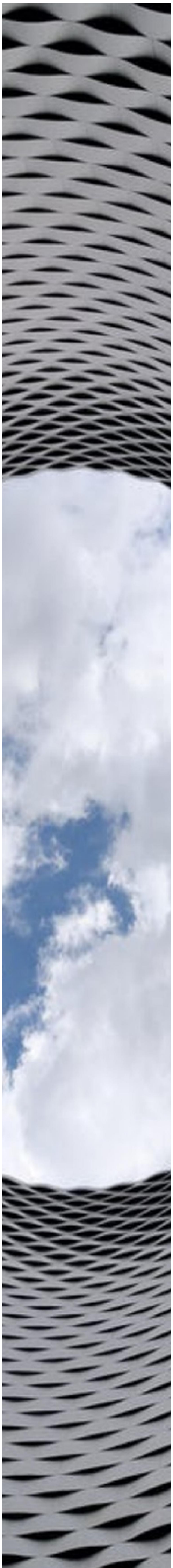


Finantipar

Banco Finantia

Pillar 3 Report 2018

Disclosure of information in the scope of article 431 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council

27 June 2019

With reference to 31 December 2018

Index

Foreword

This report is prepared in accordance with the regulatory requirements set out in Part VIII of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 (CRR or Regulation (EU) No. 575/2013) on the disclosure of information of prudential relevance (Pillar III), and the guidelines of EBA (EBA/GL/2016/11), of 4 August 2017, on the requirements of such disclosure, as a complement to the information required in the scope of the annual financial statements.

On this basis, the information disclosed in this report complies with the requirements set out in the CRR, for Finantipar, S.A. (on a consolidated basis) whilst "parent institution in the EU" (hereinafter “Finantipar”) and for Banco Finantia, S.A. (on sub-consolidated basis, hereinafter “Banco Finantia”) regarding the information specified in articles 437, 438, 440, 442, 450, 451 and 453) and is structured in accordance with Title II and Title III of Part VIII of the CRR, as follows:

1. Scope of application (article 436)
2. Risk management objectives and policies (article 435)
3. Own funds (article 437)
4. Capital requirements (article 438)
5. Exposure to counterparty credit risk (article 439)
6. Capital buffers (article 440)
7. Indicators of global systemic importance (article 441)
8. Credit risk adjustments (article 442)
9. Unencumbered assets (article 443)
10. Use of ECAIs (article 444)
11. Exposure to market risk (article 445)
12. Operational risk (article 446)
13. Exposures in equities not included in the trading book (article 447)
14. Exposure to interest rate risk on positions not included in the trading book (article 448)
15. Exposure to securitization positions (article 449)
16. Remuneration policy (article 450)
17. Leverage (article 451)
18. Use of the IRB Approach to credit risk (article 452)
19. Use of credit risk mitigation techniques (article 453)
20. Use of the Advanced Measurement Approaches to operational risk (article 454)
21. Use of Internal Market Risk Models (article 455)

The information disclosed in this report was prepared with reference to 31 December 2018 and applies to the Finantipar consolidation perimeter, including all its subsidiaries (referred to in this report as "Group" or "Finantipar Group").

Banco Finantia is an institution controlled by Finantipar and is the entity that conducts the Group's business activities, directly or through its subsidiaries, following its own strategy, which is incorporated at Finantipar consolidated level.

Finantipar Group disclosure policy

The Board of Directors of Finantipar Group approved in 2018, a Disclosure Policy drafted in accordance with article 431.º, n.º 3, first paragraph and article 434.º, n.º 1 in Part VIII of Regulation (EU) No. 575/2013. This policy aims to ensure that the disclosure requirements laid down in Part VIII of CRR, are subject (at least) to the same level of verification and internal procedures than the management information disclosed in the Annual Report and Accounts and to establish the internal controls and procedures in place to assess their appropriateness. In this context, the Board of Directors and heads of department are responsible to establish and maintain an adequate and efficient internal control system to support information disclosures, including the the disclosure requirements laid down in Part VIII of CRR, ensuring as well their appropriateness and verification.

Statement

The Board of Directors of Finantipar and the Board of Directors of Banco Finantia certify that the present document was prepared with reference to 31 December 2018 and that all the procedures deemed necessary for the public disclosure of the information have been carried out and that, to the best of their knowledge, all the information disclosed is true and reliable.

