized cost” includes debt instruments in the amount € 24,793 thousand (2018: € 29,745 thousand) given as collateral in sale operations under repurchase agreements (Note 24).

As at 31 December 2019, the caption “Due from banks” includes deposits in the amount € 45, 829 thousand (2018: € 33,567 thousand) given as collateral in sale operations under repurchase agreements, and interest rate and exchange rate derivatives.

The caption “Financial assets at fair value through other comprehensive income”, may be analysed as follows:

	31.12.2019					
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	491,372	(4,791)	486,581	(7,999)	9,432	488,013
Banks	276,600	(1,250)	275,351	(3,709)	5,254	276,895
Companies	984,403	(10,004)	974,399	(16,398)	33,134	991,135
Loans						
Public entities	10,229	(83)	10,146	-	282	10,428
Banks	14,299	(68)	14,231	-	(3)	14,228
Companies	16,877	(141)	16,737	-	(104)	16,632
Total	**1,793,779**	**(16,336)**	**1,777,443**	**(28,107)**	**47,995**	**1,797,331**

	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**

During 2019, interest income from the financial assets at fair value through other comprehensive income portfolio amounted to € 76,162 thousand (2018: € 73,101 thousand).

This portfolio includes the amount of € 811,807 thousand (2018: € 768,328 thousand) related to debt instruments given as collateral by the Group in sales operations under repurchase agreements (Note 24).

As at 31 December 2019 and 2018, the financial assets subject to the impairment requirements foreseen in IFRS 9, analysed by stage, may be presented as follows:

	31.12.2019							
EUR thousand	**Financial assets at fair value through other comprehensive income**				**Financial assets at amortized cost**			
	Not yet due	Overdue	Impairment	Carrying value	Not yet due	Overdue	Impairment	Carrying value
Stage 1								
Debt instruments and commercial paper	1,721,049	-	(5,333)	1,715,716	56,043	-	(143)	55,900
Loans and other advances	41,580	-	(292)	41,288	184,669	-	(520)	184,149
Other credit operations	-	-	-	-	243	-	(1)	243
	1,762,629	**-**	**(5,625)**	**1,757,004**	**240,955**	**-**	**(664)**	**240,292**
Stage 2								
Debt instruments and commercial paper	35,787	-	(2,265)	33,522	-	-	-	-
Loans and other advances	-	-	-	-	6,489	-	(127)	6,362
Other credit operations	-	-	-	-	-	15	-	15
	35,787	**-**	**(2,265)**	**33,522**	**6,489**	**15**	**(127)**	**6,377**
Stage 3								
Debt instruments and commercial paper	14,944	307	(8,446)	6,805	-	14,831	(13,648)	1,183
Loans and other advances	-	-	-	-	4,907	-	(2,459)	2,448
Other credit operations	-	-	-	-	-	2,920	(14)	2,906
	14,944	**307**	**(8,446)**	**6,805**	**4,907**	**17,751**	**(16,121)**	**6,537**
	1,813,360	**307**	**(16,336)**	**1,797,331**	**252,351**	**17,766**	**(16,910)**	**253,207**

	31.12.2018							
EUR thousand	**Financial assets at fair value through other comprehensive income**				**Financial assets at amortized cost**			
	Not yet due	Overdue	Impairment	Carrying value	Not yet due	Overdue	Impairment	Carrying value
Stage 1								
Debt instruments and commercial paper	1,577,645	-	(8,725)	1,568,921	68,990	-	(258)	68,732
Loans and other advances	27,273	-	(160)	27,113	149,952	-	(690)	149,262
Other credit operations	-	-	-	-	756	-	(3)	753
	1,604,918	**-**	**(8,885)**	**1,596,034**	**219,698**	**-**	**(951)**	**218,747**
Stage 2								
Debt instruments and commercial paper	36,215	-	(1,982)	34,233	9,118	-	(414)	8,704
Loans and other advances	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	29	(2)	27
	36,215	**-**	**(1,982)**	**34,233**	**9,118**	**29**	**(416)**	**8,731**
Stage 3								
Debt instruments and commercial paper	-	-	-	-	-	13,435	(12,130)	1,305
Loans and other advances	-	-	-	-	-	-	-	-
Other credit operations	-	-	-	-	-	5,200	(101)	5,099
	-	**-**	**-**	**-**	**-**	**18,635**	**(12,231)**	**6,404**
	1,641,134	**-**	**(10,866)**	**1,630,268**	**228,816**	**18,664**	**(13,598)**	**233,882**

As at 31 December 2019 and 2018, the Group does not hold any financial instrument classified as POCI.

The movements in the impairment for expected losses in financial assets during the 2019 and 2018 financial years were as follows:

EUR thousand	Stage 1	Stage 2	Stage 3	Total
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
Allocations, net of reversals (Note 22)	4,041	1,493	233	5,767
Usage	-	-	(16,303)	(16,303)
Loan recoveries	-	-	4,989	4,989
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**
Financial assets originated or acquired	2,837	-	-	2,837
Financial assets derecognized	(3,299)	-	-	(3,299)
Net changes in credit risk	(3,277)	574	9,923	7,219
Allocations, net of reversals (Note 22)	(3,739)	574	9,923	6,757
Usage	-	(538)	(3,302)	(3,840)
Loan recoveries	-	-	5,640	5,640
Reclassification of fair value reserve (Note 16)	3,259	(283)	(8,446)	(5,470)
Foreign exchange and other variations	192	(42)	74	224
Balance as at 31 December 2019	**663**	**127**	**16,120**	**16,910**

As at 31 December 2019 and 2018, the caption “Allocations, net of reversals” is net of loan recoveries in the amount of € 5,640 thousand and € 4,989 thousand, respectively.

