ANNUAL REPORT AND CONSOLIDATED ACCOUNTS |2017

Banco Finantia, S.A.
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Banco Finantia
KEY FIGURES

IFRS [1]

Euro million	2017	2016	Variation
Total assets	**1.988,5**	1.807,4	+ 10,0 %
Fixed income and loan portfolio	**1.815,9**	1.631,2	+ 11,3 %
Shareholders' equity	**455,0**	408,0	+ 11,5 %
Operating income, after impairment and provisions	**77,6**	65,2	+ 19,0 %
Net profit	**42,3**	30,7	+ 37,6 %
CAPITAL ADEQUACY (BAL III)			
Fully loaded			
Common Equity Tier 1 (CET1) (%)	**23,0**	23,6	- 0,6 pb
Total Capital Ratio (%)	**23,0**	23,6	- 0,6 pb
Transitional provisions			
Common Equity Tier 1 (CET1) (%)	**22,6**	23,3	- 0,7 pb
Total Capital Ratio (%)	**22,6**	23,3	- 0,7 pb
PRODUCTIVITY/EFFICIENCY			
Cost to Income (%)	**27,5**	28,2	- 0,8 pb
Data per share (Euro) [2]			
Net Profit	**0,29**	0,20	+ 0,09 €
Book Value	**3,03**	2,72	+ 0,31 €
Weighted average no. of shares outstanding (million)	**143,9**	137,8	-
Year end no. of shares outstanding (million)	**150,0**	137,8	-

[1] International Financial Reporting Standards

[2] 2016 data per share adjusted for the share capital increase, through the incorporation of reserves, occurred in 2017.

BANCO FINANTIA OVERVIEW

An independent Bank, a leader in Portugal in Investment and Private Banking, with a national and international experience of more than 30 years. Always solid and profitable, with capital ratios clearly exceeding the sector's average. As of December 2017, the Common Equity Tier 1 ratio was 23%, one of the highest in the European Union.

We operate in three important market niches:

1) Capital Markets – Fixed Income products for companies and investors;

2) Corporate & Investment Banking – Financial Advisory Services with a focus on cross-border M&A operations, debt and capital raising for corporations, and financial restructurings.

3) Private Banking – Quality personalized services to affluent and high net worth customers.

Our geographical focus is on Portugal, Spain, Brazil and the CIS (Commonwealth of Independent States).

Our key operating units are a bank in Portugal, a bank in Spain, broker dealers in London, New York/Miami and rep offices in São Paulo and Malta.

Banco Finantia's performance, its successes, and the quality and professional competence of its staff have been recognized over the years, having received a significant number of international awards.

Best Corporate Bank
Portugal 2017

Best Private Banking
Portugal 2017

MANAGEMENT REPORT | 2017

1. Macroeconomic Environment

1.1 Global Environment

A number of important events marked the year 2017. These events included Britain's negotiations to exit the European Union (Brexit) and Donald Trump becoming the 45th President of the United States, with an agenda clearly different from that of his predecessors The global economy, however, strengthened - the IMF, estimates global growth at 3.7% in 2017 and forecasts 3.9% in 2018, an upswing from 3.2% registered in 2016.

Growth expectations for the developed economies is at 2.3% in 2017, an increase from 1.7% in 2016. For 2018, growth for these economies is forecast at 2.3%. Similarly, growth for emerging economies is expected at 4.7% in 2017 and forecast at 4.9% in 2018, an improvement from the 4.4% in 2016.

The IMF estimates that the US economy grew by 2.3% in 2017 against 1.5% in 2016. Eurozone growth is estimated at 2.4% in 2017 versus 1.8% in 2016. The CIS is expected to have grown strongly at 2.2% in 2017 vs. 0.4% in 2016. Growth in Emerging Asia is expected at 6.5% in 2017 vs. 6.4% in 2016. In Latin American and the Caribbean growth is estimated at 1.3% in 2017 from -0.7% in 2016. Sub-Saharan Africa expected growth for 2017 is at 2.7% vs. 1.4% in 2016. The still difficult conditions faced by several commodity-exporting countries in Latin America, the CIS and sub-Saharan Africa appear to be dissipating.

China is expected to have grown 6.8% in 2017 vs. 6.7% in 2016. India, on the other hand, is expected to have grown slower at 6.7% in 2017 vs. 7.1% in 2016. Russia improved strongly to 1.8% in 2017 vs. -0.2% in 2016. Brazil's expected improvement to 1.1% in 2017 from -3.5% in 2016 reflects strong export performance and a diminished pace of contraction in domestic demand. The largest economies in sub-Saharan Africa, mainly Angola and South Africa, have also reversed their slowdowns of 2016 with expected growth at 1.5% and 0.7% in 2017 from -0,7% and 0.3% in 2016, respectively.

For 2018, the US is projected by the IMF to grow by 2.7%. This increase reflects higher projected external demand, and the expected macroeconomic impact of the tax reform, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investment. Overall financial conditions are supportive and business and consumer confidence stronger. The IMF expects the Euro Zone to grow at 2.2% in 2018 or 0.2 p.p. below 2017 as growth is held back by weak productivity, adverse demographics and, in some countries, a public and private debt overhang. Overall, developed economies are projected to grow by 2.3% in 2018. The IMF expects growth in advanced economies to gradually decline toward potential growth rates of about 1.7% with global activity being mainly driven by emerging market economies.

The IMF expects growth in the emerging economies to accelerate to 4.9% in 2018 from 4.7% in 2017. Although China is expected to slow to 6.6% in 2018, growth in the rest of emerging Asia is expected to be vigorous. India's growth for 2018 is forecast at 7.4% as several key structural reforms implemented in 2017 push up growth. Brazil, Angola and Russia, according to the IMF, are expected to continue their recovery with growth in 2018 of 1.9%, 1.6% and 1.7%, respectively.

1.2 The economic environment in Iberia

The IMF, in its September 2017 country report noted that Portugal had made notable progress over the past year in reducing uncertainty over near-term risks. The near-term outlook has strengthened considerably, supported by a pick-up in investment and continued growth in exports, as the recovery in the euro area has gained momentum. The country has exited the Excessive Deficit Procedure whilst confidence in the banking system has improved. All this has led to a sharp narrowing in sovereign spreads since mid-March. Following these latest series of upbeat economic indicators, S&P and Fitch Ratings upgraded Portugal's credit rating to investment grade. All this has helped boost economic growth with the IMF projecting 2017 growth at 2.5% against 1.4% in 2016. The Portuguese Central Bank in December 2017 projected Portuguese GDP growth for 2017 at 2.6%, and 2.3% in 2018.

IMF says that projections point to improvements in the labour market with a pronounced acceleration in employment. The inflation rate is projected to rise from 0.6% in 2016 to 1.6%

in 2017 and 2.0% in 2018. The EU has revised Portugal’s budget deficit forecast to 1.4% for 2017, a 40-year low. The debt-to-GDP is expected to fall to 126% in 2018.

For Spain, the IMF forecasts growth of 3.1% in 2017, below the 3.3% in 2016. The strong, balanced, and employment-intensive expansion of the Spanish economy helped the recovery reach a significant milestone, with GDP surpassing its pre-crisis peak. Past structural reforms, wage moderation and resulting cost competitiveness gains, favourable monetary and external conditions, and fiscal relaxation have provided impetus to the recovery. Unemployment fell to its lowest level in seven years to 17.3%, although it continues to be among the highest in Europe. Public debt is close to 100% of GDP, while population aging is contributing to fiscal pressures. IMF expects 2017 inflation at 2.0%.

2. Operating Activities

2017 was a very positive year for Banco Finantia.

At the global level, it was a year of increased GDP growth and clear improvements in almost all countries. This included the main countries where the Bank operates and, in particular, Portugal, where most of the macroeconomic indicators improved, culminating in an improvement in the country's rating to investment grade and an estimated GDP growth of 2.7%.

In this context, the Bank took advantage of the markets’ positive conditions to expand the activity in its main business areas. The strategy pursued continued to be prudent and focused on the Bank’s niche markets - fixed income capital markets, corporate and investment banking and private banking.

The Bank maintained its focus on international operations, and opened a second office in the United States (in Miami). The operational platforms are now in Portugal, Spain, London, New York, Miami, São Paulo and Malta.

Total assets increased by 10% attaining close to €2 billion. The capital markets activity saw an increase in volume traded of 30% and the number of “corporate” and institutional

customers also continued to increase, as did the number of "private" customers. Deposits exceeded €800 million, up by 9% for the year.

The increase in activity and customers was achieved while maintaining of a high level of operational efficiency (cost/income below 28%) and a good profitability (pre-tax ROE of 12.6%).

2.1 Capital Markets/Fixed Income

The year 2017 was marked by the improvement of Portugal's rating to Investment Grade. The changes in outlook made by the credit rating agencies began in the first quarter of 2017, with the country's upgrade surging in the last quarter of the year.

Taking advantage of the domestic and global economic improvements, the Capital Markets Department was able to increase volumes transacted by 30% and to triple results in relation to the previous year. This was supported by the continued investment on electronic platforms as well as the significant increase in the number of counterparts at the global level.

The domestic Commercial Paper market experienced a strong boost in 2017 with an increase in the volume placed with national and international institutional investors, as well as an increase in the number of issuers who chose this instrument as a channel to raise funds. The Bank placed in 2017 a total of €738 million, which represents an increase of 30% over the amount placed in the previous year.

As in previous years, the Loans area actively managed a specialized portfolio focused on the secondary market, taking advantage of favourable returns versus other asset classes. The main activity in this area, carried out by the Lisbon and international offices, continued to concentrate in loans of corporate and financial issuers from Portugal and Spain as well as of emerging markets, namely Latin America, Eastern Europe, Africa and Turkey. The portfolio had a significant increase during the year, both in terms of amounts and number of issuers, which resulted in a greater diversification of the portfolio by

country of origin. In addition to purchases on the secondary market, there was also increased participation in issues on the primary market.

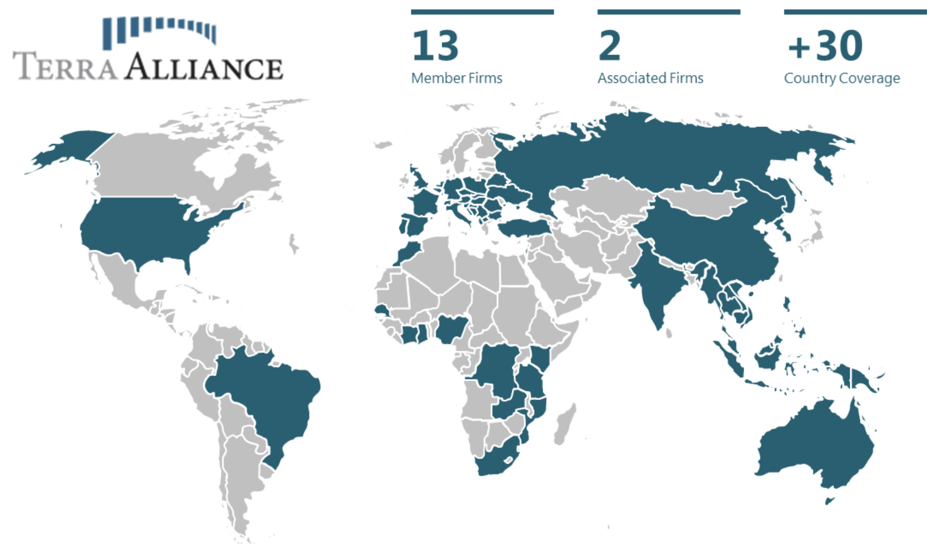
Following the strategy for the international business, the Bank opened an office in Miami to serve as Banco Finantia's strategic platform for the Latin-American market. The prospects in terms of activity and performance are very positive, since the Bank will be able to consolidate its presence throughout the American continent.

The year 2017 was also marked by the preparatory work for the implementation of the new European legislation on markets and financial instruments, MIFID II. The Bank has successfully completed the implementation of all the necessary systems, procedures and controls for MIFID II, allowing it to confidently face the entry into force of the new legislation in January 2018.

2.2 Corporate & Investment Banking

2017 was once again a year of growth for the Corporate & Investment Banking area. Banco Finantia benefitted from its competitive advantages as an international and independent investment bank to further strengthen its positioning in cross-border financial advisory services and fixed income loans and capital market operations.

The Bank's global geographical coverage, strengthened by its bilateral partnerships to develop business in the Banks's main markets (Portugal, Spain and Brazil), as well as its integration in a important global network of investment banks (Terra Alliance), materialized into an increase in business opportunities and cross-border transactions.



Regarding the Financial Advisory Services area, it is worth noting:

a) The support provided to SDC Investimentos in the restructuring process of its bank debt, implemented through bilateral negotiations with more than ten banks, and the sale of assets and the reorganization of the company's shareholder structure including a Public Tender Offer of shares;

b) The support provided to the infrastructure fund Deutsche Asset Management in the sale process of Empark, the largest car park company in the Iberian Peninsula, and;

c) The advisory services to Associação Mutualista Montepio Geral (AMMG) on the launch of a Public Tender Offer of participation units not held by AMMG in Caixa Económica Montepio Geral in order to take it private.

In addition, the Bank extended its activities to various sectors of the economy, having provided financial advisory services in the areas of renewable energy, health, infrastructure, transportation, automobile distribution and banking.

In 2018, the Bank intends to strengthen and develop existing relationships with investment funds, private equity firms and asset managers, as well as through its partnerships, in particular with the Terra Alliance network, in order to intensify its international activity.

In 2017 Loans and Capital Markets activity in Portugal recovered when compared with the previous year. Capitalizing on this, the Bank continued to develop a series of initiatives involving Portuguese customers with a view to maintaining and boosting investors' demand, namely through national and international roadshows and the support of international rating processes.

These initiatives translated into the establishment of four new commercial paper programmes (21 in total) for Portuguese corporate issuers, and an increase in the number of issues and total amounts issued. The Bank met its objective of using this short-term financing instrument as a starting point for subsequent long-term debt issues (and, possibly, financial advisory services). Overall, Banco Finantia realized 140 commercial paper issues, for 29 different issuers, primarily medium-size Portuguese companies.

In 2017, the Bank was also involved in the organization of various long-term financing operations for Portuguese issuers, amongst which:

- José de Mello Saúde, with the Bank acting as Joint Arranger & Lead Manager in a 6-year bond issue, and as Co-Lead Arranger in the private placement of a dual-tranche (of 3 and 5 years) of a German-Law instrument (*Schuldschein*);

- SPRHI, a company owned by the Autonomous Region of the Azores (Região Autónoma de Açores), in which it acted as Sole Arranger & Lead Manager in a 4-year bond issue;

- Mota-Engil, having acted as Sole Arranger & Lead Manager in the Exchange Offer for the extension of the average maturity of two bond issues outstanding.

For 2018, the Bank already has a vast pipeline of potential mandates in the area of Corporate & Investment Banking. Taking advantage of its distinctive capabilities, the Bank will continue developing and expanding its cross-border financial advisory services,

as well as its activity of originating capital market operations. The international activity is considered crucial for the development of this area and, as such, the Bank will continue to strengthen its team and its business partnerships so as to widen both its geographical coverage as well as its range of activities.

2.3 Finantia Private / Private Banking

2017 was once again a year of growth of the Finantia Private brand in the Iberian Peninsula.

The number of customers continued to increase (+8%) in 2017, with the volume of deposits attaining over 800 million Euros (+9%).

Various factors contributed to this increase: (i) strengthening the commercial team; (ii) giving greater visibility to the Finantia Private brand through its promotion in large events such as the Estoril Open in Lisbon and the Red Bull Race in Oporto; and (iii) increasing commercial activity at the Av. Fontes Pereira de Melo branch.

Finantia Private maintained its value proposition, following the market trend of reducing the rates offered on term deposits, permitting a decrease in the funding cost of the Bank, but continuing to provide an integrated and independent offer of simple and competitive products and financial services.

The expansion of the activity of raising deposits outside Portugal and Spain is underway. This widening of the geographical area coverage will be achieved through partnerships with online deposit-taking platforms for customers resident in other European countries.

Finantia Private will continue to focus on a sustained growth of its customer base, on diversifying its fund-raising sources and on strengthening its commercial teams in order to broaden the relationships with its customers.

The service offered by Finantia Private will continue to be developed in a context of discretion, confidentiality and independence, and with the permanent goal of protecting the customers' net worth.

The Bank offers Private Banking services through the offices in Lisbon, Oporto, Madrid, Barcelona and Valencia, the last three through a subsidiary bank, Banco Finantia Sofinloc.

2.4 Treasury

The main activities of Banco Finantia's Treasury Department are: Liquidity management and the monitoring of all the financial flows of the Bank; the management of financial assets and liabilities; the implementation of the risk mitigation strategy in respect of interest and exchange rates; and the relationships with other financial institutions.

These activities were carried out in a year marked by the low volatility of the financial markets, despite the various political events that took place in 2017. With regard to the monetary policies of the two main central banks (FED and ECB), the year 2017 continued, as in previous years, to register divergent actions, with the ECB maintaining its expansionary policy (with a broad debt purchasing programme), whilst the FED raised rates three times during the year and signalled the continuity of this policy for 2018.