1. Scope of application (Article 436)

1.1. Finantipar Group

Finantipar is a limited liability company, incorporated on 15 June 1992, with its registered office in Portugal, at Rua General Firmino Miguel, no. 5, in Lisbon. Finantipar and its subsidiaries ("Group" or "Finantipar Group") have as corporate object the pursue of all activities related with financial transactions and services permitted to credit institutions, with special focus in the areas of capital markets, corporate and investment banking, corporate finance (including mergers and acquisitions), wholesale financing and private banking. Subsidiaries have branches and/or representative offices in Portugal, Spain, United Kingdom, Brazil, United States of America, Malta and Netherlands.

In 2018, Finantipar´s activity consists essentially in the management of its stake in Banco Finantia and its own investments and liquidity.

By virtue of having a controlling stake in Banco Finantia, Finantipar constitutes the "parent company" of the Group and is subject to the supervision of the Banco de Portugal based on its consolidated financial situation.

In this sense, the present report has as its main focus the description and the disclosure of aspects related to the activity developed by Banco Finantia. However, since this report must be carried out on a consolidated basis, from a quantitative perspective, the analyses presented are at the Finantipar level.

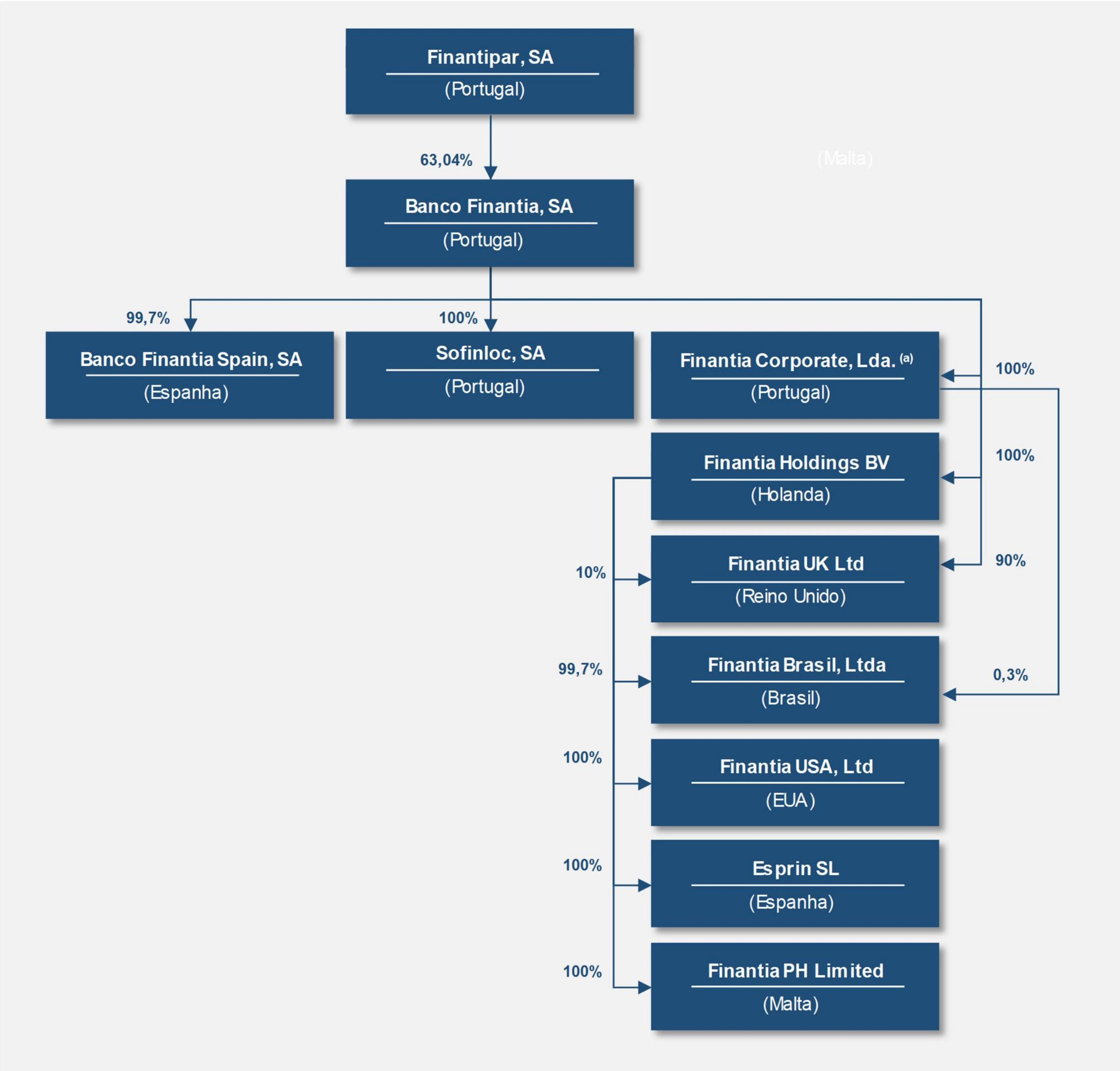
The following organizational chart identifies the entities that comprise the Group, as well as the jurisdictions where they have their registered offices. Of these entities, only Banco Finantia and Banco Finantia Spain, S.A. (“Banco Finantia Spain”) carry out a banking activity.