The movements in the caption “Financial assets” classified in stage 3 during the 2019 and 2018 financial years were as follows:

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
Usage	(16,303)	(16,303)
Loan recoveries	4,989	4,989
Foreign exchange and other variations	-	643
Balance as at 31 December 2018	**18,635**	**12,231**
Net changes in credit risk	21,864	9,923
Usage	(3,302)	(3,302)
Loan recoveries	5,640	5,640
Reclassification of fair value reserve	(13,373)	(8,446)
Foreign exchange and other variations	-	74
Balance as at 31 December 2019	**29,463**	**16,120**

The caption “Other credit operations” refers to the specialized financing (previously denominated car financing) that was carried out by the subsidiary Sofinloc. This activity was discontinued in 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 a non-performing assets portfolio, and may be analysed as follows:

EUR thousand	**31.12.2019**	**31.12.2018**
Performing credit	243	756
Overdue credit up to 90 days	15	29
Overdue credit between 90 days and up to 24 months	35	45
	293	**830**
Impairment for performing credit	(1)	(3)
Impairment for overdue credit up to 90 days	-	(2)
Impairment for overdue credit between 90 days and up to 24 months	(14)	(101)
	(15)	**(105)**
	279	725
Recoverable amount of overdue credit over 24 months	2,885	5,155
	3,164	**5,880**

The recoverable amount of overdue credit over 24 months corresponds to the amount, net of impairment, of credit agreements that have been in default for over 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	31.12.2019			31.12.2018		
		Fair value			Fair value	
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Hedging derivatives						
Interest rate derivatives	1,102,409	1,937	34,750	1,283,668	19,198	10,620
Foreign currency derivatives	716,575	3,203	8,567	740,658	206	27,352
	1,818,983	**5,140**	**43,318**	**2,024,326**	**19,404**	**37,972**
Of which subject to hedge accounting						
Interest rate derivatives	**1,043,104**	**1,800**	**33,970**	**1,135,050**	**17,770**	**10,000**

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.

Interest rate derivative: 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.

<u>Fair value hedges of interest rate risk – fixed-income securities</u>

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' (Note 6) the accumulated hedge adjustment as at 31 December 2019 amounts to € 761 thousand (2018: € (232) thousand). In 2019, the Group recognized in profit or loss the amount of € 1,667 thousand (2018: € (829) thousand) related to the fair value change of the hedged instruments in the financial year and the amount of € (103) thousand (2018: € 1 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 2019, losses on hedging instruments amounting to € 44,233 thousand (2018: € gains of 4,269 thousand) and gains on the respective hedged items of € 44,339 thousand (2018: losses of € 4,450 thousand). These gains 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 € (44) thousand (2018: € 2,442 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 2019 and 2018, may be analysed as follows:

EUR thousand	**31.12.2019**	**31.12.2018**
Category of financial assets at amortized cost	**9**	**(8)**
Gains / (Losses) in hedging instruments	(1,658)	821
Gains / (Losses) in hedged items attributable to hedged risk	1,667	(829)
Category of financial assets at fair value through other comprehensive income	**106**	**(181)**
Losses in hedging instruments	(44,233)	4,269
Gains in hedged items attributable to hedged risk	44,339	(4,450)
Ineffectiveness of interest rate risk hedges (Note 19)	**115**	**(189)**

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

EUR thousand	**31.12.2019**	**31.12.2018**
Fair value hedges – securities in the "financial assets at amortized cost" portfolio	(103)	1
Fair value hedges - securities in the "financial assets at fair value through other comprehensive income" portfolio	(44)	2,442
Amortization of discontinued hedging relations (Note 19)	**(147)**	**2,443**

Hedging of net investments in foreign operational units

During 2019 and 2018, 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 2019, 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	16,026	16,026
Finantia UK Limited	USD	112,500	112,500	100,142	100,142

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 2019 and 2018, there was no ineffectiveness in these hedging relations.

8. Other tangible assets

EUR thousand	Buildings	Office equipment	IT equipment	Motor vehicles	Assets under right of use	Fixed assets in progress	Other assets	31.12.2019	31.12.2018
Acquisition cost:									
Opening balance	21,254	6,718	3,657	1,824	-	-	1,366	34,818	34,202
Additions	1,300	87	201	587	1,235	123	30	3,563	993
Disposals / write-offs	-	(50)	(93)	(324)	(57)	-	-	(524)	(415)
Fx var. / transfers	(157)	1	1	-	171	-	7	22	38
Closing balance	**22,397**	**6,756**	**3,766**	**2,086**	**1,349**	**123**	**1,402**	**37,879**	**34,818**
Accumulated depreciation:									
Opening balance	11,142	6,180	3,332	1,324	-	-	1,136	23,115	22,413
Depreciation charge	243	92	213	344	435	-	52	1,379	948
Disposals / write-offs	-	(49)	(93)	(304)	(57)	-	-	(503)	(337)
Fx var. / transfers	(62)	9	1	-	(79)	-	1	(131)	81
Closing balance	**11,324**	**6,232**	**3,453**	**1,364**	**299**	**-**	**1,189**	**23,860**	**23,115**
Carrying value	**11,073**	**524**	**313**	**723**	**1,050**	**123**	**213**	**14,019**	**11,703**

As at 31 December 2019, as a result of the application of IFRS 16 as from 1 January 2019, the caption “Assets under right of use” corresponds to buildings, amortized according to the respective term of the lease agreement, as per the accounting policy (Note 2.16).