In this context, Banco Finantia successfully completed the implementation of the strategy defined for liquidity management, based on the maintenance of a comfortable liquidity margin and on the diversification of its sources of funding.

The liquidity coverage ratio (LCR) at the end of 2017 amounted to 1095%, which compares with the required regulatory minimum of 100%, revealing the maintenance of a comfortable percentage of highly liquid assets (HQLA) on the Bank's balance sheet. The Bank continued to refrain from using the ECB's liquidity-providing facilities, whilst maintaining a significant portfolio of securities eligible for this purpose.

The increase in activity was accompanied by an increase in deposits and repos. Regarding repos, the Bank continued to follow diversification metrics, in terms of maturities and counterparts, developing active relationships with multiple counterparts.

The Bank repaid the Euro Floating Subordinated Note maturing on July 2017, in the amount of €60 million, completing the reimbursement of all the issues of subordinated debt previously issued.

In relation to the debt portfolio, a multi-vector management was maintained, aligning criteria of liquidity, profitability, credit quality and diversification, in a portfolio denominated in Euros and US Dollars. The growth verified in the securities' portfolio, accompanied by an increase in the number of entities, was reflected in a decrease in the average amount invested by issuer. Further diversification was thus achieved without compromising the inherent credit risk, resulting in the maintenance of the average portfolio rating.

In terms of financial risk management, there was an increase in interest and exchange rate hedging operations, in line with the strategy of mitigating volatility and market uncertainty.

Attention should be drawn to the regulatory changes that took place at the beginning of the year (the entry into force of the EU Commission Delegated Regulation 2016/2251), which promoted the standardization of margin rules and mitigation of counterpart risk associated with over the counter (OTC) derivative contracts. These changes met the best market practices recommended by ISDA, which had already been implemented by Banco Finantia.

Relations with other financial institutions, a fundamental element in the pursuit of the Bank's strategy, were deepened and the wide network of international counterparts was enlarged. This was facilitated by Portugal's good economic performance and the return of Portuguese debt to investment grade ratings attributed by S&P (BBB- in September) and Fitch (BBB in December) with stable outlooks.

In addition to the usual counterparts' contacts in various geographies, the Bank was represented at several international events, including the annual meetings of ICMA - International Capital Markets Association (May; Luxembourg), ITFA - International Trade and Forfaiting Association (September; Edinburgh); IMF and World Bank (October; Washington) and FELABAN – Federación Latinoamericana de Bancos (November; Miami).

Of note too was the involvement of the Bank in the organization of the annual meeting of the Groupement Europèen de Banques (GEB), held in June 2017 in Lisbon. The GEB is made up of small and medium-size private banks (one member per participating European country), in which Banco Finantia is the Portuguese member, aiming at the cooperation and exchange of information and experience regarding the respective markets and activities.

At last year's meeting, Banco Finantia presented an analysis on the evolution of Portugal and of its financial system in the international context. In the course of 2017, the GEB finalized a document (Position Paper), which was sent to the European Commission, on the relevance of the principle of proportionality in banking regulation and the importance of smaller institutions for the solidity, diversity and equilibrium of the financial system.

3. Supporting Activities

3.1 Information Systems

In 2017, a process of constant improvement and efficiency gains for the Bank's Information Systems was maintained.

The remaining portfolio of Leasing and ALD contracts was transferred from Sofinloc to Banco Finantia. This transfer formed part of the strategy to concentrate in Banco Finantia all active consumer credit contracts and in Sofinloc the collection activity of existing contracts.

The SAP Business Object 4.2 solution was implemented and is now Banco Finantia's business intelligence tool.

The application IFlow entered into production at the end of the year, which allowed the workflow management of Banco Finantia's official reporting process. This application's objective is to effectively control the regulatory and reporting obligations of the various Bank companies.

In addition, due to legal and regulatory requirements, the reporting of consolidated international banking statistics (EBIS) was reformulated.

SIBS was the partner chosen to outsource the SWIFT solution, in order to meet the security requirements under its Customer Security Programme.

Projects in the area of information security were privileged in order to respond to the market's regulatory requirements, strengthening the best practices in information management. Intrusion tests were performed on the perimeter and internal network infrastructure, certain accesses to "Webmail" and "File Storage and Sharing" sites were inhibited, and a Local Administration Password Solution (LAPS) was configured to control the administration accounts of the Workstations and Servers. In accordance with the Customer Security Controls Framework, training was provided to employees on Cybersecurity and the process of enhancing the security of the SWIFT platform.

Migration of the workstations operating system was completed. A Self-Service Password Reset solution was implemented, in order to allow employees to manage their domain password, and an encryption solution was implemented in the Laptops. A solution for sending emails with the Employee's digital signature was also made available, with the possibility of encrypting the emails, and the exchange of emails with external entities through Transport Layer Security (TLS) was implemented. In addition, a mechanism for encrypting the backups of the Bank's Core Application was implemented.

A Security Assessment was performed on the Firewall and Proxy Platforms, the Firewall Appliances were replaced in order to increase their performance and resilience. A cybersecurity monitoring service was adjudicated in order to proactively detect events in the WEB with potential risk for the Bank. Continuity was also given to the creation of new policies and the reinforcement of procedures related to Information Security, aligned with good practices and international standards.

Regarding the Business Continuity Plan (BCP), the AS400 Server supporting the Bank Fusion Midas (BFM) Application was replaced in the Disaster Recovery Centre (DRC) in order to increase its performance. A new telephone call recording solution was introduced, reinforcing compliance with the MiFID II requirements, as was an SQL Database replication mechanism, aimed at reducing the Recovery Point Objective (RPO) and Recovery Time Objective (RTO) of business processes defined as critical.

3.2 Operations

As with previous years, the year 2017 was challenging and confirmed the adequacy of the strategy adopted over the last few years by the Operations Department.

The internal mobility of employees and the development and improvement of processes and procedures allowed for the accommodation of the growth of the activity in the various business areas, without impacting the security of the operations' processing.

On the other hand, we had another year of high demands in terms of the implementation of new reports, amongst which the Foreign Account Tax Compliance Act (FATCA) Europe stands out. In accordance with the new Regulatory Framework of the European Securities and Markets Authority (ESMA), the Operations Department also ensured the implementation of the MiFIDII Project in Banco Finantia.

The training programme and the emphasis placed on the continuous improvement of processes contributed to the increased flexibility and reinforcement of employee skills.

In terms of payment systems, the outsourcing of the SWIFT system to SIBS is highlighted, allowing for increased security both at the infrastructure and at the service levels.

During 2018, the Operations Department will continue to focus on mitigating operational risk and on revising procedures, maintaining its support of the strategy and objectives defined by the Bank.

3.3 Human Resources

Banco Finantia has been improving its internal organization so as to remain competitive in the market, keeping in mind, at all times, the upgrading and motivation of its main asset – Human Capital.

The Bank remains conscious of the strategic importance of its people, attributing special attention to their continued training and development as well as to the ability to attract new talent. The Bank has also managed to attract and retain professionals capable of

performing highly demanding functions in various geographies, given the Bank's international activities.

Internal mobility continues to be an important policy for the Bank, constituting a tool for professional valorisation and for the dissemination of the institution's culture. In 2017, about 7% of the employees changed department or function.

Conscious that the future can only be faced with determination with well-prepared and motivated employees, it is a Bank priority to focus on building a strong team spirit and to adequately train its employees. The Training Plan covers general training common to the whole Bank as well as specific training oriented to the specific needs of each area or department.

In 2017, 483 participations in training sessions were recorded, in a total of 103 actions, of which 8 realized internally, 88 realized by external entities and 7 realized through e-learning. During the year, training involved a total of 1,213 hours, and covered about 91% of the employees. Of note is the great emphasis on training in matters of internal control, operational risk, compliance and IT security.

Noteworthy was the financing of three academic training programmes that enabled the attribution of a degree and the attribution of worker-student status to 6 employees.

In terms of performance management, the same annual appraisal system was maintained. The results obtained, both at the level of those appraised as well as at the appraiser level, continued to constitute an essential tool for the monitoring of the evolution of the needs in the organization.

At the end of 2017, Banco Finantia had a total of 260 employees, of which 171 in Portugal, 70 in Spain (Banco Finantia Sofinloc) and the remaining 19 in offices abroad. The average age of the employees was 43, with an average of 12 years' service, and about 72% have a university degree.

As for gender distribution, at the end of 2017, 63% were male and 37% female.

At the same date, 35% of the workforce comprised senior-level staff, 52% mid-level staff and 13% administrative staff.

Finally, we highlight the holding of a Team Building event and a gala for employees in the context of the celebration of the 30 years of Banco Finantia.

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.

The model is based on processes implemented to identify, assess, monitor and control all the risks inherent in the financial and non-financial activity, 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 appropriate actions are taken to respond to the risks.

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

All these processes follow the principles recognized and accepted 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 (GL44) and with Regulation 575/2013 of the European Union (CRR).

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

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. The planning of internal capital 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 Bank's strategic objectives.

The Bank also recognizes the importance of integrating the risk management model into its culture and decision-making processes. The risk management model has the active involvement of the entire Bank, including the Board of Directors, the Executive Committee, the Finance and Risk Committee and the Risk Management Department.

• It is the responsibility of the Board of Directors to (i) 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, (ii) monitor regularly the activity of the risk management function, and (iii) approve the RAF (Risk Appetite Framework);

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

• The Risk Management Department is independent and responsible for the management of all the risks of the Bank. The Risk Management Department: (i) guarantees the effective application of the risk management model, through a continuous monitoring of its adequacy and effectiveness, as well as of 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, and performs stress tests, (vi) prepares the ICAAP and actively engages in the preparation of the RAF; and (vii) promotes the integration of the risk principles in the Bank's daily activities.

In summary, the risk management function ensures:

- An adequate identification, assessment, monitoring and control of all the material risks to which the Bank 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 Bank's culture and decision-making process.

Finally, in the scope of the Bank's risk management model, the Internal Audit Department, an independent unit, is responsible for reviewing the adequacy of the procedures and controls implemented.

4.2 Risk Profile

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

To do this, the Bank takes into account the following risk categories: credit, interest rate, exchange rate, liquidity, operational, compliance, reputation and strategy.

Regarding risk appetite, during 2017 the metrics included in the RAF were always within the limits and tolerances approved for the Bank.

All the risk categories contributing to the Bank's risk profile are analysed, discussed and monitored monthly by the Finance and Risk Committee considering exposure levels, the ICAAP and RAF.

4.2.1 Credit Risk

Credit risk arises from the possibility of a counterpart defaulting or the credit quality of a given financial instrument degrading. It constitutes one of the most important risks for the Bank, considering its asset structure.

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. It aims to maintain a controlled and well diversified credit portfolio risk and generate results within the limits defined in accordance with the risk appetite.

The credit risk management model has two components: the first is directed at a solid process of analysis and approval of credit limits, the second is focused on a robust continuous monitoring process of credit exposure vis-à-vis its limits.

With regard to the first component, the approval of any credit limit is made in accordance with the Bank's internal credit directives. All operations are subject to the Credit Department's opinion and subsequent approval by members of the Executive Committee. For each group of counterparts a maximum credit limit is established, based on its risk profile, including the credit, activity sector and geographical area ratings, in line with the Bank's internal credit directives.

The second component is assured by the Risk Management Department through the control of the limits approved and the monitoring of all exposures, permitting the immediate identification of the potential increase in default risk, the analysis of the causes and the implementation of corrective actions if these are found to be necessary.

The Risk Management Department is also responsible for monitoring the economic capital requirements for the credit risk. For the purposes of ICAAP the economic capital requirements for credit risk are quantified using the Foundation IRB (Internal Ratings Based) formula established in the Basel III Accord, taking into account the probability of default (PD) and the amount of the loss given default (LGD).

As of 31 December 2017, the Bank's exposure to credit risk consists of approximately 77% (2016: 80%) related to OECD or investment grade countries, while the remaining exposure is diversified over twenty-three countries (2016: sixteen countries).

4.2.2 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 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 interest rate risks across time buckets, net of the corresponding fixed-interest 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 holding period of one day, and a confidence interval of 99%. This model is validated with back tests. For the year 2017, the average daily VaR related to interest rate risk was €2.53 million (€2.65 million in 2016), equivalent to less than 1% of Tier 1 core funds.

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

4.2.3 Foreign Exchange Risk

Foreign exchange risk is characterized by the probability of the occurrence of a negative impact as a consequence of unfavourable fluctuations in foreign exchange rates,

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

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

For the year 2017, based on the same methodology used for interest rate risk, the average daily VaR for exchange risk was €4.04 million (€5.48 million in 2016), equivalent to about 1% of Tier 1 core funds.

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.

4.2.4 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 contractual and under 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, and (ii) balance sheet management, with daily calculation of liquidity metrics, permitting the maintenance of the main liquidity indicators within the Bank's pre-defined limits.

The Treasury Department is responsible for the daily cash flow and balance sheet management of the Bank. The Risk Management Department is responsible for the periodic monitoring of the Bank's balance sheet management, preparing a monthly report for the Finance and Risk Committee.

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

As at 31 December 2017, the LCR ratio was significantly above the fully loaded[1] minimum figures required. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately into cash through market operations, to satisfy liquidity needs over a 30-day horizon under a stress scenario. As of 31 December 2017, the HQLA stock was €340.3 million.

The Bank also monitors the Net Stable Funding Ratio (NSFR), which supplements the LCR and has a wider temporal horizon – one year. This ratio has been developed to provide a sustainable maturity structure of assets and liabilities and aims 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. As

[1] The minimum required was 80%, as at 31 December 2017, increasing to 100% in 2018.

of 31 December 2017, the Bank’s NSFR maintained a level significantly higher than the minimum required.

4.2.5 Non-Financial Risks

Non-financial risks for the Bank include operational, compliance, reputation and strategy risks. These risks consist of: (i) Operational risk - operational failures, lack of adequacy of information and technology systems, errors of conduct or model weaknesses, (ii) compliance risk - non-compliance with laws and regulations, (iii) reputation risk - negative perception of the institution's public image; and (vi) strategy risk - inadequate plans and strategic decisions.

The management of non-financial risks has been gaining increasing relevance in the Bank. In this context, the Bank has been working to strengthen the implementation of the most advanced methods of identification, evaluation, monitoring and control of these types of risks. It completed in 2017 an extensive and comprehensive process of self-assessment specifically directed at non-financial risks. This process, with due adjustments in order to adapt it to the reality and size of the Bank, 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, amongst others, the recording of (i) events, (ii) potential associated losses, and (iii) corrective and/or mitigating measures implemented.

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

During the course of 2017, several training actions were carried out in the area of non-financial risks, including training on cybersecurity. For 2018, the Bank will continue to focus on training as a form of reducing operational risk.

5. Financial Overview

5.1 Consolidated Results

The consolidated net profit reached €42.3 million in 2017, an increase of 38% over the €30.7 million reported in the previous year.

Net interest income reached €59.9 million, in line with that of the previous year. Net fee and other revenue increased 37% to €26.6 million (€19.4 million in 2016). Impairment and provisions were €8.9 million. Operating income after impairment and provisions recorded an increase of 19% to € 77.6 million.

Operating expenses increased circa 5% to €23.8 million (€22.6 million in 2016). Nevertheless, the cost-to-income ratio attained 27.5% at the end of 2017 (28.2% in 2016), one of the best amongst European banks.

The summary of the consolidated income statement for the financial years ended 31 December 2017 and 2016, is as follows:

€ million	IFRS	
Consolidated income statement	**31.12.2017**	**31.12.2016**
Net interest income	59,9	60,5
Net fee and other revenues	26,6	19,4
Impairments and provisions	(8,9)	(14,7)
Operating income after impairment and provisions	**77,6**	**65,2**
Operating expenses	(23,8)	(22,6)
Profit before tax	**53,8**	**42,7**
Taxes	(11,6)	(12,0)
Net profit	**42,3**	**30,7**

5.2 Consolidated Balance Sheet

Total assets reached €1,988.5 million as at 31 December 2017, a 10% increase over the previous year:

€ million	IFRS	
Consolidated balance sheet	**31.12.2017**	**31.12.2016**
Assets		
Cash and banks	66,8	100,3
Fixed income and loan portfolio	1.815,9	1.631,2
Other assets	105,8	75,9
Total assets	**1.988,5**	**1.807,4**
Liabilities		
MM takings	40,4	28,1
Customers deposits	802,5	740,4
Repos	610,5	495,4
Other liabilities	80,1	135,4
Total liabilities	**1.533,5**	**1.399,4**
Total shareholders' equity	**455,0**	**408,0**
Total liabilities and shareholders' equity	**1.988,5**	**1.807,4**

The fixed income and loan portfolio (comprising mainly available-for-sale fixed income securities) increased by about 11%, in line with the Bank's strategy.

Customers' deposits increased by 8.4% over the 2016 amount (€740.4 million) to a total of €802.5 million. This increase confirms the positive trend of recent years, based on Banco Finantia's strategy of increasing its deposit base.

Shareholders' equity increased by about 12% over 2016 attaining €455.0 million, reflecting the year's results and the good performance of the available-for-sale fixed income portfolio.