There are no differences at the consolidation base level for accounting and prudential purposes, with all the entities included in the consolidation perimeter being consolidated using the full consolidation method.

Pursuant to paragraph c) of article 436 of the CRR, it is informed that there are no current or foreseeable significant legal or factual impediments to a timely transfer of own funds or prompt repayment of liabilities between the parent company and its subsidiaries.

Organizational Chart of the Finantipar Group

(31 December 2018)



Finantipar Finance Limited concluded its liquidation process during 2018, having been definitively dissolved in 11 of June 2019. Finantia Sociedade Gestora de Fundos de Titularização de Créditos, S.A. ("Finantia SGFTC, S.A."), which had not been engaged in any economic activity since 2016, was voluntarily dissolved by decision of its sole shareholder, Banco Finantia, S.A., having Banco de Portugal cancelled its registration with an effect starting date of 23 May 2018.

Additionally, Banco Finantia Sofinloc changed its denomination to Banco Finantia Spain, in February 2019 the merger by incorporation of Finantia Malta in Finantia PH was concluded, Finantia Serviços, Lda. changed its denomination to Finantia Corporate, Lda. and Sofinloc, S.A. ceased its specialiazed credit activities.

1.2. Description of the activity developed by the various Group entities

Banco Finantia, S.A.

Banco Finantia is an independent bank, with 30 years of domestic and international experience, and is one of the leaders in Portugal in the areas of investment and private banking. Throughout the 30 years, Banco Finantia was always solid and profitable, presenting capital ratios above sector average – in December 2018 its Common Equity Tier 1 ratio was above 21%.

It operates in two important niche markets:

1) Corporate & Investment Banking - financial advisory services focusing on cross-border Mergers and Acquisitions, setting up of corporate finance operations and financial restructurings, and the offering of fixed-income products to companies and investors;

2) Private Banking - quality personalized services, for affluent and wealthy customers.

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

Banco Finantia Spain, S.A.

Banco Finantia Spain develops its activity in the market segment of Private Banking and Capital Markets and has invested heavily on the provision of Private Banking and Personal Banking services to its customers.

Given its experience, discretion and independent posture, Banco Finantia Spain is in a privileged position to offer Private Banking services to its customers. The products and services offered include: the discretionary management of portfolios and the trading of shares, bonds and investment funds; investment advice on bonds, shares and investment funds; deposits; and the custodianship of securities. The strategy is to continue to invest heavily in this activity area, having recently increased capital to sustain the growth of its activities.

Sofinloc, S.A.

In the context of the Group´s restructuring program and following Sofinloc, S.A. request (previously denominated Sofinloc – Instituição Financeira de Crédito, S.A.), the European Central Bank granted, on 10 December 2018, its approval to Sofinloc´s banking license withdraw request, having subsequently obtain Banco de Portugal´s permission to exempt Sofinloc from liquidation proceedings. As a result, in January 2019 Sofinloc changed its denomination and corporate object, to limit exclusively its activity to the recovery and management of bad debt loans.

Finantia Corporate Lda.

Finantia Corporate, Lda., is wholly owned by Banco Finantia and is an auxiliary services company which object is to provide investment, administrative, technical and consultancy services and general business support to Group companies.

Finantia Holdings BV

Finantia Holdings, with registered office in Holland, is wholly owned by Banco Finantia and has as its object the management of holdings as an indirect form of carrying out economic activities.