9. Intangible assets

EUR thousand	Software	Other intangible assets	Work in progress	31.12.2019	31.12.2018
Acquisition cost:					
Opening balance	5,232	405	33	5,669	5,488
Additions	174	-	252	427	171
Disposals / write-offs	(5)	-	-	(5)	-
Fx var. / transfers	-	-	(54)	(54)	10
Closing balance	**5,401**	**405**	**231**	**6,037**	**5,669**
Accumulated amortization:					
Opening balance	5,032	405	2	5,438	5,293
Amortization charge	179	-	-	179	135
Disposals / write-offs	(5)	-	-	(5)	-
Fx var. / transfers	-	-	-	-	10
Closing balance	**5,206**	**405**	**2**	**5,612**	**5,438**
Carrying value	**195**	**-**	**229**	**424**	**231**

As at 31 December 2019 and 2018, other intangible assets and work in progress include software licenses and other expenditure incurred with software implementation and development.

During 2019 and 2018, there were no intangible assets generated internally.

10. Taxes

Income tax recognized in the income statement in 2019 and 2018 may be analysed as follows:

EUR thousand	31.12.2019	31.12.2018
Current tax		
Current tax on profit for the year	(8,728)	(5,147)
Extraordinary banking sector levy	(692)	(698)
Current tax related to prior years	638	1,816
Other	(275)	-
	(9,057)	**(4,028)**
Deferred tax		
Origination and reversal of timing differences	(2,813)	(36)
Tax losses carried forward	-	(702)
	(2,813)	**(738)**
Total income tax recognized in results	**(11,870)**	**(4,767)**

The caption of “Current tax” includes, as at 31 December 2019, the amount of € 3,667 thousand paid over to the Tax Authority in the scope of the Special Programme for the Reduction of Debt to the State (PERES).

The deferred tax assets and liabilities recognized in the balance sheet in 2019 and 2018 may be analysed as follows:

EUR thousand	31.12.2019			31.12.2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Financial assets at fair value through other comprehensive income	-	(6,023)	(6,023)	14,578	-	14,578
Impairment / Provisions	986	-	986	2,090	-	2,090
Tax losses carried forward	-	-	-	-	-	-
Other	2,267	(3,908)	(1,641)	3,596	(3,528)	68
Deferred tax assets / (liabilities)	**3,253**	**(9,931)**	**(6,678)**	**20,264**	**(3,528)**	**16,736**
Set-off of deferred tax assets / liabilities	(1,767)	1,767	-	(674)	674	-
Net deferred tax assets / (liabilities)	**1,486**	**(8,164)**	**(6,678)**	**19,589**	**(2,854)**	**16,736**

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 2019, deferred tax assets related to tax credits for international double taxation amount to € 443 thousand (2018: € 454 thousand). As at 31 December 2019, deferred tax assets related to tax losses carried forward not recognized in the financial statements amount to € 443 thousand (2018: € 701 thousand).

During the year ended 31 December 2019, income taxes recognized in reserves related to financial assets at fair value through other comprehensive income (see Note 16) amount to € (20,601) thousand (2018: € 30,724 thousand).

As at 31 December 2018, the amount of € 41 thousand was recognized in retained earnings in respect of other adjustments related to deferred taxes.

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

EUR thousand	31.12.2019		31.12.2018	
	%	**Amount**	**%**	**Amount**
Profit before income tax		47,567		43,335
Statutory income tax rate	25.5%		27.5%	
Income tax calculated based on the statutory income tax rate		**12,129**		**11,917**
Tax losses used		(256)		631
Effect of inter-group dividends		(1,644)		(7,409)
Tax benefits		(492)		(471)
Autonomous taxation		115		109
Other		1,324		(708)
Income tax		11,178		4,069
Extraordinary banking sector levy		692		698
Income tax recognized in profit or loss		**11,870**		**4,767**
Current tax		9,057		4,028
Deferred tax		2,813		738
Tax under reconciliation		**11,870**		**4,767**

11. Other assets

EUR thousand	31.12.2019	31.12.2018
Debtors and other applications	3,596	8,165
Operations pending financial settlement (Note 14)	4,806	14,422
Other operations awaiting regularization	2,266	973
Accrued income	304	258
	10,972	**23,819**

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

12. Financial liabilities held for trading

This caption may be analysed as follows:

EUR thousand	**31.12.2019**	**31.12.2018**
Trading derivatives (Note 7)	9,348	27,972
Short sales	8,991	13,019
	18,338	**40,991**

13. Financial liabilities at amortized cost

This caption may be analysed as follows:

EUR thousand	**31.12.2019**	**31.12.2018**
Due to customers		
Time deposits	895,485	864,533
Demand deposits	47,872	36,341
	943,358	900,874
Sales operations under repurchase agreements (repos)		
Banks	550,754	536,645
Other financial companies	104,864	111,195
	655,617	647,840
Other financial liabilities at amortized cost		
Money market operations	16,915	11,391
	16,915	11,391
	1,615,890	**1,560,105**