5.3 Solvency

5.3.1 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"), as well as Notice no. 6/2013 of Bank of Portugal that regulates the transitory regime foreseen in the CRR in the matter of own funds and establishes measures aimed at the preservation of those funds. The full application of the new Basel III regulations has been gradually introduced up to 2018, this process being generally designated as "Phasing-in". The full assumption of the new regulations, without considering the transitory regime, is designated as "Full Implementation".

Notwithstanding a more demanding regulatory framework, the Bank maintains solid financial ratios. Under the current transitory provisions, the CET1 and total capital ratios were both 22.6% (23.3% in 2016). On a full implementation basis, i.e., without the transitory provisions, the CET1 and total capital ratios were both 23.0% in 2017 (23.6% in 2016).

Basileia III (*Full implementation*)	**31.12.2017**	**31.12.2016**
CET1 ratio	23,0%	23,6%
Total Capital ratio	23,0%	23,6%
Basileia III (*Phasing-in*)	31.12.2017	31.12.2016
CET1 ratio	22,6%	23,3%
Total Capital ratio	22,6%	23,3%

Risk Weighted Assets ("RWA") reached €1,876 million (€1,640 million in 2016).

5.3.2 Internal Capital Adequacy Assessment Process (“ICAAP”)

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

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

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

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

The analysis of 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 Shares

At the beginning of 2017, the Bank held 12,150,868 treasury shares on a consolidated basis. By resolution of the General Meeting of 30 May 2017, the Bank carried out a capital decrease by extinguishing 12,150,868 treasury shares of the total existing 150,000,000 shares down to 137,849,132 shares, immediately followed by a capital increase through the incorporation of reserves of 12,150,868 shares to 150,000,000 shares. In the capital increase exercise, 47 remaining shares were attributed to Banco Finantia.

During the 2017 financial year, the Bank acquired 37,560 treasury shares for a total amount of €52,584.00, pursuant to the resolution of the General Meeting of the Bank of 30 May 2017, which includes a special authorisation for the purchase and sale of shares of the Company from/to employees of the Bank and its subsidiaries. At the end of the year 2017, the Bank owned 37,607 treasury shares at consolidated level.

5.5 IFRS – Financial Instruments

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

The impact estimated by the Bank as of 1 January 2018, due to the introduction of this new accounting standard, represents an increase in provisions for impairment losses totalling €6.2 million, related to the credit exposures classified in Stage 1 (€5.4 million) and Stage 2 (€0.8 million).

Of that total amount, approximately €5.4 million refers to exposures classified in the portfolio of available-for-sale financial assets, which implies that the transition adjustment will consist of a transfer from fair value reserves to retained earnings, as a result only the remaining amount of €0.8 million will affect the Bank's equity. On that basis, the estimated impact on CET1 capital translates into a reduction of this ratio of only 4 basis points. For this reason, for regulatory capital purposes, the Bank opted not to use any transition period.

In terms of impacts on the classification and measurement of financial assets and hedge accounting, no significant impacts on the Bank's equity are estimated.

At the level of the governance structure, with regard to the management and monitoring of financial instruments, no significant impacts are expected either, namely at the level of the processes and controls currently established.

6. Social Responsibility, Cultural Patronage and Education

6.1 Social Responsibility

Throughout its 30 years of existence, Banco Finantia has sought to contribute to a better world, concentrating its solidarity policy primarily on providing support to under-privileged children and youths and/or those with special education-needs.

In 2017, Banco Finantia financed the following institutions:

- 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 to support the personal and social development of children and youths with this neuro-behavioural specific disorder with a genetic origin.

- BANCO DO BEBÉ - Associação de Ajuda ao Recém-Nascido (www.bancodobebe.org), an IPSS created in 1996 to help underprivileged families of babies and children from 0-6 years of age born at the Maternidade Alfredo da Costa.

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

- SANTA CASA DE MISERICÓRDIA DE LISBOA - founded in 1498, this secular institution with Catholic roots has as its mission the improvement of the overall well-being of the person, primarily of those less protected.

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

6.2 Cultural Patronage

PALÁCIO NACIONAL DA AJUDA - Banco Finantia is an active 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 2017 the Bank has once again collaborated 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 in "International Economics and European Studies".

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

7. Future prospects

The global environment maintains favourable growth prospects for 2018 – circa 3.9%. Growth in the developed countries is expected to remain stable, but the emerging economies are projecting an increase in GDP growth to circa 5%. In Portugal and Spain projected growth is in the order of 2.3% and 2.4%, respectively.

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

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

In terms of business lines, the Bank plans to maintain the same orientation, pursuing non-capital intensive activities, focusing primarily on fixed income capital market operations, financial advisory services, and private banking.

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

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

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

8. Appropriation of Results

The Board of Directors proposes a dividend of 14 cents per share, that is, approximately 50% of the Net Profit, as in the previous financial year.

Banco Finantia presents a CET1 ratio of 23.0% (full implementation), including the deduction of the dividend proposed, well within the internal policies and the regulatory guidelines issued for the banking sector, maintaining capital ratios (CET1) sufficiently robust for the development of the respective activities.

9. Final Remarks

2017 was a very positive year for the activities of Banco Finantia that completed 30 years of existence.

To our customers, shareholders, corporate bodies and auditors, a word of appreciation for the trust placed on us. To all our employees, our congratulations for the results obtained and our thank-you for the effort, dedication, loyalty and professionalism demonstrated.

Translation Note

The present Management Report is a free translation of the original document issued in the Portuguese language. In the event of discrepancies, the original version prevails.

Lisbon, 8 March 2018

The Board of Directors

António Vila-Cova | Ricardo Borges Caldeira

David Paulino Guerreiro | António Santiago Freitas

Carlos Perelló Yanes

Banco Finantia

CONSOLIDATED FINANCIAL STATEMENTS 2017

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Banco Finantia

Consolidated Balance Sheet
as at 31 December 2017 and 2016

EUR thousand	**Notes**	**2017**	**2016**
Assets			
Cash and banks	5	41,793	30,665
Due from banks	6	24,980	69,664
Securities and loans portfolio	7	1,815,916	1,631,206
Derivative financial assets	8	36,243	8,790
Non-current assets held for sale		207	216
Investment property		1,064	1,084
Property and equipment	9	11,789	12,288
Intangible assets	10	195	374
Current income tax assets		6,627	7,248
Deferred income tax assets	11	893	195
Other credit operations	12	14,712	28,571
Other assets	13	34,054	17,110
		1,988,472	**1,807,409**
Liabilities			
Due to banks	14	40,399	28,128
Due to customers	15	802,517	740,425
Securities sold under repurchase agreements	16	610,483	495,442
Derivative financial liabilities	8	15,227	64,437
Current income tax liabilities		11,294	19,824
Deferred income tax liabilities	11	13,423	7,066
Subordinated debt	17	-	20,307
Provisions	18	1,441	1,974
Other liabilities	18	38,738	21,785
		1,533,521	**1,399,387**
Equity			
Share capital	19	150,000	150,000
Share premium	19	12,849	25,000
Treasury stock	19	(38)	(12,151)
Reserves and retained earnings	20	249,623	214,247
Net profit attributable to the equity holders of the Bank		42,242	30,691
Total equity attributable to the equity holders of the Bank		**454,676**	**407,787**
Non-controlling interests		275	235
Total equity		**454,951**	**408,022**
Total liabilities and equity		**1,988,472**	**1,807,409**

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Income Statement
for the years ended 31 December 2017 and 2016

EUR thousand	**Notes**	**2017**	**2016**
Interest and similar income	21	86,674	89,578
Interest expense and similar charges	21	(26,732)	(29,053)
Net interest income		**59,942**	**60,525**
Dividend income		5	-
Fee and commission income	22	5,985	3,508
Fee and commission expense	22	(655)	(561)
Net results from financial operations	23	22,207	18,612
Other operating income		(955)	(2,153)
Operating income		**86,529**	**79,931**
Staff costs	24	(12,902)	(11,596)
General and administrative expenses	25	(9,699)	(9,509)
Depreciation and amortization	9, 10	(1,164)	(1,454)
Operating expenses		**(23,765)**	**(22,558)**
Operating profit		**62,764**	**57,372**
Impairment and provisions	26	(8,925)	(14,709)
Profit before income tax		**53,839**	**42,663**
Current income tax	11	(15,003)	(12,515)
Deferred income tax	11	3,433	565
Net profit		**42,269**	**30,713**
Attributable to:			
Equity holders of the Bank		42,242	30,691
Non-controlling interests		27	22

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Statement of Comprehensive Income
for the years ended 31 December 2017 and 2016

EUR thousand	**Notes**	**2017**	**2016**
Net profit			
Attributable to the equity holders of the Bank		42,242	30,691
Attributable to non-controlling interests		27	22
		42,269	**30,713**
Items that are or may be reclassified to profit or loss			
Available for sale financial assets	20	35,507	67,644
Deferred taxes	11	(9,577)	(18,213)
		25,930	49,431
Cash flow hedges	20	-	59
Net investment hedge	8	56	(3,291)
Currency translation differences		17	3,035
		26,003	**49,234**
Total comprehensive income		**68,272**	**79,947**
Attributable to:			
Equity holders of the Bank		68,228	79,913
Non-controlling interests		44	34

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated statement of changes in equity for the years ended 31 December 2017 and 2016

EUR thousand	Share capital & Share premium	Treasury stock	Reserves and retained earnings	Total Equity attributable to the equity holders of the Bank	Non-controlling interests	Total Equity
Balance as at 01 January 2016	**175,000**	**(12,151)**	**185,319**	**348,168**	**201**	**348,369**
Net profit	-	-	30,691	30,691	22	30,713
Changes in fair value reserve (see Note 20)	-	-	67,644	67,644	-	67,644
Amortization of cash flow hedge reserve	-	-	59	59	-	59
Net investment hedge	-	-	(3,291)	(3,291)	-	(3,291)
Deferred taxes	-	-	(18,213)	(18,213)	-	(18,213)
Currency translation differences	-	-	3,023	3,023	12	3,035
Total comprehensive income	**-**	**-**	**79,913**	**79,913**	**34**	**79,947**
Dividends paid [(a)]	-	-	(13,785)	(13,785)	-	(13,785)
Tax impact from the withdrawal of Notice 3/95	-	-	(5,698)	(5,698)	-	(5,698)
Other movements	-	-	(812)	(812)	-	(812)
	-	**-**	**(20,294)**	**(20,294)**	**-**	**(20,294)**
Balance as at 31 December 2016	**175,000**	**(12,151)**	**244,938**	**407,787**	**235**	**408,022**
Net profit	-	-	42,242	42,242	27	42,269
Changes in fair value reserve (see Note 20)	-	-	35,507	35,507	-	35,507
Net investment hedge	-	-	56	56	-	56
Deferred taxes	-	-	(9,577)	(9,577)	-	(9,577)
Currency translation differences	-	-	-	-	17	17
Total comprehensive income	**-**	**-**	**68,228**	**68,228**	**44**	**68,272**
Dividends paid [(a)]	-	-	(15,163)	(15,163)	-	(15,163)
Changes in treasury stock	-	(38)	(15)	(53)	-	(53)
Share capital decrease (see Note 19)	(12,151)	12,151	-	-	-	-
Other movements	-	-	(6,123)	(6,123)	(4)	(6,127)
	(12,151)	**12,113**	**(21,301)**	**(21,338)**	**(4)**	**(21,343)**
Balance as at 31 December 2017	**162,849**	**(38)**	**291,865**	**454,676**	**275**	**454,951**

[(a)] Relates to a dividend of € 0.11 (2016: € 0.11) per share outstanding

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Statement of Cash Flows
for the years ended 31 December 2017 and 2016

EUR thousand	**Notes**	**2017**	**2016**
Cash flows arising from operating activities			
Interest and similar income received		86,089	91,564
Interest and similar charges paid		(19,552)	(27,765)
Fee and commission received		4,222	3,628
Fee and commission paid		(655)	(561)
Recoveries on loans previously written-off		2,463	2,501
Cash payments to employees and suppliers		(25,804)	(20,068)
		48,563	**49,299**
Changes in operating assets:			
Mandatory deposits in central banks		(638)	(299)
Securities and loans portfolio		(200,638)	(17,288)
Due from banks		52,355	7,174
Other credit operations		12,041	23,952
Other operating assets		(5,117)	(9,128)
Changes in operating liabilities:			
Derivative financial instruments		(5,692)	(407)
Due to central banks		-	(73,003)
Due to banks		12,301	(2,138)
Due to customers		62,808	61,135
Securities sold under repurchase agreements ("repos")		113,757	11,022
Other operating liabilities		1,025	(3,624)
Net cash flow from operating activities before income taxes		**88,965**	**46,696**
Income taxes paid		(22,912)	(8,188)
		66,053	**38,508**
Cash flows arising from investing activities			
Purchase of property, equipment and intangible assets	9, 10	(615)	(885)
Proceeds from sale of property, equipment and intangible assets	9, 10	53	66
		(562)	**(819)**
Cash flows arising from financing activities			
Purchase of treasury stock	19	(53)	-
Reimbursement of debt issued		-	-
Maturity and repurchase subordinated debt		(20,234)	(31,178)
Dividends paid from ordinary shares		(15,163)	(13,785)
Net cash flow from financing activities		**(35,450)**	**(44,963)**
Effect of exchange rate changes on cash and cash equivalents		(11,710)	(4,767)
Net changes in cash and cash equivalents		**18,331**	**(12,041)**
Cash and cash equivalents at the beginning of the year	29	36,706	48,747
Cash and cash equivalents at the end of the year	29	55,037	36,706
		18,331	**(12,041)**

The following notes form an integral part of these financial statements

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1. Basis of presentation

Banco Finantia (the "Bank") and its subsidiaries (the "Group") has as its main object the accomplishment of all the operations and the provision of all the services allowed to the Banking Institutions, providing a broad range of financial services focused on capital markets, money markets, advisory services (including mergers and acquisitions), credit operations and private banking.

Banco Finantia is a privately-owned bank headquartered in Lisbon, Portugal at Rua General Firmino Miguel, nº 5, in Lisbon, which resulted from the transformation at October 1992 of Finantia – Sociedade de Investimentos, S.A., which began its activity at 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 affiliates and international subsidiaries.

The subsidiaries have branches and offices in Portugal, Spain, United Kingdom, Brazil, United States of America, Malta and Netherlands.

The consolidated financial statements of the Bank are prepared 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") at 31 December of 2017. These financial statements are consolidated by Finantipar, S.A., headquartered in Lisbon, Portugal at Rua General Firmino Miguel, no. 5.

During 2017, as described in Note 3, the Bank adopted several amendments to existing standards issued by IASB and adopted by the EU with mandatory application in this exercise. Additionally, the Bank chose not to early adopt the new standards and interpretations that have been issued but are not effective in 2017.

These consolidated financial statements are expressed in thousands of euros ("€ thousand") rounded to the nearest thousand, except when 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, available-for-sale financial assets, hedging and trading derivative financial instruments and recognized assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

The preparation of financial statements in accordance with IFRS requires the use of accounting estimates and assumptions. The most significant estimates are disclosed in Note 4.

These consolidated financial statements have been approved for issue by the Board of Directors on 8 March 2018 and will be submitted to approval by the General Shareholders Meeting.

2. Significant accounting policies

2.1 Basis of consolidation

These consolidated financial statements comprise the financial statements of Banco Finantia (the "Bank") and its subsidiaries (the "Group").

The accounting policies have been consistently applied by all Group companies.

Investments in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group exercises control. The Group exercises control when it is exposed to or has rights over the variable returns of an entity and has the ability of affecting those variable returns due to its power to affect the activities of the subsidiary. 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, from which arises 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 against the income statement.

The amount of the initial recognition of the remaining investments equal the amount of the prior revaluation. Any amounts previously recognized in other comprehensive income regarding an ex-subsidiary are reclassified to comprehensive income, as if the Group has sold the respective assets and liabilities.

Investments in associates

Associates are entities over which the Group has significant influence 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 made.

In a step acquisition that results in obtaining 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 share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

When the Group sells its participation in an associate, even if it doesn't lose control of the company, it should record the transaction in profit or loss.

As at 31 December 2017 and 2016, the Group doesn't have any investments in associates.

Investments in Special purpose entities ("SPE")

The Group consolidates 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,

independently of the percentage of the equity held.

The Group exercises control when it is exposed or has rights over the variable returns of an entity and has the ability of affecting those variable returns due to its power to affect the subsidiary's activities.

Goodwill

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

At the acquisition date, non-controlling interest is measured at their proportionate interest in the fair value of the net identifiable assets acquired and of the liabilities assumed, without the correspondent portion of goodwill. As a result, the goodwill recognized in these consolidated financial statements corresponds only to the portion attributable to the equity holders of the Bank.

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

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

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 2017 and 2016, the Group doesn´t have any goodwill.

Foreign currency translation

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

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

Balances and transactions eliminated in 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 provides 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 interest in the associates.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment loss.

Transactions with non-controlling interests

Acquisitions of non-controlling interest are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognized as a result of such a transaction. Any difference between the consideration paid and the amount of non-controlling interest acquired is accounted for as a movement in equity. Equally, gains or losses on disposals to non-controlling interests are also recorded in equity.