Finantia UK Limited

Finantia UK engages in intermediation activities and operates in the areas of Capital Markets (fixed income) and of Financial Advisory in Corporate Banking and in syndicated loans for professional customers, following the strategic guidelines established for the Group.

Finantia Brasil Ltda.

Finantia Brasil is an auxiliary services company which object is to provide consultancy services. The Company is, indirectly, wholly owned by Banco Finantia.

Finantia USA, Ltd.

Finantia USA Ltd, is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority ("FINRA"). Finantia USA Ltd, is 100% owned by Finantia Holdings BV, which is a subsidiary of Banco Finantia. Finantia USA Ltd. acts as broker for institutional customers in the acquisition of foreign securities.

Esprin SL

Esprin – Española de Promociones, having as its object of management and administration of securities representative of the capital of other entities. This company is, indirectly, wholly owned by Banco Finantia.

Finantia PH Limited

Finantia PH Limited incorporated by merger Finantia Malta Limited, in 16 February 2019. The accounting and tax effects of the merger were recognized with reference date of 1 January 2018. Finantia PH develops its activity in the Capital Markets segment (fixed income), maintaining an own portfolio, in accordance with the strategic guidelines established for the Group. Finantia PH Limited changed its denomination to Finantia Malta Limited with effect starting date of 1 April 2019.

2. Risk management objectives and policies (Article 435)

2.1. Statement on the adequacy of the risk management systems

The Board of Directors of Finantipar and the Board of Directors of Banco Finantia confirm that the risk management system implemented, as well as the processes and measures to ensure that the defined risk limits are met, is adequate to ensure the correct development of the business strategy, taking into account the profile and size of the Group.

2.2. Statement of the General Risk profile and its relation with the Business Strategy

The Group's risk management policies are based on a conservative approach, reflected in its robust capital ratios and liquidity position. As fundamental principle underlying the management and formulation of risk strategies is the understanding of the risks to which the institution is exposed and the implementation of a comprehensive risk appetite structure for the Group.

On that basis, the Group has established the four fundamental principles that outline its risk appetite, and that guide its activity, business model and business strategy:

> **Solvency principle:** the Group undertakes to maintain an adequate level of capital to accommodate unexpected losses, both under normal and adverse conditions, in order to be perceived as a solid and robust entity;

> **Liquidity principle:** the Group undertakes to maintain a stable financing structure and sufficient liquidity to meet its financial obligations, ensuring its continuity even under stress scenarios;

> **Profitability principle:** the Group undertakes to provide its shareholders with a return adequate to the risks assumed; and

> **Sustainability principle:** the Group considers that it is of strategic importance to maintain sustainable levels of activity and exposure to risk, whilst preserving its image and reputation and engaging in social contribution actions. With this objective, the Group works on the proper definition, communication and implementation of its risk strategy and appetite.

2.3. The Strategies and management processes of those risks

Risk Management Model

Finantipar whilst "parent company" is subject to supervision on a consolidated basis and, as such, is responsible for providing information on all the elements that are necessary for the supervision and maintenance of the Finantipar Group’s (the “Group”) internal control system. Regarding Risk Management, Finantipar is responsible for establishing and monitoring the Group's Risk Management Model, as summarized below.

In addition to the regulatory perspective, the Group also considers risks and financial resources from an economic perspective, through the Internal Capital Adequacy Assessment Process (“ICAAP”) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

The management of Finantipar rests with its Board of Directors, which has delegated the broader powers of the day-to-day management of the company to a managing director.

Finantipar's risk management corresponds, globally, to the risk management of Banco Finantia and of its subsidiaries. Finantipar monitors the evolution of the various risks through the reports produced by Banco Finantia and its subsidiaries and the respective implications on Finantipar's results and ratios.

It is the responsibility of the Board of Directors of Banco Finantia to approve and periodically review the strategies and policies regarding the assumption, management and control of the risks to which the Group is or may be subject and to regularly monitor the activity of the Risk Management Function. In this context, the Board of Directors of Banco Finantia is responsible, amongst others, for the approval of the RAF (Risk Appetite Framework).

The management of Banco Finantia is the responsibility of its Board of Directors ("BD"), which has delegated the broader powers of the day-to-day management of Banco Finantia to two managing directors (MD).

The overall risk management of Banco Finantia is the responsibility of the MD. There is also a Finance and Risk Committee which main function is the global risk monitoring.