The sales operations 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	31.12.2019	31.12.2018
Bank guarantees and irrevocable commitments	25	14
Other provisions	872	854
	897	**868**

The movement occurring in the caption “Provisions” during the 2019 financial year was as follows:

EUR thousand	Bank guarantees and commitments	Other provisions	Total
Balance as at 1 January 2019	14	854	868
Allocations, net of reversals (see Note 22)	11	18	29
Balance as at 31 December 2019	**25**	**872**	**897**

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
Allocations, net of reversals (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	31.12.2019	31.12.2018
Accrued expenses	6,069	5,979
Amounts owed to the public sector	443	539
Creditors of specialized finance operations	675	316
Lease liabilities	906	-
Other liabilities awaiting regularization	4,512	11,820
	12,605	**18,654**

The caption “Other liabilities awaiting regularization” include the amount of € 4,059 thousand (2018: € 11,475 thousand) related to transactions pending financial settlement, arising in the Group’s normal course of business (Note 11).

As at 31 December 2019, the caption “Lease liabilities” corresponds to the amount of the lease liabilities recognized in the scope of the application of IFRS 16 as from 1 January 2019, as described in the accounting policy (Note 2.16). As at 31 December 2019, the Group had various operating leasehold agreements.

The minimum future payments related to operating leasehold agreements, by maturity, are as follows:

EUR thousand	**31.12.2019**
Up to 1 year	277
1 to 5 years	629
	906

15. Share capital, share premium and treasury stock

Share capital and share premium

As at 31 December 2019 and 2018, 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

As at 31 December 2019 and 2018, the caption "Treasury stock" is represented by 37,607 shares with a nominal value of € 1 each. The acquisition cost of these shares was € 53 thousand. During 2019 and 2018, there were no movements in treasury stock.

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	**31.12.2019**	**31.12.2018**
Other accumulated comprehensive income	14,706	(39,816)
Retained earnings	58,982	52,750
Other reserves	189,568	176,686
	263,256	**189,620**

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 2019 and 2018 were as follows:

EUR thousand	Other accumulated comprehensive income			Retained earnings and other reserves		
	Financial assets at fair value through other comprehensive income	Hedging of net investment in foreign currency	Sub-Total	Retained earnings	Other reserves	Total
Balance as at 31 December 2018	**(40,532)**	**715**	**(39,816)**	**52,750**	**176,686**	**189,620**
Changes in fair value	74,997	-	**74,997**	-	-	**74,997**
Hedging of net investment in foreign currency (Note 7)	-	127	**127**	-	-	**127**
Deferred taxes (Note 10)	(20,601)	-	**(20,601)**	-	-	**(20,601)**
Constitution / (transfer) of reserves	-	-	**-**	6,231	12,882	**19,113**
Balance as at 31 December 2019	**13,864**	**842**	**14,706**	**58,982**	**189,568**	**263,256**

EUR thousand	Other accumulated comprehensive income			Retained earnings and other reserves		
	Financial assets at fair value through other comprehensive income	Hedging of net investment 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	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)**
Hedging of net investment 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**

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	31.12.2019	31.12.2018
Acquisition cost of financial assets	1,793,779	1,696,243
Accumulated impairment recognized in the balance sheet (Note 6)	(16,336)	(10,866)
Amortized cost of financial assets, net of impairment	1,777,443	1,685,377
Fair value of financial assets (Note 6)	1,797,331	1,630,268
Unrealized gains / (losses) recognized in OCI	3,552	(65,975)
Impairment (Note 6)	16,336	10,866
Deferred taxes (Note 10)	(6,024)	14,578
	13,864	**(40,532)**

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

EUR thousand	31.12.2019	31.12.2018
Balance at the beginning of the financial year	(40,532)	37,147
Transition to IFRS 9	-	5,925
Change in fair value	152,043	(96,847)
Disposals in the period (see Note 19)	(38,221)	(24,534)
Reclassification to impairment (Note 6)	5,470	5,048
Fair value hedges (Note 7)	(44,295)	(2,007)
Deferred taxes recognized in reserves in the period (see Note 10)	(20,601)	30,724
Balance at the end of the financial year	**13,864**	**(40,532)**

17. Net interest income

EUR thousand	31.12.2019	31.12.2018
Interest and similar income		
Debt instruments	79,221	77,466
Loans	7,451	5,852
Other credit operations	3,811	4,302
Other interest and similar income	152	294
	90,635	**87,914**
Interest and similar expense		
Sale operations under repurchase agreement	(19,314)	(15,122)
Due to customers	(8,486)	(9,321)
Hedging derivatives	(124)	(2,447)
Other interest and similar expense	(1,280)	(510)
	(29,205)	**(27,400)**
	61,431	**60,514**

18. Net fee and commission income

EUR thousand	31.12.2019	31.12.2018
Fee and commission income		
From banking activity	2,209	2,426
From specialized finance activity	257	599
	2,466	**3,025**
Fee and commission expense		
On third-party banking services	(421)	(382)
On specialized finance activity	(38)	(47)
	(459)	**(429)**
	2,007	**2,596**

As at 31 December 2019, the caption “Fee and commission income - from specialized finance activity” includes the amount of € 134 thousand (2018: € 188 thousand) related to fees from insurance intermediation.