Gains or losses on disposals when control changes are recognized in profit or loss.

Transactions with non-controlling interests that do not result in loss of control are accounted for a equity transactions – that is as transactions with the owners in their capacity as owners.

2.2. Interest income and expense

Interest income and expense are recognized in the income statement under interest and similar income or interest expense and similar charges for all non-derivative financial instruments measured at amortized cost and for the available-for-sale investments, using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through 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.

Once a financial asset or a group of similar financial assets has been written off as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk and credit 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 derivatives, the interest component of the changes in their fair value is recognized under interest and similar income or interest expense and similar charges.

2.3. Dividend income

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

2.4. Fees and commissions

Fees and commissions are recognized as follows: (i) fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed; (ii) fees and commissions earned over the period in which services are provided are recognized as income 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 as income using the effective interest method.

2.5. Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are

translated to euro at the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences regarding cash flow hedges, net investment hedges or other items recognized in other comprehensive income are also recognized as other comprehensive income.

Fair value changes in available for sale financial assets are divided between changes regarding amortized costs changes, and other changes that may occur. The first ones should be recognized in profit or loss and the second ones in other comprehensive income.

2.6. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the equity holders of the bank by the weighted average number of ordinary shares outstanding during the year, 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 dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

The weighted average number of ordinary shares outstanding during the period and for all presented periods is adjusted to reflect changes in the number of ordinary shares outstanding without the correspondent changes in resources, if those changes are not related with the conversion of potential ordinary shares.

2.7. Loans and receivables and Other credit operations

Loans and receivables and other credit operations include loans and advances originated by the Group, which are not intended to be sold in the short term, and are recognized when cash is advanced to the borrower.

These credit operations are derecognized from the balance sheet when: (i) the contractual right to receive the respective cash flows has expired; (ii) the Group has transferred substantially all risks and rewards of ownership; or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred its control over the assets.

Other credit operations are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost, using the effective interest method, less impairment losses.

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment within its credit operations portfolio. Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition; and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for each loan. For this assessment, the Group uses the information that feeds the implemented credit risk models and takes into consideration, among others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans, being non-performing loans those overdue for more than 90 days;
- the viability of the customer's business model and capability to trade successfully and to generate sufficient cash flows to service their debt obligations;
- the extent of other creditors' commitments ranking ahead of the Group;
- the existence, nature and estimated realizable value of collaterals;

- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognized is calculated as the positive difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking into consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Group and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual losses.

Additionally, the Group estimates the losses that have occurred but have not been identified specifically (incurred but not reported), through the collective impairment analysis above mentioned, considering the probability of default during the emergence period.

When a loan is considered by the Group as uncollectible after all recovery diligences in accordance with the Group policies have been made and when its expected recovery is very low, the amounts of the loans considered uncollectible are written-off against the related allowance for loan impairment. Subsequent recoveries of amounts previously written-off decrease the amount of the loan impairment loss recognized in the income statement.

2.8. Securities and loans portfolio

The securities and loans are initially measured at fair value plus, in case of instruments not at fair value through profit or loss, incremental direct transaction costs. Subsequently are accounted for having in consideration (i) the purpose of its acquisition (selling in the short term or medium term investment) and (ii) the existence of an active market providing regular quotes, as follows:

Fair value through profit or loss

Financial assets at fair value through profit or loss includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term; and (ii) financial assets that are designated at fair value through profit or loss at inception.

They are recognized on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

These financial assets are initially recognized at fair value and transaction costs are directly recognized in the income statement.

Financial assets are derecognized when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Financial assets at fair value through profit or loss are subsequently carried at fair value and

gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale

Available-for-sale (AFS) financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time; (ii) designated as available-for-sale at initial recognition; or (iii) that are not classified as held for trading, designated at fair value through profit or loss, held-to-maturity, or loans and receivables.

They are recognized on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

These financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

AFS financial assets are subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognized directly in equity, until the financial assets are derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognized in equity, while foreign exchange differences arising from debt investments are recognized in the income statement.

Interest, calculated using the effective interest method and dividends are recognized in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Depending on the counterparty these assets are presented as "Due from banks" or as "Loans and advances to customers".

These assets are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method less impairment losses, as described for held-to-maturity financial assets.

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognized through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as significant financial difficulty of the issuer or obligor and default or delinquency in interest or principal payments (for debt instruments), or a significant and prolonged decline in the fair value of the instrument below its cost (for capital instruments).

If there is objective evidence that an impairment loss on an available-for-sale financial asset has been incurred, the cumulative loss recognized in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognized, except in relation to equity instruments, in which case the reversal is recognized in equity.

Reclassifications

After initial recognition, financial assets may not be later reclassified into the Fair value through profit or loss category.

A financial asset, initially recognized as at fair value through profit or loss may be reclassified out of its category if it is a financial asset with fixed or determinable payments, initially held for trading purposes, is no more, after acquisition, negotiable on an active market and the Group has the intention and ability to hold it for the foreseeable future or until maturity, then this financial asset, may be reclassified into the Loans and receivables category, provided that the eligibility criteria to this category are met.

Derivative financial instruments shall not be reclassified out of the Fair value through profit or loss category.

A financial asset initially recognized as available-for-sale may be reclassified into the Held-to-maturity category, provided that the respective eligibility criteria are met.

Furthermore if a financial asset with fixed or determinable payments initially recognized as available-for-sale is subsequently no more negotiable on an active market and if the Group has the intention and ability to hold it for the foreseeable future or until maturity, then this financial asset may be reclassified into Loans and receivables provided that the eligibility criteria to this category are met.

These reclassified financial assets are transferred to their new category at their fair value on the date of reclassification and then are measured according to the rules that apply to the new category.

For a financial asset reclassified out of the fair value through profit or loss category any gain or loss already recognized in profit or loss shall not be reverse. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in other comprehensive income in accordance with paragraph 55 (b) shall be amortized to profit or loss over the remaining life of the investment using the effective interest method.

2.9. Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received to sell 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, 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 interest. 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.

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.

Fair value price is obtained from quoted market prices or broker / dealer prices in active markets, if available, or are based on the established price of recent market transactions or in its absence on the usage of valuation techniques. Valuation techniques include net present value calculation procedures using direct observable market inputs.

2.10. 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 can't be dependent from any future event, and should be enforceable in the regular activity of the Group, as well as the default, bankruptcy or insolvency of the Group or its counterparties.

2.11. Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") at a fixed price or at the sales price plus a lender's return are not derecognized. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ("reverse repos") at a fixed price or at the purchase price plus a lender's return are not recognized, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent under lending agreements are not derecognized being classified and measured in accordance with the accounting policy described in Note 2.8. Securities borrowed under borrowing agreements are not recognized in the balance sheet.

Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if the Group has the right to resell or repledge them, as well as securities that the Group has actually resold or repledged.

2.12. 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 was issued.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated 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 discharged, cancelled or expires.

2.13. Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses are recognized directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

Hedge accounting is used for derivative financial instruments designated as a hedging instrument provided the following criteria are met:

(i). At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedge item and of the hedging instrument and the evaluation of the effectiveness of the hedge;

(ii). The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

(iii). The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

(iv). For cash flows hedges, their occurrence must be highly probable;

(v). The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting period for which the hedge was designated.

- *Fair value hedge*

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

When a hedging instrument expires or is sold or if the hedge no longer meets the criteria for hedge accounting or the entity revokes the designation, the derivative financial instrument is transferred to the trading portfolio and fair value hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the period to maturity, under results from financial operations.

- *Portfolio fair value hedge*

In this type of hedge, interest rate derivatives are used to hedge structural interest rate risks arising from Consumer Banking activities. When accounting for these transactions, the Group applies the IAS 39 "carve-out" standard as adopted by the European Union, which facilitates:

- the application of fair value hedge accounting to macro-hedges used for asset-liability management;

- the carrying out of effectiveness tests required by IAS 39 as adopted by the European Union.

The accounting treatment for financial derivatives designated as a portfolio fair value hedge is similar to that for other fair value hedging instruments.

When a hedging instrument is derecognized or sold, or when the hedge relationship no longer meets the criteria required for hedge accounting or the entity revokes the designation, the derivative financial instrument is transferred to the trading portfolio and the hedged assets and liabilities stop being adjusted by changes in fair value. The adjustment of the hedged instruments is amortized until maturity using the linear method and is reflected in net results from financial operations.

- *Cash flow hedge*

Where a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognized in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects the income statement. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the entity revokes the designation, any cumulative gain or loss are retained in equity until its recognition in the income statement, under results from financial operations, that occurs in the moment that the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognized immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

- *Net investment hedge*

When a derivative (or a non-derivative financial liability) is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in equity, in the foreign

currency translation reserve (other comprehensive income).

Any ineffective portion of changes in the fair value of the hedging instrument is recognized in profit or loss. The amount recognized in other comprehensive income is removed and included in profit or loss on the full disposal or partial disposal of the foreign operation whenever there is a reduction in the entity's ownership interest in the subsidiary and control ceases.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

As at 31 December 2017 and 2016 the Group doesn't have any embedded derivatives.

2.14. 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 disposal), 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 or the corresponding fair value and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

These assets, classified as held for sale, are evaluated by external experts.

2.15. Property and equipment, and Investment property

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Additions and subsequent expenditures are included in the asset's carrying amount or are 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 measurable reliably.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line method over their estimated useful lives, as follows:

Buildings:	up to 50 years
Equipment:	from 5 to 10 years
Computer equipment:	from 3 to 4 years
Furniture:	up to 10 years
Motor vehicles:	from 3 to 5 years
Other equipment:	from 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 impairment loss recognized when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in future exercises, when the reasons that caused the initial recognition cease. In that situation, the new depreciated amount won't be greater than the one that should be accounted if there weren't recognized any impairment losses to the asset.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

Buildings classified as investment property relate to rented buildings held by the Group which are measured similarly to property and equipment.

2.16. Intangible assets

Acquired and developed computer software licenses are capitalized on the basis of the costs

incurred to acquire and bring to 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 up to 3 years.

Costs that are directly associated with the development by the Group of identifiable specific software applications, that 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.

2.17. Leases

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

Operating leases (as lessee)

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

Finance leases

- As lessee

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

- *As lessor*

  Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets, including any residual amount not granted.

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

2.18. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Derivative financial liabilities and short-sales are classified as held for trading in accordance with IAS 39 and therefore are recognized at fair value in the balance sheet, being the gains or losses arising from the changes in their fair value recognized in the income statement.

Except for financial liabilities designated at fair value through profit or loss, other non-derivative financial liabilities, including repos (see Note 2.11), loans and advances from banks, deposits from customers and debt issued, are recognized (i) initially at fair value less transaction costs and (ii) subsequently at amortized cost, using the effective interest method.

Financial liabilities are classified as at fair value through profit or loss when their designation eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring or recognizing gains and losses on them, on different basis, and when are so designated by management, or when evaluated and managed internally at fair value

and the management information is produced in that basis.

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the income statement.

Subsequently, the fair values are remeasured and gains and losses from changes therein are recognized in the income statement. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

If the Group repurchases debt issued, it is derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

A financial liability (or a part of a financial liability) is removed from the balance sheet when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.19. Provisions

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

2.20. 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, independently from its legal form, being a contract that 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, as treasury stock.

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

2.21. Treasury stock

Where the Bank or any subsidiary purchases the Bank's share capital, the consideration paid is deducted from total equity as treasury stock until they are cancelled, and are not revaluated. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

2.22. 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 abroad and, therefore, has no obligations for the payment of pensions or pension complements to its employees.

2.23. 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 enacted or substantively enacted at the balance sheet date in any jurisdiction.

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

Deferred tax assets and liabilities correspond to the amount of payable / recoverable tax in future periods resulting from temporary 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 deductible temporary differences can be utilized.

Deferred tax assets and liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries, branches and associates, to the extent that, it is not probable that the temporary differences will reverse in the foreseeable future.

2.24. Cash and cash equivalents

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

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, with the exception of the adoption of a new policy regarding the derecognition of credit in default (write-offs) as detailed in Note 12.

3.2 New standards and interpretations applicable in the year

There was no significant impact on the accounting policies and disclosures from the adoption by the Group following the endorsement by the European Union (EU) of new standards, revisions, amendments and improvements to standards and interpretations which were applicable as from 1 January 2017.

3.3 New standards and interpretations issued but not yet effective

The standards and interpretations recently issued by the IASB, which application is mandatory solely for annual periods beginning on or after 1 January 2018 and which the Group did not early adopt are analysed next.

No significant impacts are expected on the financial statements of the Group from the adoption of these standards and interpretations.

3.3.1. Already endorsed by the EU but not early adopted

a) IFRS 15 Revenue from contracts with customers: This standard applies to all revenue arising from contracts with customers and replaces the following standards and interpretations: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. It also provides a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. The principles of this standard will be applied in five-steps: (i) identify the contract with the customer (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the entity satisfies a performance obligation. This standard also specifies how to account for incremental expenses in obtaining a contract and expenses directly related to the performance of a contract. This standard is effective for annual periods beginning on or after 1 January 2018. Early application is permitted provided this is duly disclosed. The application is retrospective.

b) Clarifications of IFRS 15

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

The amendments are to be applied simultaneously with IFRS 15, for annual periods beginning on or after 1 January 2018, which is the effective date of IFRS 15. Early application is permitted provided this is duly disclosed. The application is retrospective, with entities being able to choose whether to apply the full retrospective approach or the modified retrospective approach.

c) IFRS 9 Financial instruments: The summary of this standard, by topics, is as follows:

(i) Classification and measurement of financial assets

- All financial assets are measured at fair value at initial recognition, adjusted by transaction costs if the instruments are not accounted for at fair value through profit or loss (FVTPL).
- Debt instruments are subsequently measured based of their contractual cash flows and the business model under which the debt

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

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

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

(ii) Classification and measurement of financial liabilities

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

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

(iii) Impairment

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

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

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

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

(iv) Hedge accounting

- Hedge effectiveness tests should be prospective and may be qualitative, depending on the complexity of the coverage.

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

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

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

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

d) Applying IFRS 9 with IFRS 4 - Amendments to IFRS 4

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

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

e) Annual improvements - 2014-2016 cycle

In the annual improvements of the 2014-2016 cycle, IASB introduced five improvements in three standards: (i) IFRS 1 First-time Adoption of International Financial Reporting Standards (ii) IAS 28 Clarification that the measurement of the investee at fair value through profit or loss is a choice that is made on an investment-by-investment basis and (iii) IFRS 12 Disclosure of interests in other entities.

f) IFRS 16 Leases

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

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

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

g) IFRS 10 and IAS 28 Sale or contribution of assets by an investor to its associate or joint venture: The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments to IAS 28 introduce different recognition criteria regarding the sale transaction or contribution of assets by an investor (including by its consolidated subsidiaries) to its associate or joint venture depending on whether the transactions involve, 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 changes must be applied prospectively.

h) Annual improvements - 2015-2017 cycle: In the annual improvements of the 2015-2017 cycle, the IASB introduced improvements in the following four standards: (i) IFRS 3 Business Combinations – pre-existing ownership interests in a joint venture; (ii) IFRS 11 Joint Arrangements - pre-existing ownership interests in a joint venture; (iii) IAS 12 Income Taxes – income tax consequences arising on payments on financial instruments classified as equity instruments; (iv) IAS 23 Borrowing Costs – borrowing costs eligible for capitalization.

3.3.2. Not yet endorsed by the EU

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

b) IFRIC 22 Foreign currency transactions and advance consideration

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

c) IFRIC 23 – Uncertainty over income tax treatments: In June 2017, the IASB issued IFRIC 23 Uncertainty on 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 is applicable for annual periods beginning on or after 1 January 2019.

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

The IASB issued amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: (i) Vesting conditions, (ii) Classification of share-based payment transactions with net settlement features, for the meeting of withholding tax obligations, and (iii) Accounting of a modification to the terms and conditions of a share-based payment transaction that changes its classification from cash-settled to equity settled.

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

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

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

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

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

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

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

Retrospective application is only permitted if it is possible to apply it without same being affected by events that occurred after the date of its application.

Early application is permitted provided this is duly disclosed.

f) Prepayments with negative compensation - Amendments to IFRS 9: Under IFRS 9, a debt instrument can 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 capital outstanding" (the SPPI criterion) and the instrument is held in a business model that allows for such classification. Amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstances that caused the anticipated termination of the contract and regardless of which party pays or receives reasonable compensation for the early termination of the contract.

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

Modification or replacement of a financial liability that does not give rise to the derecognition of such liability. In the concluding bases, the IASB also clarifies that the requirements of IFRS 9 for adjusting the amortized cost of a financial liability, when a modification (or replacement) does not result in its derecognition, are consistent with the requirements applied to a modification of an financial asset that does not result in its derecognition. This means that the gain or loss resulting from the modification of that financial liability that does not result in its derecognition, calculated discounting the change in the cash flows associated with that liability at the original effective interest rate, is immediately recognized in the income statement. The IASB made this comment in the concluding bases regarding this amendment as it believes that the current requirements of IFRS 9 provide a good basis for the accounting by companies of changes or substitutions of financial liabilities and that no formal change to IFRS 9 is required in respect of this matter.