The MD are further responsible for the implementation and maintenance of an adequate and efficient internal control system based on an appropriate and effective risk management system.

The Finance and Risk Committee, which meets monthly and includes two MD, is responsible for assessing and monitoring the various risks to which the Bank and, by extension, Finantipar are exposed, with special incidence on the limits and tolerances of the RAF.

The Risk Management Function is the responsibility of the Risk Management Department (RMD), centralized and independent, which is in charge of the management, analysis and control of all Group risks.

The RMD guarantees that the Risk Management Function: (i) ensures the effective application of the risk management system, through the continuous monitoring of its adequacy and effectiveness, as well as of the measures taken to correct any weaknesses; (ii) provides advice to the management and supervisory bodies; (iii) prepares and submits periodic risk management reports that enable the management body to monitor the various risks to which the Bank is subject; (iv) prepares the ICAAP and actively participates in the preparation of the RAF; and (v) promotes the integration of risk principles into the institution's daily activities, ensuring that there are no significant business aspects not included in the risk management framework.

The Bank recognizes that the definition and assessment of adequate capital levels to support the risk profile, as well as the appropriate controls, are essential elements for the implementation of a sustainable business strategy. The planning of the evolution and behaviour of internal capital is crucial to ensure its continued adequacy for the risk profile, strategic objectives and business objectives.

The Bank's risk management model is based on an integrated set of processes, duly planned, reviewed and documented, aimed at ensuring an appropriate understanding of the nature and magnitude of the risks underlying its activity, enabling an adequate implementation of the respective strategy and compliance with the objectives.

This model is based on processes of identification, assessment, monitoring and control of all the risks subjacent to the Bank's activity, which are supported by appropriate and clearly defined policies and procedures to ensure that the established objectives are achieved and that the necessary measures are taken to adequately respond to previously identified risks. In this manner, the risk management model covers all products, activities, processes and systems, considering all the risks underlying its activity and taking into account its size and complexity, as well as the nature and magnitude of the risks.

The risk management model respects the principles recognized and accepted at international and national level and are in line with Notice 5/2008 of the Banco de Portugal and with the “Guidelines on Internal Governance under Directive 2013/36/EU” (EBA/GL/2017/01) issued by the European Banking Authority (EBA).

Risk management has an active influence on the decision-making of the EC and of the Finance and Risk Committee of the Bank.

In short, the risk management system ensures:

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

Risk Profile

The risk profile of the Group is determined through the analysis of the adherence of the risk matrices to the Group's reality and the subsequent listing and description of the risks to which it is exposed, taking into account the applicable legislation on the risk management system and the activity developed by the Group.

For such, the Group considers the following risk categories: credit, market, interest rate, foreign exchange rate, liquidity, and the non-financial risks (which includes operational, compliance, reputation and strategy risks).

The evolution of the Group's risk profile is monitored through a number of indicators, in particular those established under the RAF, making it possible to guarantee that decisions that may affect the Group's risk exposure do not exceed the institution's risk appetite levels.

All risk categories contributing to the Group's risk profile are analysed, discussed and monitored monthly by the Finance and Risk Committee from the perspective of the exposure levels (and possible measures to increase effectiveness and risk mitigation), ICAAP and RAF, which are reported to the BD.

Credit risk

Credit risk derives from the possibility that a counterparty defaults or the credit quality of a given financial instrument degrades. The Group's objective is to maintain a high-quality asset portfolio, based on a prudent credit policy. The Group is also constantly concerned to diversify its own portfolio, as a way to mitigate the credit concentration risk.

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

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

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

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

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

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

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

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

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

Market risk

Market risk consists of the probability of negative impacts on results or capital due to unfavourable movements in the market price of the trading book instruments.

The Group adopted the strategy of managing the market risk associated with its trading book (fixed income) in a conservative manner, through the definition of prudent exposure limits and holding periods, as well as through its the daily monitoring.

Interest Rate Risk

Interest rate risk derives from the probability of negative impacts caused by unfavourable changes in interest rates as a result 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 of this type of risk (usually IRS – Interest Rate Swaps), thereby maintaining a balanced structure between assets and liabilities in terms of fixed-rate mismatch.

The Group monitors the distribution of its fixed-rate assets over time intervals, net of the corresponding fixed-rate liabilities and 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 99% confidence interval. This model is validated with back tests.