19. Net results from financial operations

As at 31 December 2019 and 2018, this caption may be analysed as follows:

EUR thousand	**31.12.2019**	**31.12.2018**
Gains or losses from derecognition of financial assets at fair value through other comprehensive income (Note 6)	38,221	24,534
Gains or losses from derecognition of financial assets at amortized cost	1,036	5,972
Gains or losses from financial assets and liabilities held for trading	(1,056)	(1,937)
Gains or losses from hedge accounting (Note 7)	(32)	2,254
Gains or losses from foreign exchange operations	(21,112)	(19,064)
Other gains or losses from financial operations	57	(11)
	17,115	**11,749**

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 2019, it includes the amount of € (3,055) thousand (2018: € (2,229) 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 € (12,816) thousand (2018: € 7,197 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 € (578) thousand (2018: € 756 thousand).

20. Staff costs

EUR thousand	**31.12.2019**	**31.12.2018**
Remuneration	11,141	11,050
Mandatory social charges	2,395	2,300
Other charges	730	1,019
	14,265	**14,370**

As at 31 December 2019 and 2018, the remuneration, including respective mandatory social charges, paid to the Group's management and supervisory bodies amounted to € 988 thousand and € 1,134 thousand, respectively.

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

	31.12.2019	**31.12.2018**
Senior management	96	91
Middle management	148	147
Professional staff	20	24
	264	**262**

21. Other administrative expenses

EUR thousand	**31.12.2019**	**31.12.2018**
Specialized services	5,068	4,923
Maintenance services	1,643	1,466
Contributions	1,328	1,329
Travel and accommodation	487	516
Communication	456	494
Rentals and hires	148	698
Other	1,068	1,286
	10,199	**10,712**

The caption "Contributions" includes, among others, mandatory contributions to the resolution fund, the single resolution fund, the deposits guarantee fund and the annual prudential supervision fee (ECB).

22. Impairment and provisions

As at 31 December 2019 and 2018, the amounts of impairment and provisions recognized in the income statement may be analysed as follows:

EUR thousand	**31.12.2019**	**31.12.2018**
Financial assets at amortized cost	838	1,002
Financial assets at fair value through other comprehensive income	5,920	4,765
Impairment or reversal of impairment (Note 6)	6,757	5,767
Impairment or reversal of impairment of non-financial assets (Note 11)	-	(266)
Provisions or reversals of provisions (Note 14)	29	(587)
	6,786	**4,914**

During 2019, the total amount of interest recognized in the income statement from impaired financial assets is € 2,495 thousand (2018: € 1,617 thousand).

23. Earnings per share

Basic earnings per share

EUR thousand, except number of shares	31.12.2019	31.12.2018
Net profit attributable to the shareholders of the Bank	35,957	38,542
Weighted average number of ordinary shares outstanding (thousand)	149,962	149,962
Basic earnings per share (in Euros)	**0.24**	**0.26**
Number of ordinary shares outstanding at year-end (thousand)	**149,962**	**149,962**

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 2019 and 2018.

24. Off-balance sheet items

EUR thousand	31.12.2019	31.12.2018
Guarantees issued		
Assets given in guarantee ("repos")	786,820	816,975
Guarantees and endorsements issued	11,883	11,811
	798,703	**828,786**
Guarantees received		
Assets received in guarantee ("reverse repos")	5,780	9,310
Other guarantees received	-	-
	5,780	**9,310**
Other contingent assets		
Irrevocable credit lines	1,500	1,500
	1,500	**1,500**
Other contingent liabilities		
Revocable credit lines	9,000	-
Other contingent liabilities	2,590	2,559
	11,590	**2,559**
Responsibilities for services rendered		
Deposit and custodianship of items	418,673	282,452
	418,673	**282,452**

As at 31 December 2019 and 2018, all assets recorded in the off-balance sheet items captions are classified in Stage 1. As at 31 December 2019, impairment was recognized (Stage 1) for credit risk in the amount of € 11 thousand (2018: € 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 under resale agreements ("reverse repos"). The balance sheet amount of the securities included in these operations amounted, as at 31 December 2019, to € 836,600 thousand (2018: € 798,074 thousand).

As part of the purchase operations under 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 2019, to € 6,624 thousand (2018: € 10,541 thousand).

As at 31 December 2019, the caption "Other contingent liabilities" includes the amount of € 2,500 thousand (2018: € 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 statement of cash flows, cash and cash equivalents comprise the following balances, with maturities under 3 months:

EUR thousand	31.12.2019	31.12.2018
Cash (Note 5)	73	49
Demand deposits with central banks (Note 5)	33,020	15,937
Deposits with other banks (Note 5)	14,637	38,470
Due from banks	32,581	27,899
	80,312	**82,355**

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 2019, may be analysed as follows:

Shareholder	Registered office	Direct shareholding %	Effective shareholding %
Finantipar, S.A.	Portugal	63.0	63.1
VTB Group	Russia	12.2	12.2

The balances and transactions with related parties as at 31 December 2019 and 2018, may be analysed as follows:

EUR thousand	**31.12.2019**	**31.12.2018**
Assets		
Debt instruments	2,428	13,537
Liabilities		
Due to customers	5,117	563
Other liabilities	150	385
Income		
Interest and similar income	183	905
Gains from financial operations	98	723
Expense		
Interest expense and similar charges	12	209
Losses from financial operations	6	144
Off-balance sheet items		
Deposit and custodianship of items	26,750	17,800

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. Risk management activity

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).