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

g) 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 are recognized as an adjustment to the net investment arising from the application of IAS 28. To illustrate how entities should apply the requirements of IAS 28 and IFRS 9 to long-term interests, the IASB published illustrative examples when it issued this amendment.

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

4. Use of estimates in the preparation of financial statements

The IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve the understanding of how their application affects the Group's reported results and related disclosure.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Group's reported results would differ if a different treatment was chosen.

Management believes that its choices are appropriate and that the financial statements present the Group's financial position and results fairly in all material respects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment of available-for-sale financial assets

The Group determines that investment securities are impaired when there is objective evidence as a result of an impairment trigger that occurred after their initial recognition. The Group considers an extended set of triggers including the delay in payment of principal and interest, the significant or prolonged decline in the fair value below its cost, the evolution of credit risk, etc.. The determination as to whether the relevant trigger presents objective evidence of impairment requires judgment, including what is considered a prolonged decline, which is considered the decline in the fair value of financial assets over 12 months below their average acquisition cost, and what significant is, which is considered to be the decline in fair value of more than 30% below their respective average acquisition cost. In this judgment, the Group evaluates the volatility in the prices of securities and current market conditions.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses being recognized, with a consequent impact on the income statement of the Group.

Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are based on listed market prices if available; otherwise, fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on the net present value of the estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could produce different financial results for a particular period.

Impairment losses on loans and advances to customers and other assets

The Group reviews its loans and other assets portfolio to assess impairment on a regular basis.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, amongst others, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result

in a different level of impairment losses with a consequent impact on the income statement of the Group.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Additionally it must be noted that the reversion of deductible timing differences result in deductions in the computation of tax profits in future periods. However, the economic benefits resulting from reductions in tax payments will flow to the entity only when there are enough tax profits against which these can be compensated. On this basis, the Group recognizes deferred income tax assets only when it expects to have enough tax profits against which the deductible timing differences might be used.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, being recognized in the period. The Portuguese Tax Authorities are entitled to review the Bank and its Portuguese subsidiaries' assessments of annual taxable earnings, for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, the Board of Directors is confident that there will be no material tax adjustments within the context of the financial statements.

Going concern

Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

Therefore, the financial statements continue to be prepared on the going concern basis.

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, it is involved in various litigation and arbitration proceedings, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

5. Cash and banks

EUR thousand	**31.12.2017**	**31.12.2016**
Cash	71	76
Deposits at central banks		
Bank of Portugal	9,901	7,056
Bank of Spain	2,581	2,219
	12,482	9,276
Deposits with banks in Portugal		
Deposits repayable on demand	27,612	21,021
Other deposits	-	94
	27,612	21,115
Deposits with banks abroad		
Deposits repayable on demand	1,628	198
	41,793	**30,665**

The caption Deposits at central banks includes the amount of € 4,763 thousand (2016: € 4,125 thousand) to satisfy the legal requirements to maintain minimum cash reserves.

These deposits earn interest at the average rates for the main refinancing operations of the European System of Central Banks prevailing during the deposit period. In 2017, these rates stayed at -0.40% (2016: the rates stood between -0.30% and -0.40%).

6. Due from banks

EUR thousand	**31.12.2017**	**31.12.2016**
Money market transactions	9,118	8,601
Securities sold under repurchase agreements	8,888	1,564
Other bank placements	6,974	59,499
	24,980	**69,664**

The caption Other bank placements includes collateral deposits related to repurchase agreements, credit default swaps, interest rate swaps and foreign exchange swaps in the amount of € 6,924 thousand (2016: € 59,450 thousand).

7. Securities and loans portfolio

The securities and loans portfolio of the Group, by category, can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Available-for-sale financial assets	1,529,997	1,305,408
Loans and receivables	259,454	301,182
Financial assets held for trading	26,464	24,616
	1,815,915	**1,631,206**

The portfolio classified as ‘Available-for-sale financial assets’ can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Fixed income securities		
Issued by the Portuguese government and other public entities	73,224	32,910
Issued by foreign governments and other public entities	427,612	378,920
Issued by other Portuguese entities	18,805	18,141
Issued by other foreign entities	1,010,356	875,432
	1,529,997	**1,305,404**
Equity securities		
Shares	-	4
	1,529,997	**1,305,408**
	1,529,997	**1,305,408**

During 2017, interest income from the available-for-sale portfolio amounted to € 63,882 thousand (2016: € 57,781 thousand).

This portfolio includes debt instruments in the amount € 749,368 thousand (2016: € 646,516 thousand) given as collateral by the Group in repo operations (see Note 16).

The portfolio classified as 'Loans and receivables' can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Fixed income securities		
Issued by the Portuguese government and other public entities	20,033	16,876
Issued by foreign governments and other public entities	28,903	64,155
Issued by other Portuguese entities	29,011	42,139
Issued by other foreign entities	80,142	126,072
Interest rate hedge adjustment (see Note 8)	651	2,290
	158,741	**251,531**
Syndicated loans, commercial paper and other loans	100,713	49,650
	259,454	**301,182**

As at 31 December 2017, this portfolio includes the amount of € 57,052 thousand (2016: € 51,105 thousand) related to debt instruments given as collateral by the Group in repo operations (see Note 16).

During 2017, interest income from the loans and receivables portfolio amounted to € 14,174 thousand (2016: € 20,637 thousand).

The portfolio classified as 'Financial assets held for trading' can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Fixed income securities		
Issued by the Portuguese government and other public entities	1,363	4,623
Issued by foreign governments and other public entities	5,030	15,189
Issued by other Portuguese entities	1,990	2,108
Issued by other foreign entities	18,081	2,696
	26,464	**24,616**

During 2017, interest income from the securities held for trading portfolio amounted to € 730 thousand (2016: € 1,089 thousand).

As at 31 December 2017, the Securities and loans portfolio with impairment triggers amounted to € 23,678 thousand (2016: € 60,085 thousand), as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Non-performing	11,973	37,631
Performing but impaired	11,705	22,454
	23,678	**60,085**
Provision for impairment losses	(8,260)	(28,041)
	15,419	**32,045**

The Securities and loans portfolio is presented net of impairment. As at 31 December 2017, the movement in impairment for this portfolio can be analysed as follows:

EUR thousand	**Available-for-sale**	**Loans and receivables**	**Total**
Balance at 1 January	803	27,238	28,041
Charges for the year (see Note 26)	4,259	1,196	5,455
Reclassification of fair value reserve (see Note 20)	(4,245)	1,946	(2,299)
Foreign exchange changes	(74)	(2,154)	(2,228)
Write-offs	(721)	(19,989)	(20,710)
Balance at 31 December	**22**	**8,238**	**8,260**

As at 31 December 2016, the movement in impairment for this portfolio can be analysed as follows:

EUR thousand	**Available-for-sale**	**Loans and receivables**	**Total**
Balance at 1 January	753	26,001	26,753
Charges for the year (see Note 26)	9,857	4,937	14,794
Reclassification of fair value reserve (see Note 20)	(9,832)	-	(9,832)
Foreign exchange changes	25	2,583	2,608
Write-offs	-	(6,283)	(6,283)
Balance at 31 December	**803**	**27,238**	**28,041**

8. 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 its own positions based on its expectations of market evolution, satisfying its customers' needs or hedging structural positions.

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

EUR thousand	**31.12.2017**			**31.12.2016**		
	Notional amount	**Fair value**		**Notional amount**	**Fair value**	
		Assets	**Liabilities**		**Assets**	**Liabilities**
Trading derivatives						
Currency swaps	670,391	25,921	276	644,151	33	33,465
Credit default swaps	8,338	515	-	93,717	739	1,951
Interest rate swaps	254,795	559	7,516	252,668	128	10,083
	933,525	26,995	7,792	990,536	899	45,499
Hedging derivatives						
Interest rate swaps	849,397	9,248	7,434	873,396	7,890	18,938
	1,782,922	**36,243**	**15,227**	**1,863,932**	**8,790**	**64,437**

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

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

Interest rate swap, consists, in conceptual terms, of a contract between two parties that agree to exchange (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 hedge transactions varies according to the nature of the hedged instrument and whether the hedge qualifies as such for accounting purposes in accordance with Note 2.13. When hedge accounting is discontinued, or the hedged instruments are sold / reimbursed, despite the hedge relations being maintained from a financial perspective, the respective hedge instruments are reclassified to financial assets and liabilities held for trading.

Fair value hedges of interest rate risk – fixed income securities

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

For securities classified as 'loans and receivables' (see Note 7) the accumulated hedge adjustment as at 31 December 2017 amounts to € 651 thousand (2016: € 1,994 thousand). In 2017, the Group recognized in profit or loss the amount of € (325) thousand (2016: € (567) thousand) related to the fair value change of the hedged instruments and the amount of € (827) thousand (2016: € (2,766) thousand) related to the cost of derecognized assets and amortization of discontinued relations (see Note 23).

In addition, and for securities classified as 'available-for-sale', the Group recognized, in 2017, gains on hedging instruments amounting to € 8,085 thousand (2016: € 8,341 thousand) and losses on the respective hedged items of € (8,147) thousand (2016: € (8,471) thousand). These losses in hedged items attributable to the hedged risk are reclassified from the fair value reserve to profit or loss. When the hedged assets are derecognized, the respective amount in fair value reserve is reclassified to profit or loss, and this reclassification, in 2017, amounted to € (6,008) thousand (2016: € (10,097) thousand) (see Note 23).

Fair value hedges of interest rate risk – specialized finance (fixed rate)

The Group also applies fair value hedging in respect of the interest rate risk of its portfolio of fixed-rate specialized finance loans. The change in fair value of the hedged item is recorded separately from the hedged item on the balance sheet. The accumulated hedge adjustments of the hedged items as at 31 December 2017 amounts to € - thousand (2016: € - thousand) (see Note 12).

These hedging relations were discontinued in 2009 since the hedging criteria were no longer met; as such, during 2017 and 2016, the Group did not recognize any gain or loss from the ineffective portions of fair value hedges, as defined in the accounting policy in Note 2.13.

In 2017, the Group recognized in profit or loss the amount € - thousand (2016: € (649) thousand) related to the cost of derecognized assets and amortization of discontinued relations of previous years (see Note 23).

Cash flow hedges

In order to eliminate the interest rate risk associated with the payments of the securities issued by the securitization vehicles and part of the subordinated debt, the Group entered into interest rate derivative contracts in order to receive floating and pay fixed interest, thereby converting floating rate liabilities into fixed rate liabilities and fixing the financing cost.

These hedge relations were discontinued in 2010, with the recognition in profit or loss for 2017 of the amount of € - thousand (2016: € (59) thousand) related to the amortization of the reserve of the discontinued relations. The accumulated hedge adjustment in the balance sheet amounts to € - thousand (2016: € 59 thousand) (see Note 23).

In summary, the impacts of the hedging relations referred to above, outstanding in 2017 and 2016, can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Loans and receivables portfolio	**(4)**	**(5)**
Gains in hedge instruments	321	562
Losses in hedged items attributable to hedged risk	(325)	(567)
Available-for-sale portfolio	**(63)**	**(130)**
Losses in hedge instruments	8,085	8,341
Gains in hedged items attributable to hedged risk	(8,147)	(8,471)
Ineffectiveness of interest rate risk hedges (see Note 23)	**(66)**	**(136)**

The impacts of the amortization of discontinued hedging relations and the derecognition of the hedged assets can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Fair value hedges - securities classified as Loans and receivables	(827)	(2,766)
Fair value hedges - securities classified as Available-for-sale	(6,008)	(10,097)
Fair value hedges - specialized finance portfolio	-	(649)
Cash flow hedges	-	(59)
Amortization of discontinued hedging relations (see Note 23)	**(6,835)**	**(13,571)**

Net investment hedge

During 2017 and 2016, 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 2017, the hedged investments held by the Group in foreign subsidiaries and the funding used to hedge these investments is as follows:

Company	**Functional Currency**	**Net Investment USD'000**	**Associated Debt USD'000**	**Net Investment USD'000**	**Associated Debt USD'000**
Finantia Holdings BV	USD	19,169	19,169	15,983	15,983
Finantia UK Limited	USD	90,000	90,000	75,044	75,044

The effective portion of the changes in fair value of the non-derivative financial liability (associated debt) designated as hedging instrument in the hedging of the net investment in the above mentioned foreign operations was recognized directly in equity, in foreign currency reserve (other comprehensive income). In 2017 and 2016, there was no ineffectiveness in these hedging relations.

9. Other tangible assets

EUR thousand	Buildings	Office equipment	IT equipment	Motor vehicles	Other assets	31.12.2017	31.12.2016
Acquisition cost:							
At the beginning of the year	21,074	7,198	3,435	1,803	1,238	34,748	35,603
Additions	165	41	58	185	10	460	686
Disposals / write-offs	-	(488)	(213)	(199)	(24)	(924)	(1,824)
Fx diffs. / transfers	(6)	(79)	(9)	21	(8)	(81)	282
At the end of the year	**21,233**	**6,673**	**3,271**	**1,810**	**1,216**	**34,202**	**34,748**
Accumulated depreciation:							
At the beginning of the year	10,163	7,015	3,225	950	1,108	22,460	22,728
Depreciation charge	267	72	96	327	59	822	1,115
Disposals / write-offs	-	(488)	(212)	(148)	(24)	(872)	(1,765)
Fx diffs. / transfers	406	(465)	9	65	(12)	3	381
At the end of the year	**10,837**	**6,134**	**3,118**	**1,195**	**1,130**	**22,413**	**22,460**
Net book value	**10,397**	**539**	**153**	**615**	**86**	**11,789**	**12,288**

10. Intangible assets

EUR thousand	Software	Other assets	Work in progress	31.12.2017	31.12.2016
Acquisition cost:					
At the beginning of the year	5,574	405	87	6,067	6,008
Additions	140	-	16	155	198
Disposals / write-offs	(729)	-	-	(729)	(9)
Fx diffs. / transfers	51	0	(56)	(5)	(131)
At the end of the year	**5,035**	**405**	**48**	**5,488**	**6,066**
Accumulated amortization:					
At the beginning of the year	5,287	405	-	5,692	5,382
Amortization charge	330	-	-	330	319
Disposals / write-offs	(728)	-	-	(728)	(9)
Fx diffs. / transfers	(1)	-	-	(1)	-
At the end of the year	**4,888**	**405**	**-**	**5,293**	**5,692**
Net book value	**147**	**0**	**48**	**195**	**374**

At 31 December 2017 and 2016, other assets and work in progress include software licenses and expenditure incurred with software implementation and development.

During 2017 and 2016, there were no intangible assets generated internally.

11. Taxes

Income tax recognized in the income statement for the years 2017 and 2016 can be analysed as follows:

EUR thousand	31.12.2017	31.12.2016
Current tax		
Current tax on profit for the year	(14,244)	(11,411)
Extraordinary banking sector levy	(713)	(1,121)
Current tax related to prior years	(47)	16
	(15,003)	**(12,515)**
Deferred tax		
Origination and reversal of timing differences	3,062	565
Tax losses carried forward	372	-
	3,433	**565**
Total income tax recognized in results	**(11,570)**	**(11,951)**

The deferred tax assets and liabilities recognized in the balance sheet in 2017 and 2016 can be analysed as follows:

EUR thousand	31.12.2017			31.12.2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Available-for-sale financial assets	3	(14,078)	(14,075)	69	(4,568)	(4,498)
Loans to customers / Provisions	1,270	-	1,270	595	-	595
Tax losses carried forward	702	-	702	-	-	-
Other	3,163	(3,590)	(428)	2,697	(5,664)	(2,968)
Deferred tax assets / (liabilities)	**5,138**	**(17,669)**	**(12,530)**	**3,360**	**(10,232)**	**(6,872)**
Set off of deferred tax assets and liabilities	(4,245)	4,245	-	(3,166)	3,166	-
Net deferred tax assets / (liabilities)	**893**	**(13,423)**	**(12,530)**	**195**	**(7,066)**	**(6,872)**

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 2017, deferred tax assets related to tax credits for international double taxation amount to € 748 thousand

(2016: € 1,088 thousand). As at 31 December 2017, deferred tax assets related to tax losses carried forward not recognized in the balance sheet amount to € 677 thousand (2016: € 680 thousand).

During the year ended 31 December 2017, income taxes recognized in reserves related to available-for-sale financial assets (see Note 20) amount to € (9,577) thousand (2016: € (18,213) thousand), and relate solely to deferred taxes.

Deferred taxes recognized in retained earnings include the amount of € 330 thousand (2016: (112) thousand) for other adjustments related to deferred taxes.