In the scope of ICAAP, the Group has been applying the VaR methodology for the allocation of economic capital to interest rate risk. The economic capital requirements for this risk are calculated through the historical simulation, based on a six-year historical rate, a one-year holding period and a 99.9% confidence interval.

Foreign Exchange Rate Risk

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

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

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

Within the scope of ICAAP, the Group has been applying the VaR methodology for the allocation of economic capital to foreign exchange rate risk. The economic capital requirements for this risk are calculated through the historical simulation, based on a six-year historical rate, a one-year holding period and a 99.9% confidence interval.

Liquidity Risk

Liquidity risk is defined as the possibility of a financial institution defaulting on its maturity dates due to its inability to liquidate assets, obtain financing or refinance liabilities on a timely basis.

In liquidity risk management, and in the scope of the Internal Liquidity Adequacy Assessment Process (ILAAP) the Group aims to ensure a stable and robust liquidity position, through the holding of liquid assets, the control of liquidity gaps and the monitoring of a liquidity buffer, which allow to balance contractual financial outflows in stress situations.

Liquidity risk management is carried out in a way to keep all liquidity levels within the pre-established limits, in accordance with two main parameters: (i) cash flow management, through the daily calculation of financial flows and treasury balances over an extense time horizon, allowing for the maintenance of a positive cash balance over normal and stress temporal horizons and (ii) inventory management, with the daily calculation of liquidity metrics in order to ensure their maintenance within the pre-established limits determined by the Group.

The Financial Markets Department monitors the Group's liquidity risk on a daily basis in the two aforementioned aspects. The Risk Management Department is responsible for the periodic analysis of the Group's liquidity risk management, preparing a monthly report to the Finance and Risk Committee.

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

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

Non-financial Risks

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

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

In addition to the maintenance of risk matrices, the Group maintains an organized process of 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, records of the (i) events, (ii) possible associated losses, and (iii) corrective and/or mitigating measures implemented.

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

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

2.4. Structure and organization of the relevant risk management unit

The Board of Directors is globally responsible for the risk management function, in accordance with Notice 5/2008 of the Banco de Portugal and the EBA "Guidelines on Internal Governance under Directive 2013/36/EU" da EBA (EBA/GL/2017/11).

The Group's risk management function is under the responsibility of the Risk Management Department, being responsible for:

- Ensuring the effective implementation of the risk management system by continuously monitoring the adequacy and effectiveness of the risk management system and the adequacy and effectiveness of the measures taken to correct any weaknesses of that system;
- Providing advice to the Board of Directors, the Supervisory Board, the Finance and Risk Committee, and other areas and/or management bodies of the Group;
- Preparing and submitting to the Board of Directors, the Supervisory Board and the director to which it reports hierarchically periodic reports on risk management, indicating whether adequate measures have been taken to correct any weaknesses;
- Defining the criteria and methodologies for assessing and quantifying the risks to which the Group is exposed;
- Preparing monthly information for the Finance and Risk Committee, namely the Finance and Risk Committee Report, which is subsequently submitted to the Board of Directors;
- Carrying out the appropriate continuous monitoring of situations identified with regard to corrective and prospective measures, and opportunities for improvement in the risk management scope to ensure that the necessary corrective measures are taken and that same are properly managed;
- Leading the ICAAP to ensure that the Group has the internal capital appropriate to its risk profile, preparing the report on ICAAP for the Banco de Portugal and keeping the Finance and Risk Committee informed of the ICAAP updates on a monthly basis;
- Leading the preparation and monitoring of the RAF;
- Promoting the integration of the risk principles into the institution's daily activities, ensuring that there are no significant business aspects not included in the risk management framework;
- Actively participating in the definition and review of the institution's strategic management of capital and liquidity.

The head of the risk management function reports functionally to the Board of Directors and to the Supervisory Board. The functional reporting comprises a set of interactions that provide said management and supervisory bodies with an adequate knowledge, and allow for the monitoring and evaluation of the risk management function's activity. Complementing the functional reporting, the risk management function reports hierarchically to a director with executive functions.

The Group confers on the head of the risk management function the necessary powers to perform his/her functions independently, granting him/her access to the relevant information. The risk management function is independent of the other functional areas of Banco Finantia subject to assessment, namely of the commercial areas, thereby granting it the conditions to perform its competencies in an objective and autonomous manner. In addition, at the level of the remuneration policy of its employees, the Group has implemented some specificities applicable to employees exercising control functions, designated Holders of Essential Functions. The determination of the remuneration of these employees, which includes the head of the risk management function, is subject to certain rules and procedures that aim to guarantee the performance of their duties in an objective manner and to safeguard the effective independence of the control functions they exercise.