There is also a Risk Department in the Group that is responsible for the management of all Group risks and forms part of the Risk Management Function. In this context, the Risk 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, (vii) carries out the independent validation of the methodologies and results of the Internal Liquidity Adequacy Assessment Process, (viii) actively participates in the preparation of the RAF and (ix) 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, interest rate, credit spread, foreign exchange rate, market, 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 2019, the Group presented an own capital utilization ratio for the economic capital requirements of 67.7% (50.0% as at 31 December 2018, with the difference being related to the improvement of the financial risk models and the increase in the degree of prudency in the quantification of the respective requirements).

Regarding risk appetite, during 2019 the metrics included in the RAF were always within the limits and levels of tolerance approved for the Group.

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	**31.12.2019**	**31.12.2018**
Cash and banks (Note 5)*	14,637	38,470
Debt instruments (Note 6)	1,833,354	1,709,549
Loans (Note 6)	158,891	115,541
Due from banks (Note 6)	71,838	50,777
Purchase operation under resale agreement (“reverse repos”) (Note 6)	6,624	10,748
Trading derivatives (Note 6)	3,340	1,634
Other credit operations (Note 6)	3,178	5,985
Other assets (Note 11)	12,789	27,811
	2,104,651	**1,960,514**
Guarantees and endorsements issued (Note 24)	81,239	54,812
	81,239	**54,812**

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

Considering the Group’s credit risk exposure, by rating, as at 31 December 2019, 76% (2018: 76%) of the total exposure of the Group relates to OECD or investment grade countries, with the remaining exposure spread over more than twenty countries, as follows:

EUR thousand	**31.12.2019**		**31.12.2018**	
OECD countries	1,105,465	51%	1,048,870	52%
Investment grade (non-OECD) countries	536,632	25%	502,533	25%
Other countries	518,603	24%	479,211	24%
	2,160,700	**100%**	**2,030,614**	**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, sale operations under repurchase agreements (“repos”) and purchase operations under 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 2019, 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	5,140	5,140	-	-	5,140
Reverse repos	6,624	6,624	6,757	-	(133)
Total	**11,764**	**11,764**	**6,757**	**-**	**5,007**
Financial liabilities					
Derivatives	43,318	43,318	-	(45,170)	(1,852)
Repos	655,617	655,617	(836,600)	10,610	(170,372)
Total	**698,935**	**698,935**	**(836,600)**	**(34,560)**	**(172,225)**

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 2019 and 2018, 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 2019, the average daily VaR for interest rate risk was € 3.11 million (€ 1.97 million in 2018), 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 2019	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	330,354	51,115	26,221	612,816	1,115,793
Liabilities	(531,684)	(297,394)	(411,210)	(373,033)	0
Off-balance sheet items	984,339	95,881	(21,904)	(573,007)	(558,882)
Gap	**783,009**	**(150,398)**	**(406,892)**	**(333,223)**	**556,911**

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**

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 2019, based on the methodology described above, the average daily VaR for foreign exchange rate risk was € 2.39 million (€ 2.71 million in 2018), 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	31.12.2019	
	USD	**Other currency**
Assets		
Cash and banks	1,829	463
Debt instruments	1,297,535	-
Loans	83,783	-
Due from banks	25,957	-
Purchase operations under resale agreement (“reverse repos”)	2,268	-
Derivative instruments (Note 7)	1,562	-
Other credit operations	-	-
Other assets	5,750	308
Total assets	**1,418,684**	**771**
Liabilities		
Short sales	3,624	-
Derivative instruments (Note 7)	24,464	-
Due to banks	4,730	-
Due to customers	15,466	-
Sales operations under repurchase agreement (“repos”)	645,101	-
Foreign currency derivatives	716,575	-
Other liabilities	4,353	3,041
Total liabilities	**1,414,312**	**3,041**
Net regulatory position	**4,372**	**(2,270)**
Fair value reserve	16,597	-
Net accounting position	**(12,225)**	**(2,270)**

EUR thousand	31.12.2018	
	USD	**Other currency**
Total assets	1,267,782	3,453
Total liabilities	1,281,153	1,411
Net regulatory position	**(13,371)**	**2,042**
Fair value reserve	(44,851)	-
Net accounting position	**31,480**	**2,042**

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 repos operations, asset liquidity and immediate liquidity characteristics.

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 2019, 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	19,192	-	-	-	19,192
Due to customers	199,209	365,791	390,793	-	955,793
Sales operations under repurchase agreements ("repos")	206,489	356,675	103,536	-	666,701
Short sales	-	-	4,886	2,930	7,816
Liabilities by contractual maturity dates	**424,890**	**722,466**	**499,215**	**2,930**	**1,649,502**
Assets held for liquidity risk management	**208,779**	**131,415**	**949,719**	**1,247,602**	**2,537,515**

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
Sales operations under repurchase agreements ("repos")	261,493	318,629	77,387	-	657,509
Short sales	-	-	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**

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

As at 31 December de 2019:

EUR thousand	**Up to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Assets' cash flows	224,319	517,257	80,096	21,294	842,966
Liabilities' cash flows	229,898	514,935	100,716	29,756	875,305

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

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 2019, several training actions were carried out in the area of non-financial risks, with an emphasis on specific training on Prevention of Money Laundering, GDPR and Cybersecurity, among others. For 2020, the Bank 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 2019 and 2018 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 2019 and in accordance with Notice no. 6/2016 of the Bank of Portugal, a capital conservation buffer was implemented of 2.5% (2018: 1.875%).