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

EUR thousand	**31.12.2017**		**31.12.2016**	
	%	**Amount**	**%**	**Amount**
Profit before income tax		53,839		42,663
Statutory income tax rate	27.5%		27.5%	
Income tax calculated based on the statutory income tax rate		**14,806**		**11,733**
Tax losses used		(15)		(349)
Provisions and impairment		(219)		(873)
Tax benefits		(902)		(1,017)
Autonomous taxation		123		112
Other		(2,936)		1,223
Income tax		10,857		10,830
Extraordinary banking sector levy		713		1,121
Income tax recognized in results		**11,570**		**11,951**
Current tax		15,003		12,515
Deferred tax		(3,433)		(565)
Tax under reconciliation		**11,570**		**11,951**

12. Other credit operations

This caption refers to the specialized finance loan activity (previously designated car finance) that was originally carried out by the subsidiary Sofinloc. This activity was discontinued in 2012-2013, when the origination of new contracts stopped and the portfolio transitioned into run-off.

Consequently, this activity currently consists in the management of a non-performing asset portfolio, which can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Performing	2,018	7,110
Past due up to 90 days	443	1,430
Past due more than 90 days and up to 24 months	543	1,320
	3,004	**9,861**
Impairment for Performing	(3)	(18)
Impairment for Past due up to 90 days	(6)	(33)
Impairment for Past due more than 90 days and up to 24 months	(300)	(786)
	(309)	**(837)**
	2,695	9,024
Recoverable amount of past due more than 24 months	12,017	19,547
	14,712	**28,571**

The Recoverable amount of past due more than 24 months corresponds to the amount of loan agreements that have been in default for more than 24 months, net of impairment, which impairment is calculated according to the model for calculating impairment losses described below, and which translates into the future cash flows that, according to the expected losses, are still recoverable, based on the historical analysis and the Group's recovery management process.

It should be noted that in 2017, and taking into account the accounting framework and supervisory authorities' guidelines issued during the year, the Bank changed its policy regarding the derecognition of bad loans (write-offs), to writing off the financial asset, in whole or in part, in the period in which the loan, or a fraction thereof, is considered to be irrecoverable, with the gross carrying amount of the financial asset being reduced by the amount of such write-off, and coming to represent the estimated recoverable amount.

On this basis, derecognition may occur prior to the completion of legal proceedings against the borrower for debt recovery, which does not imply that the Bank loses the legal right to recover the debt; the Bank's decision to waive the legal right to demand payment of debt is designated "debt pardon".

In contrast to the treatment of impairment, after an amount has been derecognized from the balance sheet, it is not possible to reinstate / reverse this adjustment even if there are changes in the recovery estimate. If future collections are actually made in the form of cash or other assets, they will be recognized as income directly in the income statement.

For the presentation of the accounts, the comparative figures for 2017 were adjusted accordingly. This change had no impact on either the results or the equity of the Bank. The amount derecognized from the balance sheet as at 31 December 2017 amounts to € 147,887 thousand (of which € 2,109 thousand are loans that came to satisfy the write-off policy criteria during 2017).

As at 31 December 2017, the amount of performing loans includes € 151 thousand (2016: € 671 thousand) related to loans that reveal impairment triggers.

The gross amount of the specialized finance portfolio with arrears up to 90 days was as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Past due up to 30 days	306	1,032
Past due between 30 and 60 days	109	277
Past due between 60and 90 days	27	122
	443	**1,430**

The fair value of the collateral associated with the loans in arrears under three months referred to above amounts to € 472 thousand and € 1,254 thousand in 2017 and 2016, respectively.

Specialized finance loans past due more than 90 days can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Past due more than 90 days	12,494	20,521
Associated principal not yet due	65	346
	12,560	**20,867**

In addition to the impairment of the aforementioned customer loans, the fair value of the collateral associated with the impaired loans amounts to € 55 thousand and € 198 thousand in 2017 and 2016, respectively.

During 2017, the Group received the amount of € 3,300 thousand (2016: € 3,256 thousand) related to interest from loans past due more than 90 days.

Additionally, during 2017 the Group recovered € 2,451 thousand (2016: € 2,367 thousand) related to loans previously written off, in accordance with the accounting policy described in Note 2.7.

When the loan is granted, the fair value of the collateral is determined on the basis of valuation techniques commonly used for the valuation of the respective assets (mainly motor vehicles). In subsequent periods, the fair value is updated based on market price or indexes of similar assets.

As at 31 December 2017 and 2016, there are no impaired specialized finance loans determined on an individual basis since no loans are analysed on this basis.

As at 31 December 2017, the breakdown of the specialized finance portfolio, excluding the fair value adjustment of hedged assets, by origination year, can be analysed in the table below:

Origination year	# of operations	Exposure €'000	Impairment €'000
2004 and prior	645	254	1
2005	1,299	778	0
2006	4,301	3,001	8
2007	6,239	4,899	96
2008	3,517	3,088	95
2009	904	644	10
2010	197	197	13
2011	274	437	13
2012	223	609	13
2013 and after	338	1,115	60
Total	**17,937**	**15,021**	**309**

The specialized finance portfolio can also be analysed as follows:

EUR thousand	31.12.2017	31.12.2016
Total exposure		
Performing loans	2,461	8,540
o/w: Cured loans	22	118
o/w: Restructured loans	310	575
Non-performing loans	12,560	20,867
o/w: Restructured loans	172	213
	15,021	**29,407**
Impairment		
Performing loans	(9)	(51)
Non-performing loans	(300)	(786)
	(309)	**(837)**

Cured loans are those loans that are no longer non-performing because the following conditions have occurred simultaneously: i) there has been an improvement in the debtor's financial condition, ii) there is no amount past due and iii) a one year "quarantine" period has passed since the first payment of principal and all instalments since then have been regularly paid. Restructured loans follow the Bank of Portugal definition established in Instruction no. 32/2013, and are analysed in more detail in the tables below.

The breakdown of restructured loans as at 31 December 2017 can be analysed as follows:

	Performing loans			Non-performing loans			Total		
Measure	**# of operations**	**Exposure €'000**	**Impairment €'000**	**# of operations**	**Exposure €'000**	**Impairment €'000**	**# of operations**	**Exposure €'000**	**Impairment €'000**
Maturity extension	95	310	3	90	160	52	185	471	55
Interest rate decrease	-	-	-	6	5	-	6	5	-
Other	-	-	-	11	7	-	11	7	-
Total	**95**	**310**	**3**	**107**	**172**	**52**	**202**	**482**	**55**

The breakdown of restructured loans as at 31 December 2016 can be analysed as follows:

	Performing loans			Non-performing loans			Total		
Measure	**# of operations**	**Exposure €'000**	**Impairment €'000**	**# of operations**	**Exposure €'000**	**Impairment €'000**	**# of operations**	**Exposure €'000**	**Impairment €'000**
Maturity extension	183	573	8	95	199	55	278	772	63
Interest rate decrease	-	-	-	6	6	-	6	6	-
Other	1	2	0	12	9	0	13	11	0
Total	**184**	**575**	**9**	**113**	**213**	**55**	**297**	**789**	**64**

The movement in the restructured loans portfolio in 2017 and 2016 can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Balance at the beginning of the period (gross amount)	789	1,402
Loans restructured in the period	19	143
Repayments of restructured loans	(88)	(157)
Loans reclassified from “restructured” to “normal”	(17)	(89)
Other	(220)	(510)
Balance as at 31 December	**482**	**789**

The impairment model for the calculation of impairment losses of the specialized finance portfolio is supported on a mathematical model that determines the likelihood of loss based on historical series and, according to the guidelines defined by IAS 39, the estimated impairment is the difference between the book value of impaired loans and the respective present value of the expected future cash flows. The calculation of impairment losses is performed according to two complementary methodologies, loans subject to individual analysis and loans subject to collective analysis. In its analysis of impairment on a collective basis, loans are grouped on the basis of similar credit risk characteristics, depending on the risk assessment defined by the Group. The calculation of impairment of a portfolio of loans is made by applying the PDs and LGDs to the balances of contracts at each

reference date. In order for these rates to be in line with the characteristics of the contracts on which they will be applied, these are calculated for segments of specific contracts depending on the ageing of the default. The interest rate used in discounting the cash flows is the original effective interest rate of the contracts. In the individual analysis, if an impairment loss is identified the amount of the loss to be recognized is the difference between the book value of the loans and the present value of the estimated future cash flows (considering the recovery period) discounted at the original effective interest rate of the contracts. The loans are presented in the balance sheet net of impairment recognized. For loans with a variable interest rate, the discount rate used to determine the respective impairment loss is the current interest rate, which is determined based on the rules of each contract. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from the foreclosure and sale of the collateral, less inherent costs to foreclose and sell.

As at 31 December 2017 and 2016, the risk parameters of the specialized finance impairment model can be analysed as follows:

	31.12.2017		**31.12.2016**	
	PD	**LGD**	**PD**	**LGD**
Up to 30 days without impairment triggers	0.53%	14.12%	0.71%	27.41%
Up to 30 days with impairment triggers	3.77%	20.67%	3.85%	27.70%
Past due between 30 and 60 days	15.63%	19.93%	17.50%	28.20%
Past due between 60 and 90 days	43.14%	20.79%	42.23%	30.22%

The balance of the impairment caption for the specialized finance portfolio, by type of loan, and movements in the years ended on 31 December 2017 and 2016, can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Hire purchase	291	800
Finance lease	18	37
	309	**837**
Balance as at 1 January	837	2,179
Net charge for the year (see Note 26)	1,818	(1,377)
Change of accounting policy	(2,109)	199
Loans written off during the year	(237)	(165)
Balance as at 31 December	**309**	**837**

13. Other assets

EUR thousand	**31.12.2017**	**31.12.2016**
Debtors and other applications	7,186	8,280
Accrued income	290	327
Transactions pending financial settlement (see Note 18)	25,540	7,502
Other assets	1,037	1,001
	34,054	**17,110**

Transactions pending financial settlement refer to outstanding operations resulting from the Group's normal activity.

Debtors and other applications is presented net of impairment. The movement of impairment losses can be analysed as follows:

EUR thousand	**2017**	**2016**
Balance as at 1 January	2,749	1,444
Net charge for the year (see Note 26)	1,586	2,589
Foreign exchange and other changes	-	8
Write-offs	(67)	(1,293)
Balance as at 31 December	**4,267**	**2,749**

14. Due to banks

EUR thousand	**31.12.2017**	**31.12.2016**
Bank takings	40,367	28,066
Accrued interest	32	62
	40,399	**28,128**

15. Due to customers

EUR thousand	**31.12.2017**	**31.12.2016**
Time deposits	767,787	704,855
Demand deposits	30,653	30,771
Cheques and orders payable	1	7
Accrued interest	4,076	4,792
	802,517	**740,425**

16. Securities sold under repurchase agreements ("repos")

EUR thousand	**31.12.2017**	**31.12.2016**
Banks	459,936	385,114
Other financial institutions	150,547	110,328
	610,483	**495,442**

17. Subordinated debt

EUR thousand	**Interest rate (%)**	**Nominal amount**	**31.12.2016**	**Reimburse-ments / Maturities**	**Other movements [a]**	**31.12.2017**
€60 million subordinated bonds (maturity in 2017)	Euribor 3m + 2.25	60,000	20,307	(20,234)	(73)	-
		60,000	**20,307**	**(20,234)**	**(73)**	**-**

[a] The Other movements include the interest accrued in the balance sheet and the adjustments of liabilities at fair value through profit or loss.

In accordance with the accounting policy described in Note 2.18, in the case of purchases of securities representative of Group responsibilities, these are eliminated from the consolidated liabilities and the difference between the acquisition cost and the respective balance sheet amount is recognized in profit or loss.

During 2017, interest on subordinated liabilities recognized at amortized cost, calculated using the effective interest rate, was recognized in the income statement, in the amount of € 222 thousand (2016: € 803 thousand).

The € 60 million subordinated bonds issue matured in 2017 and was fully redeemed.

18. Provisions and other liabilities

The caption Provisions includes provisions for other risks and charges in the amount of € 1,441 thousand (2016: € 1,974 thousand) related to contingencies arising in the ordinary course of the Group's activity.

In 2017, the Group made a net allocation in the amount of € 48 thousand (2016: net reversal in the amount of € 1,331 thousand), having used provisions, in 2017, in the amount of € 865 thousand (2016: € 3,349 thousand).

The caption Other liabilities can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Accrued expenses	6,135	9,338
Short sales	4,811	1,603
Amounts owed to the public sector	559	549
Creditors of specialized finance operations	385	305
Other liabilities	26,847	9,989
	38,738	**21,785**

The Other liabilities include the amount of € (26,581) thousand (2016: € (9,294) thousand) related to transactions pending financial settlement at year-end, resulting from the Group's normal course of business (see Note 13).

19. Share capital, share premium and treasury stock

Share capital and share premium

During June 2017, according to the deliberation of the General Meeting of Banco Finantia realized on 30 May 2017, the following operations were realized:

(i) decrease in the share capital of Banco Finantia of €12,150,868, through the extinction of 12,150,868 treasury stock shares;

(ii) increase in the share capital of €137,849,132 to €150,000,000, through the incorporation up to that amount, of share premium existing as at 31 December 2016.

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

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

Treasury stock

During 2017 and 2016, the movement in treasury stock can be analysed as follow:

EUR thousand, except number of shares	**2017**		**2016**	
	No. shares	**Cost**	**No. shares**	**Cost**
At the beginning of the year	12,150,868	20,183	12,150,868	20,183
Share capital decrease	(12,150,868)	(20,183)	-	-
Share capital increase	47	-	-	-
Acquisitions	37,560	53	-	-
At the end of the year	**37,607**	**53**	**12,150,868**	**20,183**

20. Reserves and retained earnings

The caption Reserves and retained earnings attributable to the equity holders of the Bank can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Fair value reserve	37,147	11,217
Legal reserve	31,072	29,159
Other reserves and retained earnings	181,404	173,871
	249,623	**214,247**

The movement in these captions in 2017 and 2016 were as follows:

EUR thousand	**Fair value reserve**			**Other reserves and retained earnings**			**Total reserves and retained earnings**
	AFS financial assets	**Cash flow hedges**	**Total**	**Legal reserve**	**Other reserves and retained earnings**	**Total other reserves and retained earnings**	
Balance as at 31 December 2015	**(38,243)**	**(59)**	**(38,302)**	**27,628**	**168,388**	**196,016**	**157,714**
Changes in fair value	67,644	-	**67,644**	-	-	**-**	**67,644**
Amortization of cash flow hedge reserves (Note 8)	-	59	**59**	-	-	**-**	**59**
Net investment hedge in forex (Note 8)	-	-	**-**	-	(3,291)	**(3,291)**	**(3,291)**
Currency translation differences on consolidation	-	-	**-**	-	3,023	**3,023**	**3,023**
Deferred taxes	(18,213)	-	**(18,213)**	-	-	**-**	**(18,213)**
Other movements	29	-	**29**	-	(841)	**(841)**	**(812)**
Constitution / (transfer) of reserves	-	-	**-**	1,531	6,592	**8,123**	**8,123**
Balance as at 31 December 2016	11,217	-	**11,217**	29,159	173,871	**203,030**	**214,247**
Changes in fair value	35,507	-	**35,507**	-	-	**-**	**35,507**
Net investment hedge in forex (Note 8)	-	-	**-**	-	56	**56**	**56**
Deferred taxes	(9,577)	-	**(9,577)**	-	-	**-**	**(9,577)**
Other movements	-	-	**-**	-	(6,123)	**(6,123)**	**(6,123)**
Constitution / (transfer) of reserves	-	-	**-**	1,913	13,615	**15,528**	**15,528**
Balance as at 31 December 2017	37,147	-	**37,147**	31,072	181,404	**212,476**	**249,623**

Fair value reserve

The fair value reserve represents the amount of the unrealized gains and losses arising on the available-for-sale financial assets portfolio, net of impairment losses recognized in the income statement in the year / previous years, the fair value reserve of reclassified financial assets and the effective part of the changes in fair value of hedging derivatives for the exposure to variability in future cash flows and fair value.

The fair value reserve of available-for-sale financial assets, including non-controlling interests, is analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Amortized cost of available-for-sale financial assets	1,478,797	1,290,495
Accumulated impairment losses recognized in the balance sheet (see Note 7)	(22)	(803)
Amortized cost of available-for-sale financial assets, net of impairment	1,478,775	1,289,693
Fair value of available-for-sale financial assets (see Note 7)	1,529,997	1,305,408
Unrealized gains / (losses) recognized in the fair value reserve	51,222	15,715
Deferred taxes (see Note 11)	(14,075)	(4,498)
	37,147	**11,217**

The movement in the fair value reserve of available-for-sale financial assets is analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Balance at the beginning of the year	11,217	(38,243)
Changes in fair value	50,748	67,544
Disposals during the year (see Note 23)	(33,752)	(29,429)
Reclassification to impairment (see Note 7)	4,245	9,832
Amortization of reserve of reclassified financial assets (see Note 33)	111	1,159
Fair value hedges (see Note 8)	14,155	18,568
Deferred taxes recognized in reserve during the year (see Note 11)	(9,577)	(18,213)
Balance at the end of the year	**37,147**	**11,217**

Legal reserve

According to Article 97 of the General Regime for Credit Institutions and Financial Companies, Banco Finantia and the remaining financial companies incorporated in Portugal must appropriate at least 10% of their 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 plus retained earnings. In accordance with Article 296 of the Portuguese Companies Code, the legal reserve can 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.