The interaction process of the risk management function with the other structure units is of fundamental importance to the execution of its activities and attributions in the scope of risk management and internal control (in the latter case, in the interaction with the Internal Audit area and with the Compliance Function). In addition, the risk management function participates in a number of internal risk-related forums, including the Finance and Risk Committee and other periodic meetings, in which the heads and representatives of the various Group areas participate, thereby enhancing the interaction between the risk management function and the other structure units.

It is the responsibility of the Risk Management Department to control the limits and tolerances defined in the Group's RAF, approved by the Board of Directors. It is also responsible for drawing up proposals for changes to limits and tolerances, supervising the quality of the calculation of the metrics in light of the parameters provided to the Risk Management Department by the other structure units, monitoring the evolution of the Bank’s risk profile through the RAF metrics and for providing timely advice to the management bodies about possible deviations in the adequacy of the risk assumed by the institution in light of its risk appetite.

The purpose of the RAF is to determine risk appetite and it is an integral part of the Group's strategic planning process, thus evidencing the link between the strategy and the risk appetite. It provides a common structure regarding the activity of the entire Group for the communication to, and the understanding and evaluation by top management and by the management and supervisory bodies of the types of risks and of the respective levels to be assumed, explicitly defining the limits and tolerances within which the management of the business must operate. The RAF constitutes a holistic approach that includes policies, controls and systems through which the risk appetite is established, communicated and monitored. In this manner, in addition to defining limits and tolerances to risk, the RAF clarifies the actions to be taken in the event of those being exceeded and establishes the responsibilities and the roles of those responsible for the implementation and maintenance of same.

The risk indictor control schedule (dashboard) established by the RAF is updated on a monthly basis and is included in the Finance and Risk Committee Report, which is submitted monthly to the Finance and Risk Committee, the Board of Directors and the Supervisory Board for analysis and follow-up. The RAF dashboard presents several risk metrics to which the institution is exposed, as well as their respective limits and tolerances. These metrics are aggregated into groups, including solvency, liquidity, profitability, credit risk, interest rate risk and foreign currency risk and non-financial risks.

2.5. Scope and nature of the reporting and mediation systems of risks

The risk measurement and reporting systems in the Group are supported by information universes that are an integral part of the Group's information management system. These information universes are centralized in the Group's information management tool, Business Objects, where all the information is constantly updated, historically maintained and available to the end user.

The two major information universes are BFM (Bank Fusion Midas) and MIS. The former serves the accounting purpose, whilst the latter collects and processes the information resulting from the normal operations of the Group's activity. These operations are recorded by the *Front-Office*, *Middle-Office* and Operations' teams through the *TOMS* (*Bloomberg*), *Kondor+ (Thomson Reuters*) and BFM interfaces.

2.6. Risk coverage and mitigation policies

The Group's risk management system, including the hedging and risk mitigation policies and the strategies and processes to control their effectiveness, aims to ensure that the risks to which the Group is exposed remain at the level defined by the management body and do not significantly affect the Group's financial position, thereby enabling the proper implementation of the strategy, the meeting of the objectives and the taking of the necessary actions to respond to the risks.

Hence, within the scope of the risk management system, the Group acts to ensure, on a timely basis, the prevention of undesired or unauthorized situations and the detection of these situations should they occur, so that the immediate adoption of corrective risk mitigation measures is possible. In this context, the Group established its RAF, whereby it defined the overall and specific objectives with regard to the risk profile and the degree of risk tolerance, as well as the escalation process in the event limits or tolerances are exceeded.

Coverage and risk mitigation policies and strategies and the processes to control their effectiveness are continuously monitored, both by the Risk Management Department in the scope of the regular exercise of its functions, or monthly by the Finance and Risk Committee, covering all the categories of risk to which the Group is exposed.

Credit risk

The Group seeks to minimize credit risk through a careful analysis, applying strict standards of credit analysis to its debtors and counterparties, as well as a systematic monitoring of the economic environment and other aspects that may contribute to the deterioration of the quality of the credit granted.