EUR million	**31.12.2019**	**31.12.2018**
Common Equity Tier 1 (CET1)	459.9	369.9
Tier 1	459.9	369.9
Total Capital	459.9	369.9
Risk weighted assets	1,924.8	1,758.5
CET 1 ratio	23.9%	21.0%
Tier 1 ratio	23.9%	21.0%
Total Capital ratio	23.9%	21.0%

The risk weighted assets are measured using the standard method. This measurement considers the nature of the assets and the respective counterparts and also the existence of associated collateral and guarantees.

During 2019 and 2018, 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		31.12.2019			31.12.2018		
	Notes	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets							
Financial assets at fair value through other comprehensive income	6	1,372,196	425,136	-	1,212,774	417,493	-
Financial assets at fair value through profit or loss	6	-	36	-	-	-	-
Financial assets held for trading	6	8,293	6,111	-	13,675	6,374	-
Derivative financial instruments	7	-	5,140	-	-	19,404	-
Liabilities							
Derivative financial instruments	7	-	43,318	-	-	37,972	-
Short sales	12	-	8,991	-	-	13,019	-

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 € 1,937 thousand and € 34,750 thousand, respectively (2018: € 19,198 thousand and € 10,620 thousand, respectively). As at 31 December 2019 and 2018, 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 2019 and 2018, 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:

	31.12.2019		31.12.2018	
	EUR	USD	EUR	USD
Overnight	-0.446	1.543	-0.356	2.378
1 month	-0.438	1.763	-0.363	2.503
3 months	-0.383	1.908	-0.309	2.808
6 months	-0.324	1.912	-0.237	2.876
1 year	-0.249	1.996	-0.117	3.005
3 years	-0.238	1.689	-0.077	2.590
5 years	-0.129	1.729	0.198	2.570
7 years	0.017	1.798	0.469	2.624
10 years	0.211	1.895	0.811	2.705
15 years	0.470	2.010	1.170	2.801
20 years	0.604	2.066	1.327	2.836
30 years	0.621	2.091	1.377	2.838

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	31.12.2019	31.12.2018
EUR/USD	1.1234	1.1450
EUR/GBP	0.8508	0.89453
EUR/CHF	1.0854	1.1269
USD/BRL [a]	4.0197	3.8812

[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	31.12.2019			31.12.2018		
		Carrying amount	Fair value		Carrying amount	Fair value	
			Level 1	Level 2		Level 1	Level 2
Assets							
Cash and banks	5	51,497	51,497	-	59,142	59,142	-
Financial assets at amortized cost	6	250,043	89,105	162,253	228,003	102,554	125,546
Other credit operations	6	3,164	-	3,173	5,880	-	5,913
Liabilities							
Due to banks	13	16,915	16,915	-	11,391	11,391	-
Due to customers	13	943,358	943,358	-	900,874	900,874	-
Repurchase agreements	13	655,617	655,617	-	647,839	647,839	-

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 2019, 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.	1993	2001	Spain	Banking	99.8	Full
Finantia UK Limited	1993	1997	United Kingdom	Finance	100	Full
Finantia Malta Ltd. [(a)]	2004	2004	Malta	Finance	100	Full
Finantia USA Inc. [(b)]	1995	1997	USA	Broker-Dealer	100	Full
Finantia Brasil, Ltda.	1997	1997	Brazil	Advisory services	100	Full
Finantia Holdings BV	2004	2004	Holland	Shareholdings' management	100	Full
Sofinloc, S.A.	1983	1992	Portugal	Administrative services and company support	100	Full
Finantia Corporate, Lda.	1989	1989	Portugal	Advisory services	100	Full
Esprin - Española de Promociones, S.L.	2000	2001	Spain	Advisory services and Holding company	100	Full

[(a)] Merger by incorporation of Finantia Malta Ltd. in Finantia PH Ltd and subsequent renaming to Finantia Malta, Ltd..

[(b)] Previously named Finantia USA, Ltd.

31. Subsequent events

Expected credit losses with reference to 31 December 2019 were based on the economic conditions as at that date. As from January 2020, the coronavirus outbreak has spread beyond China's borders, impacting financial markets and economic activity. In estimating expected credit losses in accordance with IFRS 9, the Group will use, in 2020, reasonable and sustainable forward-looking information that is based on assumptions about the future evolution of different economic drivers and how each driver impacts the rest, including the possible effects of the coronavirus, for which impacts are not quantifiable at this date. To what concerns the fair value of the financial assets at fair value through other comprehensive income, that as at 31 December 2019 amounted to € 1,797,331 thousand, as presented in Note 6, the fair value of these financial assets at 29 February 2020 amounted to € 1,746,768 thousand, this amount is influenced by market transactions executed during this period (the net amount of purchase and sell of instruments during this period is a reduction of approximately € 48,000 thousand) as well as market fluctuations related with Covid-19, among other factors.

Additionally, and in what concerns Covid-19 and the need of establishing a strategy which allows to minimize the potential adverse effects of the virus progression, the Bank prepared a contingency plan, with the aim to ensure an adequate risk management of the contagion risk as well as to face possible cases of infection, minimizing the risk of contagion and negative impact on Bank´s activity.