21. Net interest income

EUR thousand	**31.12.2017**	**31.12.2016**
Interest and similar income		
Investment securities	78,787	79,335
Loans to customers	6,916	7,387
Credit derivatives	679	2,468
Due from banks	233	105
Other interest and similar income	59	283
	86,674	**89,578**
Interest and similar expense		
Due to customers	(10,485)	(11,681)
Hedging derivatives	(6,715)	(10,072)
Repurchase agreements ("repos")	(8,924)	(4,968)
Due to banks	(196)	(1,226)
Subordinated debt	(222)	(803)
Other interest and similar expense	(189)	(301)
	(26,732)	**(29,053)**
	59,942	**60,525**

As at 31 December 2017, interest and similar expenses on financial liabilities designated at fair value through profit or loss amounts to € 222 thousand (2016: € 415 thousand).

22. Net fee and commission income

EUR thousand	**31.12.2017**	**31.12.2016**
Fee and commission income		
From banking business	4,901	1,933
From specialized finance business	1,084	1,575
	5,985	**3,508**
Fee and commission expense		
On third-party banking services	(542)	(351)
On specialized finance business	(113)	(210)
	(655)	**(561)**
	5,330	**2,947**

As at 31 December 2017, the caption fee and commission income from specialized finance business includes the amount of € 396 thousand (2016: € 541 thousand) related to commission from insurance intermediation.

23. Net results from financial operations

EUR thousand	**31.12.2017**	**31.12.2016**
Financial assets at fair value through profit or loss	3,288	5,679
Available-for-sale financial assets (see Note 20)	33,752	29,429
Other financial assets	6,228	4,566
Results from foreign exchange operations	(14,160)	(7,356)
Amortization of discontinued hedges (see Note 8)	(6,835)	(13,571)
Hedge ineffectiveness (see Note 8)	(66)	(136)
	22,207	**18,612**

Net results from financial assets at fair value through profit or loss include: (i) the effect of buying and selling and of changes in the fair value of debt and equity securities and (ii) the results of the derivative financial instruments. As at 31 December 2017, it includes the amount of € (344) thousand (2016: € (3,566) thousand), related to interest rate swaps and credit default swaps.

The caption Other financial assets includes the effect of the sale of debt securities classified as loans to customers and the amortization from the fair value reserve of reclassified financial assets (see Note 33) and also gains related to the repurchase of debt issued.

24. Staff costs

EUR thousand	**31.12.2017**	**31.12.2016**
Remuneration	10,040	9,443
Mandatory social charges	2,167	1,920
Other	694	233
	12,902	**11,596**

As at 31 December 2017 and 2016, the remuneration, including respective mandatory social charges, paid to the Bank and subsidiaries' management and supervisory bodies amounted to € 928 thousand and € 986 thousand, respectively.

The number of employees, by category, is as follows:

	31.12.2017	**31.12.2016**
Senior management	89	89
Management	134	101
Professional staff	36	60
	259	**250**

25. General and administrative expenses

EUR thousand	**31.12.2017**	**31.12.2016**
Specialized services	5,363	5,104
Maintenance	1,337	1,314
Rentals	666	660
Communication	475	516
Travelling and entertainment	597	368
Other	1,262	1,547
	9,699	**9,509**

26. Impairment and provisions

As at 31 December 2017 and 2016, the amounts of impairment and provisions recognized in the income statement can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Securities and loans portfolio (see Note 7)	5,455	14,794
Investment property	-	(175)
Other credit operations (see Note 12)	1,836	(1,377)
Other assets (see Note 13)	1,586	2,589
Other risks and charges (see Note 18)	48	(1,122)
	8,925	**14,709**

During 2017, the total amount of interest recognized in the income statement from impaired financial assets is € 3,904 thousand (2015: € 5,552 thousand).

27. Earnings per share

Basic earnings per share

EUR thousand, except number of shares	**31.12.2017**	**31.12.2016**
Net profit attributable to the equity holders of the Bank	42,242	30,691
Weighted average number of ordinary shares outstanding	144,925	149,892
Basic earnings per share (in Euros)	**0.29**	**0.20**
Number of ordinary shares outstanding at year-end (thousands)	**149,962**	**149,892**

The earnings per share of 2016 was adjusted considering the share capital increase realized in 2017.

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 2017 and 2016.

28. Off-balance sheet items

EUR thousand	**31.12.2017**	**31.12.2016**
Guarantees issued		
Securities pledged under repos	747,579	636,438
Guarantees and endorsements issued	57,624	19,956
	805,203	**656,393**
Guarantees received		
Assets received from reverse repos	8,509	1,500
Other guarantees received	4,596	-
	13,105	**1,500**
Contingent assets		
Irrevocable credit lines	1,500	1,500
	1,500	**1,500**
Contingent liabilities		
Revocable credit lines	3,300	7,300
Other contingent liabilities	2,529	10,031
	5,829	**17,331**
Responsibilities for services rendered		
Securities and items held for safekeeping	259,995	231,686
	259,995	**231,686**

The caption Securities pledged under repos refers to the nominal amount of securities sold under repurchase agreements and includes the transactions with central banks, including transactions with securities issued by Group companies and with securities received under reverse repurchase agreements. The balance sheet value of the securities included in these transactions amounted, as at 31 December 2017, to € 814,018 thousand (2016: € 679,001 thousand).

As part of the reverse repurchase agreements, the Group receives securities as collateral that it is allowed to sell or repledge as collateral. The balance sheet value of the securities included in these transactions amounted, as at 31 December 2017, to € 8,763 thousand (2016: € 1,590 thousand).

As at 31 December 2017, the caption Other contingent liabilities includes the amount of € 2,500 thousand (2016: € 10,000 thousand) related to commercial paper issues of third parties, guaranteed by the Group, that have not yet been placed.

29. Cash and cash equivalents

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

EUR thousand	**31.12.2017**	**31.12.2016**
Cash (see Note 5)	71	76
Demand deposits with central banks (see Note 5)	7,719	5,151
Deposits with banks (see Note 5)	29,241	21,313
Due from banks	18,006	10,166
	55,037	**36,706**

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

30. 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 34 and the respective balances and transactions are eliminated in the consolidation process.

The equity holders of Banco Finantia with which there are balances and transactions as at 31 December 2017, can be analysed as follows:

Shareholder	**Registered office**	**Direct shareholding %**	**Effective shareholding %**
Finantipar, S.A.	Portugal	62.1	62.1
Natixis	France	10.8	10.8
VTB Capital PE Investment Holding (Cyprus) Ltd.	Cyprus	9.7	9.7
Portigon AG	Germany	8.9	8.9

The balances and transactions with related parties as at 31 December 2017 and 2016 can be analysed as follows:

EUR thousand	**31.12.2017**	**31.12.2016**
Assets		
Derivative financial instruments	-	64
Securities and loans portfolio	13,732	17,776
Due from banks	720	1,230
Liabilities		
Derivative financial instruments	-	26
Due to customers	1,156	4,547
Securities sold under repurchase agreements (“repos”)	35,299	45,619
Income		
Interest and similar income	879	1,148
Gains from financial operations	308	1,677
Expense		
Interest and similar expense	618	456
Losses from financial operations	286	804
Off-balance sheet items		
Assets pledged in guarantee	42,525	54,075
Other irrevocable commitments	720	1,230
Interest rate swaps	20	1,162
Credit default swaps	-	14,230
Securities and items held for safekeeping	20,300	-

Transactions with related parties are made at normal market conditions.

The amount of the remuneration paid to the Group’s management and supervisory bodies is disclosed in Note 24.

31. Risk management activity

The overall risk management of the Banco Finantia Group is the responsibility of the Executive Commission and the Board of Directors. There is also a Finance and Risks Committee which main function is the overall monitoring of the risks to which the Group is exposed, including the limits and tolerances of the "Risk Appetite Framework" (RAF).

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

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

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

In the scope of ICAAP, the Group allocates capital to the above risk categories. On 31 December 2017, the Group presented an own capital utilization ratio for the economic capital requirements of 50.6% (45.5% as at 31 December 2016).

Regarding risk appetite, during 2017 the metrics included in the RAF were always within the limits and tolerances 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, which arises not only from the possibility of a counterpart defaulting but also from the degradation in the credit quality of a certain financial instrument, constitutes one of the most important risks for the Group, considering its asset structure.

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, in order to maintain a low-risk credit portfolio and achieve growth within the limits defined by the appetite for risk.

The Group also has a constant concern to diversify its own portfolio, as a form of mitigating the credit concentration risk.

On this basis, the credit risk management system integrates two components: the first one aimed at a solid process of analysis and definition of credit limits and the second focused on a robust monitoring process of the credit exposure in light of the limits defined.

Under the first component, the approval of any credit limit is taken in accordance with the Group's internal credit directives. All operations are subject to the opinion of the Credit Department and the

subsequent approval by members of the Executive Commission. For each counterpart group a maximum credit limit is established, based on its risk profile, including credit rating, activity sector and geographical area, in line with said internal credit guidelines of the Group.

The Risk Management Department ensures the second component through the control of the approved limits and the monitoring of the exposure by counterpart group (e.g., individual concentration index), activity sector (e.g. sectoral concentration index), geographical area and by issuer / guarantor rating, thereby ensuring the immediate identification of the potential increase in default risk, the analysis of the causes and the implementation of corrective actions, if necessary.

It is also the responsibility of the Risk Management Department to monitor the economic capital requirements for credit risk. Since the level of credit risk to which the Group is exposed is directly related to the main parameters of credit risk, namely the probability of default (PD) and the loss given default (LGD), for ICAAP purposes the economic capital requirement for credit risk is quantified in accordance with the IRB (Internal Ratings Based) Foundation formula of Basel III.

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

EUR thousand	**31.12.2017**	**31.12.2016**
Cash and banks (see Note 5)*	29,241	21,313
Securities and loans portfolio (see Note 7)	1,824,175	1,659,247
Due from banks (see Note 6)	24,980	69,664
Derivative financial instruments (see Note 8)**	35,728	8,051
Other credit operations (see Note 12)	15,021	29,407
Other assets (see Note 13)	34,054	17,110
	1,963,198	**1,804,792**
Guarantees and endorsements issued (see Note 28)	57,624	19,956
Credit default swaps (see Note 8 - notional amount)	8,338	93,717
	65,962	**113,673**

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

** excludes credit default swaps

Considering the Group's credit risk exposure, by rating, as at 31 December 2017, 76% (2016: 80%) of the total exposure of the Group relates to OECD or investment grade countries, with the remaining exposure spread over fourteen countries, as follows:

EUR thousand	**31.12.2017**		**31.12.2016**	
OECD countries	1,009,457	51%	961,400	51%
Investment grade (non-OECD) countries	511,211	26%	556,800	29%
Other countries	474,432	24%	384,700	20%
	1,995,100	**100%**	**1,902,900**	**100%**

Offsetting financial assets and financial liabilities

The Group receives and gives collateral in the form of cash or marketable securities in respect of over-the-counter derivatives, sale and repurchase, and reverse sale and repurchase agreements ("repos" and "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 2017, financial assets and liabilities subject to offsetting agreements, regardless of being offset or not, can be analysed as follows:

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

As at 31 December 2016, financial assets and liabilities subject to offsetting agreements, regardless of being offset or not, can 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	8,790	8,790	-	-	8,790
Reverse repos	1,564	1,564	1,590	-	(26)
Total	**10,354**	**10,354**	**1,590**	**-**	**8,764**
Financial liabilities					
Derivatives	64,437	64,437	(19,267)	(52,221)	(7,051)
Repos	495,442	495,442	(628,244)	(11,628)	(144,430)
Total	**559,878**	**559,878**	**(647,511)**	**(63,849)**	**(151,481)**

As at 31 December 2017 and 2016, 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 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 interest rate 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 2017, the average daily VaR for interest rate risk was € 2.53 million (€ 2.65 million in 2016), which corresponds to less than 1% of Tier I own funds.

Classification of on-balance and off-balance sheet captions by repricing intervals, following the recommendations of Basel III (Pillar 2) and Instruction no. 19/2005 of the Bank of Portugal, can be analysed as follows:

EUR thousand

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

EUR thousand

31 December 2016	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	203,188	58,287	7,125	585,642	824,033
Liabilities	(508,851)	(305,767)	(332,880)	(127,938)	(2,000)
Off-balance sheet items	1,007,126	46,949	(304)	(380,393)	(673,378)
Gap	**701,463**	**(200,531)**	**(326,059)**	**77,311**	**148,655**

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 changes 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 exposure margin in foreign currency considering the pre-established limits, with said exposure being monitored on a daily basis, for both the spot and the forward positions.

For 2017, based on the methodology described above, the average daily VaR for foreign exchange rate risk was €4.04 million (€5.48 million in 2016), which corresponds to about 1% of Tier I own funds.

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

EUR thousand	**31.12.2017**	
	USD	**Other currencies**
Assets		
Cash and banks	1,986	1,034
Securities and loans portfolio	1,251,794	-
Due from banks	11,040	-
Derivative financial instruments	10,322	-
Other assets	11,511	54
Total assets	**1,286,652**	**1,088**
Liabilities		
Due to banks	4,179	-
Due to customers	11,204	-
Securities sold with repurchase agreement	534,425	-
Derivative financial instruments	3,804	-
Other liabilities	13,356	4,786
Total liabilities	**566,968**	**4,786**
Equity	35,121	-
Total liabilities and equity	**602,088**	**4,786**
Derivatives held for risk management	**(670,391)**	**-**
FX Swaps	(670,391)	-
	(670,391)	**-**
Net position	**14,172**	**(3,698)**

EUR thousand	**31.12.2016**	
	USD	**Other currencies**
Total assets	1,149,659	1,516
Total liabilities	485,073	15
Equity	5,360	-
	659,226	1,501
Derivatives held for risk management	(644,151)	-
Net position	15,074	1,501

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 capital outflows in stressful situations.

Liquidity risk management is carried out globally for the Group in a centralized manner by the Treasury Department, with the support and monitoring of the Risk Management Department. Liquidity is maintained 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 of the Group even under unfavourable conditions; ii) the management of the balance sheet, allowing for the maintenance of the main liquidity indicators within the limits pre-defined by the Finance and Risks Committee.

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

The metrics used to measure liquidity risk, in addition to those used daily in the control of the cash inflows and outflows and in the forward planning, are related to the prudential ratios Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), the deposits to loans transformation ratio and the internal ratios (liquidity and eligible assets ratio and short-term financing ratio).

As at 31 December 2017, the LCR ratio was well above the minimum values required in the fully loaded phase. The purpose of the LCR is to promote the short-term resilience of banks' liquidity risk profiles by ensuring that banks hold an adequate stock of unencumbered, high-quality liquid assets ("HQLA") that can be converted into liquidity on the market, in an easy and immediate way, to meet liquidity needs, under a stress scenario, over a 30-day time horizon. As at 31 December 2017, the HQLA stock was € 340 million, of which € 213 million are assets eligible for discounting with the ESCB.

Although only mandatory for 2018, the Group also monitors the Net Stable Funding Ratio (NSFR), which complements the LCR and has a time horizon of 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 and on a regular basis. As at 31 December 2017, the Group's NSFR was above 100%, the minimum value foreseen for this ratio.

The Finance and Risks Committee is responsible for monitoring the main liquidity indicators of the Group.

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 2017 they can be analysed as follows:

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

As at 31 December de 2016 they can be analysed as follows:

EUR thousand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities					
Due to banks	19,585	-	-	-	19,585
Due to customers	134,007	413,952	191,209	-	739,168
Securities sold under repurchase agreement	286,680	210,958	-	-	497,638
Debt securities issued	-	-	-	-	-
Subordinated debt	100	20,459	90	1,725	22,374
Liabilities by contractual maturity dates	**440,372**	**645,369**	**191,299**	**1,725**	**1,278,765**
Assets held f/liquidity risk management	**179,152**	**131,516**	**911,137**	**963,250**	**2,185,055**

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

As at 31 December de 2017:

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

As at 31 December de 2016:

EUR thousand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets cash flows	254,933	363,878	52,574	31,581	702,965
Liabilities cash flows	274,864	389,264	65,882	25,560	755,570

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 has been making efforts to strengthen the methods for identifying, evaluating, monitoring and controlling this type of risk and completed, in 2017, an extensive and comprehensive self-assessment process specifically targeted at non-financial risks. This process, with due adjustments in order to adapt it to the reality and size of the Group, 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, amongst 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 2017, several training actions were carried out in the area of non-financial risks, with an emphasis on specific training on cybersecurity. For 2018, the Group will continue to focus on training as a means to reducing operational risk.

32. Capital management

The Group's capital management and control is performed in a comprehensive manner with the objectives of guaranteeing the institution's solvency, complying with regulatory requirements and maximizing profitability, with this 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 the 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 2017 and 2016 are presented in the table below. The "Phased-in" ratios are calculated in accordance with the transitory period established for Basel III implementation, whilst the "Fully loaded" ratios are calculated in accordance with its final application, after the expiry of the transitory provisions.

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 2017 and in accordance with Notice no. 6/2016 of the Bank of Portugal, a capital conservation buffer was implemented of 1.25% (2016: 0.625%) that is to increase progressively until 2019, in order to reach 2.5% of total own funds.

EUR millions	**Fully loaded**		**Phased-in**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Common Equity Tier 1 (CET1)	431.5	392.2	424.2	381.3
Tier 1	431.5	392.2	424.2	381.3
Total Capital	431.5	392.2	424.2	381.4
Risk weighted assets	1,875.8	1,661.0	1,875.8	1,639.8
CET 1 ratio	23.0%	23.6%	22.6%	23.3%
Tier 1 ratio	23.0%	23.6%	22.6%	23.3%
Total Capital ratio	23.0%	23.6%	22.6%	23.3%

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 2017 and 2016, the Group and the entities in its consolidation perimeter complied with all the regulatory capital requirements to which they are subject.

33. 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 in 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 on 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 can be analysed as follows:

EUR thousand		31.12.2017			31.12.2016		
	Notes	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets							
Available-for-sale financial assets	7	1,386,250	143,744	-	1,012,250	293,158	-
Financial assets held for trading	7	22,917	3,548	-	15,063	9,553	-
Derivative financial instruments	8	-	36,243	-	-	8,790	-
Liabilities							
Derivative financial instruments	8	-	15,227	-	-	64,437	-
Financial liabilities at fair value through profit or loss	17	-	-	-	-	20,307	-

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 / quotes 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 fair value an instrument are observable, the instrument is included in Level 2.

The fair value of interest rate swaps 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 swaps and credit default swaps amounts to € 9,763 thousand and € 14,950 thousand, respectively (2016: € 8,629 thousand and € 30,972 thousand, respectively). As at 31 December 2017 and 2016, the fair value of the derivatives was not adjusted for counterpart credit risk, considering the collateral deposits as at those dates and/or the ratings of each counterpart.

The fair value of foreign exchange 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 the years ended 2017 and 2016, 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 the swap interest rates for the respective periods:

	31.12.2017		31.12.2016	
	EUR	**USD**	**EUR**	**USD**
Overnight	-0.346	1.429	-0.329	0.692
1 month	-0.368	1.564	-0.368	0.772
3 months	-0.329	1.694	-0.319	0.998
6 months	-0.271	1.837	-0.221	1.318
1 year	-0.186	2.107	-0.082	1.686
3 years	-0.032	2.167	-0.104	1.690
5 years	0.328	2.247	0.075	1.975
7 years	0.579	2.312	0.314	2.161
10 years	0.888	2.399	0.663	2.337
15 years	1.260	2.488	1.030	2.496
20 years	1.426	2.532	1.176	2.561
30 years	1.513	2.538	1.234	2.570

Credit derivatives

The evolution of the main indexes is understood as being representative of the credit spreads behaviour in the market throughout the year, and is presented as follows:

Index	3 years	5 years	7 years	10 years
31.12.2017				
CDX USD Main	25.80	49.20	71.50	90.20
iTraxx EUR Main	23.30	45.10	65.30	82.50
iTraxx EUR Senior Financial	-	-	-	-
31.12.2016				
CDX USD Main	33.85	67.63	94.56	113.98
iTraxx EUR Main	72.34	72.34	94.25	111.00
iTraxx EUR Senior Financial	-	-	-	-

In the valuation of the credit derivatives portfolio, specifically the Credit Default Swaps - Single Names, and for the years ended 31 December 2017 and 2016, the Group used the respective spreads provided by Bloomberg and, when those were not available, the Group used the credit spread (OAS) resulting from comparable responsibilities in terms of reference issuer, seniority of debt, maturity and currency of the respective CDS.

The Group calibrates this valuation model based on market information and operations and reviews the model's assumptions on a regular basis. There is no single market standard for valuation models in this area and such models have inherent limitations. Furthermore, different assumptions and inputs would generate different results. Scaling the model spreads 10% upwards, in line with less favourable assumptions, would reduce fair value by approximately € 0.01 million (2016: € 0.3 million), whilst scaling the model spreads 10% downwards, in line with more favourable assumptions, would increase fair value by approximately € 0.02 million (2016: € 0.3 million).

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 can be analysed as follows:

Exchange rate	31.12.2017	31.12.2016
EUR/USD	1.1993	1.0541
EUR/GBP	0.88723	0.85618
EUR/CHF	1.1702	1.0739
USD/BRL [a]	3.3127	3.2544

[a] Calculated in accordance with the EUR/USD and EUR/BRL exchange rates

The Group uses in its valuation models the spot rate observed on 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	31.12.2017			31.12.2016		
		Carrying	Fair value		Carrying	Fair value	
		amount	Level 1	Level 2	amount	Level 1	Level 2
Assets							
Cash and banks	5	41,793	41,793	-	30,665	30,665	-
Securities and loans portfolio	7	251,710	95,519	160,844	301,182	91,902	211,705
Due from banks	6	24,980	24,980	-	69,664	69,664	-
Other credit operations	12	14,712	-	14,814	28,571	-	28,862
Liabilities							
Due to banks	14	40,399	40,399	-	28,128	28,128	-
Due to customers	15	802,517	802,517	-	740,425	740,425	-
Subordinated debt		-	-	-	-	-	-

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.

Securities and loans portfolio and Other credit operations: For the specialized finance portfolio, the fair value is estimated based on the update of the expected cash flows of capital and interest, considering that the 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 (capital and interest), considering that the 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 (capital and interest), considering that the 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 securities 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 (capital and interest).

Fair value of reclassified financial assets

As established in Note 2.8, in accordance with the amendment to IAS 39 (Reclassification of financial assets), the Group made the following reclassifications:

- During the second half of 2008, the Group reclassified non-derivative financial assets from its available-for-sale and trading portfolios to the loans and receivables portfolio;
- During the first quarter of 2011, the Group reclassified non-derivative financial assets from its available-for-sale portfolio to the held to maturity portfolio;
- During the third quarter of 2012, the Group reclassified non-derivative financial assets from the held to maturity portfolio to the available-for-sale portfolio;
- During 2015, the Group reclassified non-derivative financial assets from its available-for-sale portfolio to the loans and receivables portfolio;
- During 2016, the Group reclassified non-derivative financial assets from its available-for-sale and trading portfolios to the loans and receivables portfolio.

These reclassifications can be analysed as follows:

EUR thousand	**31.12.2017**		**31.12.2016**		**At reclassification date**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Assets reclassified in 2008						
From AFS to Loans and receivables	6,398	6,525	67,248	60,278	1,082,548	1,082,548
From Trading assets to Loans and receivables	9,250	7,523	8,114	8,978	288,460	288,460
Assets reclassified in 2011						
From AFS to Held to maturity	-	-	-	-	174,033	174,033
Assets reclassified in 2012						
From Held to maturity to AFS	-	-	-	-	93,656	90,947
Assets reclassified in 2015						
From AFS to Loans and receivables	16,319	16,186	24,084	25,854	35,277	35,277
Assets reclassified in 2016						
From AFS to Loans and receivables	16,484	13,977	21,233	15,020	29,801	29,801
From Trading assets to Loans and receivables	3,479	4,380	5,309	4,381	5,194	5,194
	51,931	**48,591**	**125,987**	**114,510**	**1,708,969**	**1,706,260**

The carrying value of the reclassified financial assets as at 31 December 2017 and 2016 is gross of impairment and excludes the amount of the interest rate hedge adjustment.

The amounts recognized in the income statement and in fair value reserve related to the reclassified assets are as follows:

EUR thousand	31.12.2017				31.12.2016			
	Income statement		Change		Income statement		Change	
	Interest	Impairment	FV reserve	Equity	Interest	Impairment	FV reserve	Equity
Assets reclassified in 2008								
From AFS to Loans and receivables	462	-	291	752	4,635	5,038	1,480	11,153
From Trading assets to Loans and receivables	548	-	-	548	548	-	-	548
Assets reclassified in 2011								
From AFS to Held to maturity	-	-	-	-	-	-	-	-
Assets reclassified in 2012								
From Held to maturity to AFS	-	-	-	-	-	-	-	-
Assets reclassified in 2015								
From AFS to Loans and receivables	1,746	(93)	-	1,653	2,734	388	(156)	2,966
Assets reclassified in 2016								
From AFS to Loans and receivables	607	2,887	(181)	3,313	659	(7,538)	(97)	(6,976)
From Trading assets to Loans and receivables	0	853	2	854	59	(941)	(68)	(951)
	3,363	**3,647**	**111**	**7,121**	**8,635**	**(3,053)**	**1,159**	**6,740**

If the reclassifications had not been made, the additional amounts recognized in the income statement and in equity would be as follows:

EUR thousand	**31.12.2017**			**31.12.2016**		
	Fair value change	**Income statement**	**Fair value reserve**	**Fair value change**	**Income statement**	**Fair value reserve**
Assets reclassified in 2008						
From AFS to Loans and receivables	126	-	126	(6,970)	-	(6,970)
From Trading assets to Loans and receivables	(1,727)	(1,727)	-	864	864	-
Assets reclassified in 2015						
From AFS to Loans and receivables	(133)	-	(133)	1,770	-	1,770
Assets reclassified in 2016						
From AFS to Loans and receivables	(2,507)	-	(2,507)	(6,213)	-	(6,213)
From Trading assets to Loans and receivables	901	901	-	(928)	(928)	-
	(3,340)	**(826)**	**(2,514)**	**(11,477)**	**(63)**	**(11,414)**

34. Group structure

As at 31 December 2017, the Group structure can be analysed as follows:

Subsidiary	Year of incorpora-tion	Year of acquisition	Registered office	Activity	% Shareholding	Consolidation method
Banco Finantia, S.A.	1987	1987	Portugal	Banking	-	-
Banco Finantia Sofinloc, S.A.	1993	2001	Spain	Banking	99.7	Full
Finantia UK Limited	1993	1997	United Kingdom	Finance	100	Full
Finantia Malta Ltd.	2004	2004	Malta	Finance	100	Full
Finantia PH Limited	2004	2004	Malta	Holding Company	100	Full
Finantia USA, Ltd.	1995	1997	USA	Broker-Dealer	100	Full
Finantia Brasil, Lda.	1997	1997	Brazil	Advisory services	100	Full
Finantia Holdings BV	2004	2004	Holland	Holding Company	100	Full
Sofinloc - Instituição Financeira de Crédito, S.A.	1983	1992	Portugal	Specialized credit	100	Full
Finantia SGFTC, S.A. [(a)]	2003	2003	Portugal	Funds management	100	Full
Finantia Serviços - Prestação de Serviços Empresariais, Lda.	1989	1989	Portugal	Advisory services	100	Full
Esprin - Española de Promociones, S.L.	2000	2001	Spain	Advisory services	100	Full

[(a)] In the process of liquidation and dissolution.

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(Translation from the original Portuguese language. In case of doubt, the Portuguese version prevails.)

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 2017 (showing a total of 1.988.472 thousand euros and a Total equity attributable to the equity holders of the Bank of 454.676 thousand euros, including a net profit for the year of 42.242 thousand euros attributable to the bank's shareholders), Consolidated Income Statement and the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of the 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 the Banco Finantia, S.A. as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

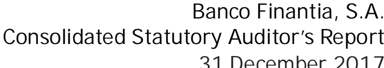
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Impairment of Loans and Securities Portfolio – Debt Instruments

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
At 31 December 2017, the Securities and loans portfolio included Available-for-sale financial assets and Loans and receivables in the amount of 1.529.997 thousand euros and 259.454 thousand euros, respectively. At the reference rate, approximately 94% of the Securities and loans portfolio are related to debt instruments.	Our approach towards this risk of material misstatement included the following procedures: • Understanding the internal control procedures implemented in the impairment calculation process performed by the Group; • Analysis of events considered by the Group as relevant indicators of securities impairment;

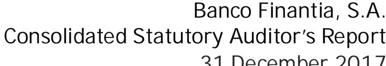
Sociedade Anónima - Capital Social 1.335.000 euros - Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas - Inscrição N.º 20161480 na Comissão do Mercado de Valores Mobiliários
Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número
A member firm of Ernst & Young Global Limited



Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in Note 2.8 to the consolidated financial statements, a financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as significant financial difficulty of the issuer or obligor and default or delinquency in interest and/or principal payments. The debt instruments impairment amount is defined by the Group, considering the different sources of information, such as information provided by rating agencies, historical valuation of debt instruments, compliance with service debt and companies' financial statements and others. Regarding financial instruments classified as Loans and receivables, which are not always traded in an active market, the potential impairment losses analysis was performed based on information, or performed operations, without magnitude on the market, which implied the use of judgments and assumptions by the Group that can be subjective.	• Analysis of internal documents that supported the decision to book the impairment amount; • Inquiries to those responsible about the reasonableness of the assumptions considered; • Assessment of the reasonableness of the criteria defined by the Group and the consistency of their application across the Group securities portfolio; • Analysis of the consistency and completeness of the disclosures related to the financial instruments booked as Available-for-sale financial assets and Loans and receivables and assessment of compliance with the disclosure requirements of International Financial Reporting Standards.

2. Derivative Financial Instruments

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in Note 8 to the financial statements, in its normal course of business, the Group entities engage into derivative financial instrument transactions as a strategy to hedge and manage the financial risks inherent to their activity. At 31 December 2017, derivatives financial instruments accounted the amount of 9.248 thousand euros and 7.434 thousand euros of current assets and current liabilities, respectively. With the largest expression, this derivative instruments portfolio is mainly structured by interest rates derivatives used to hedge against the changes in the fair value of fixed rate debt arising from movements in market interest rates. In order to effectively account the different hedging instruments at their fair values, the Group entities must comply with a number	Our approach towards this risk included the following procedures: • Analysis and assessment of the documentation prepared by the Group, to address the requirements established by IAS 39 and to qualify the designation of the derivatives as hedges; • Reperformance of the retrospective test performed by the Group in order to conclude about the effectiveness of the hedging, confirming that the correlation was within the interval of 80% to 125%; • Analysis of the documentation prepared by the Group in support to the discontinuance of the hedge accounting reporting that occurred in 2017 and its compliance with the defined by IAS 39; • Analysis of the consistency and completeness of the disclosures related to derivative financial instruments and assessment of compliance with the disclosures requirements of International Financial Reporting Standards.



Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
of strict requirements as defined by International Financial Reporting Standards, including the following: • Formal documentation about the hedging relationship; • Performance of prospective and retrospective hedge effectiveness testing. The technical conditions required for hedge accounting to be considered, 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.	

3. Current and deferred tax estimations

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
At 31 December 2017, the Group financial statements include deferred tax assets and liabilities amounting to 893 thousand euros and 13.423 thousand euros, respectively. In addition, they include current tax assets and liabilities amounting to 6.627 thousand euros and 11.294 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 this risk included the following procedures: • Inclusion in our local audit team of internal specialists knowledgeable 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. • Testing of the completeness and reasonableness of the amounts recorded as current and deferred taxes; • Analysis of the consistency and completeness of the disclosures related to current and deferred taxes and the assessment of their compliance with the disclosures requirements of International Financial Reporting Standards.

4. Related Party Transactions

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in Note 31 to the consolidated financial statements, the Group enters into transaction in its normal course of business with related parties (shareholders), namely those associated with the purchase and sale of securities, derivative instruments as well as repurchase and resale agreements, and,	Our approach towards this risk of material misstatement included the following procedures: • Understanding of the appropriateness of management's process for identifying and recording related party transactions;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
accordingly, the income statement is influenced by the gains and losses arising from those transactions. Having regard to the fact that, if not performed at market prices, related party transactions impact may lead to distorted results with respect to the normal market conditions, we have defined this matter as a key audit matter.	• For a sample of transactions, we have 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, it was compared the prices charged between related parties with the reference prices available in the market, assessing their further impact on the financial statements; • Analysis of the consistency and completeness of the related party disclosures with our understanding of the business gained through the performance of our audit procedures.

Responsibilities of management for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are 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 also includes the verification that the information contained in the Management Report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

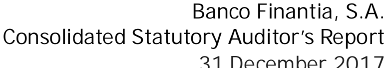
On the Management Report

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 auditors of Banco Finantia (Group´s Parent Entity) for the first time in the shareholders' general meeting held on 27 July 2015 for a mandate for 2015 and 2016. We were reappointed in the shareholders' general meeting held on 27 November 2017 for a second mandate for 2017 until 2019;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on 16 March 2018;
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Group in conducting the audit; and
- We declare that, in addition to the audit, we provided the Group with the following services as permitted by law and regulations in force:



- Issuance of a report on a half yearly evaluation of Impairment of the credit portfolio, in accordance with the requirements of instruction 5/2013 issued by the Bank of Portugal;
- 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 issuance of a report to the Audit Committee on the internal control system on the prevention of money laundering and financing of acts terrorism, by Banco Finantia and the issuance, in our capacity as Fiscal Council of Sofinloc IFIC, S.A. and Finantia SGFTC, S.A. of a report as required by Notice 9/2012 of the Bank of Portugal and in accordance with the requirements of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas");
- Performing tests on the effectiveness of the internal control system related to the prevention of money laundering and financing of acts of terrorism for Banco Finantia S.A. and Sofinloc IFIC, S.A., in accordance with article 44.º of Notice 1/2014 issued by the Bank of Portugal.

Lisbon, 16 March 2018

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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