Bank´s main goals in Covid-19 crisis management are:

> To defend the safety and health of its employees;

> To ensure the continuity of its businesses;

> To defend the safety and health of its clients and suppliers.

The Bank has in place a dedicated management team, which is permanently monitoring and following any relevant development, responsible to define actions plans as well as to communicate them internally.

Lastly, and following the data released in the scope of the so-called Luanda Leaks in early 2020, and the concerns expressed by the regulators following this, the Group carried out an analysis of the potential impacts in terms of its financial statements, concluding that, based on the information known as at this date, there are no significant related impacts.

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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 Balance Sheet as at 31 December 2019 (showing a total of 2,157,328 thousand euros and a total equity of 462,024 thousand euros, including a net profit for the year of 35,957 thousand euros), and the Consolidated Income Statement, 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 2019, 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.

Emphasis of matter

We draw your attention to the fact that, as described in Note 31 to the consolidated financial statements, because of the declared Covid 19 pandemic, a significant instability on the financial markets as well as in the economic activity has been noted in 2020, whose future impacts are not measurable at this date.

Our opinion is not modified in respect of this matter.

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. Financial Assets impairment – Securities and Loans portfolio

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 2,068,319 thousand euros ("m €") representing 96% of total assets. According to that disclosed in the note 2.2.1.5 the impairment reflects: (i) expected losses resulting from possible default events in the 12 months following the report date or (ii) expected losses that may occur from all possible default events over the useful 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. 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, such as: (i) probability of default ("PD"); (ii) expected 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 use of alternative approaches, models or assumptions may have a material impact on the estimated impairment value. Considering the degree of subjectivity and complexity involved in the impairment of the financial assets, we have defined this matter as a key audit matter.	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) an overall 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, evaluated the design and tested the operating effectiveness of internal control procedures over the process of quantification of impairment losses, namely 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 identified and analysed the indications of deterioration of credit risk of the financial assets which comprise the debt instrument and loan portfolio; • With the support of internal risk specialists, we assessed the reasonableness of the parameters used in the impairment calculation, highlighting the following procedures: 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 assessed 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 obtained and analysed the internal documents that support the decision to record an impairment, 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 and the accounting records.

2. Financial instruments measurement

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 29 to the consolidated financial statements, the Group presents the amount of 436,423 thousand euros and 52,309 thousand euros related to assets and liabilities of financial instruments classified in level 2 of the fair value hierarchy, IFRS 13 – Fair Value. At 31 December 2019, the financial instruments classified by the Group in level 2 are comprised by: (i) debt instruments and loans classified in the financial statements as financial assets at fair value through other comprehensive income or as Financial assets at held for trading and (ii) derivative financial instruments classified as financial assets held for trading or hedging derivatives. This category includes a part of the debt instruments portfolio whose valuation is obtained through an unregulated market or not quoted under the rules of the stock exchange or have a lower level of liquidity. Additionally, it includes other financial instruments whose 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 observable market data as inputs in its models, such as interest rate curves, credit spreads, volatility and market indexes. Consequently, the use of different methodologies, assumptions and judgments in the application of a specific model, may have an impact on the determination of the fair value of financial instruments and on the consolidated financial statements, and therefore we considered tis as a key audit matter.	Our response to the risk of material misstatement includes the following procedures: • We obtained an understanding and evaluated the design of the internal control procedures over the process of measurement of financial instrument assets and liabilities, specifically for the portfolio of debt instruments, loans and derivative financial instruments; • We tested the operating effectiveness of internal control procedures over the process of measurement of debt financial instruments, • For a sample of debt instruments, we assessed the reasonableness of the measurement performed by the Group. • We assessed the reasonableness of the measurement of the entire derivative financial instrument portfolio; • We obtained and analysed the internal documents that support the decision regarding the financial instrument measurement; • We analysed the reasonableness of the defined criteria and the consistency of their application in the measurement of financial instruments held by the Group; • We analysed the disclosures included in the notes to the financial statements, based on the requirements of International Financial Reporting Standards and the accounting records.

3. 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 2019, The Group recorded in the caption hedging derivatives current asset amounts of 5,140 thousand euros and current liabilities of 43,318 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: • verification of the existence of formal designation and documentation regarding the hedging relationship and the Group's risk management objective and strategy to execute the hedge; • conducting prospective effectiveness tests to assess whether hedging effectiveness requirements are met. The technical conditions required to be able to adopt hedge accounting, 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 the risk of material misstatement included the following procedures: • We analysed and assessed the documentation prepared by the Group entities 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 entities in support of the discontinued hedge accounting in 2019 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.

4. Current and deferred tax estimates

Description of the most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
At 31 December 2019, the Group financial statements include deferred tax assets and liabilities amounting to 1,486 thousand euros and 8,164 thousand euros, respectively. In addition, they include current tax assets and liabilities amounting to 7,773 thousand euros and 5,173 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.	Our approach towards the risk of material misstatement included the following procedures: • 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 disclosure requirements of International Financial Reporting Standards.

5. 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 or resale agreements, and, accordingly, the income statement is influenced by the gains and losses arising from those transactions. Taking into consideration that the related party transactions, if not performed at market prices, could have a significant impact on Group results, 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 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 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 present 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 31 May 2019 for a third mandate from 2019 to 2021;
- 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 scepticism 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 19 of March 2020;
- 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 year 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 purpose 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, 19 March 2020

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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