In addition, the Group seeks to mitigate credit risk through the diversification of the loan portfolio - by geographical area, counterparties, sectors of activity, entity types and instrument types. Credit Risk Management policies and procedures are subject to periodic review, being ratified by the competent body.

Exposure to credit risk is only possible after a credit limit is assigned to the risk entity. It is the responsibility of the Credit Department to analyse and prepare its opinion, proposing a limit, which is then approved according to the procedures formalized in the institution.

Compliance with these limits is monitored daily by the Risk Management Department, with this department also being responsible for monitoring the geographical concentration by country and region. The Finance and Risk Committee monitors the monthly compliance both with the limits and the composition of the portfolio.

Being the main risk to which the Group is exposed, specific indicators were set up in the scope of the RAF to monitor it against the respective limits and tolerances approved by the Board of Directors. Thus, from the RAF dashboard, on a monthly basis, the Finance and Risk Committee monitors several metrics related to credit risk, namely at the level of assets with impairment and concentration risk, amongst others.

Market risk

Although the trading book is of minor importance (see chapter 11), the Group has a market risk mitigation policy, based on several measures to mitigate this risk in order to reduce the potential for negative impact from a residual risk perspective, in particular the definition of aggregate exposure limits and holding periods.

Interest rate risk

Interest rate risk coverage is ensured through the contracting of interest rate derivative financial instruments, which allow for the matching of maturities and average resetting periods of the rates of these assets with those resulting from the liabilities.

The systematic monitoring of the distribution of assets and liabilities is carried out in accordance with their rate resetting periods, with the risks being regularly hedged if they come close to the limits defined by the Board of Directors and formalized in the scope of the RAF, through the use of appropriate instruments (currently interest rate swaps).

The interest rate risk metric subject to the limit mentioned in the RAF is based on the calculation of the impact on the consolidated net equity, measured as a percentage of own funds, of the variation of 200 basis points in the yield curves in EUR and USD, considering the temporal bands in Instruction 34/2018 of the Banco de Portugal.

Concerning interest rate risk, an analysis is also carried out of the interest rate mismatch (gap analysis), a methodology used to measure the risk resulting from the temporal mismatch of the maturities of the fixed-rate assets, liabilities and off-balance-sheet instruments of the Group, distributed by time buckets. This analysis is carried out monthly by the Risk Management Department and monitored monthly in the Finance and Risk Committee.

Hedge effectiveness is the extent to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or in the cash flows of the hedging instrument. The effectiveness of the interest rate risk hedging strategies is assessed monthly in the Finance and Risk Committee.

Foreign Exchange Rate Risk

The foreign exchange rate position is systematically monitored, with the foreign exchange rate risk being regularly hedged if it comes close to the limits defined by the Board of Directors and formalized in the scope of the RAF, through the use of appropriate instruments (e.g. spots, forwards, swaps).

For foreign exchange rate risk, the Risk Management Department calculates the foreign exchange position daily, both from a regulatory and accounting perspective. All analyses produced are sent to various members of the Finance and Risk Committee. The information prepared for the monthly meeting of the Finance and Risk Committee, in addition to the RAF dashboard, includes a specific schedule dedicated to the foreign exchange rate position.

Liquidity risk

In the scope of defining its liquidity management policies, the Group adopts conservative rules, in order to be able to sustain the normal development of its activities, minimizing liquidity risk. The liquidity risk management in the Group is carried out in a global and centralized manner, in line with the ILAAP, being the responsibility of the Financial Markets Department, with the second line of defence control being exercised by the Risk Management Department, and with monthly monitoring by the Finance and Risk Committee.

Being a critical risk for the Group, specific indicators for its monitoring were defined in the RAF together with the respective limits and tolerances approved by the Board of Directors. Thus, from the RAF dashboard, on a monthly basis, the Finance and Risk Committee monitors a number of liquidity risk metrics, both in terms of immediate liquidity, as well as of the concentration and stability of financing sources, amongst others.

In addition, the Finance and Risk Committee monitors, monthly, several other liquidity metrics, safeguarding the continued and constant compliance with the Group's internal liquidity policies.

Non-financial Risks

The non-financial risks of the Group are essentially associated with operational failures, inadequacy of information and technology systems, conduct errors, model weaknesses (operational risk), regulatory non-compliance (compliance risk), inadequate definition or implementation of strategic decisions (strategy risk) and negative perception of its public image (reputation risk) that may surge as a result of the development of its activity.

Non-financial risks are continuously monitored and controlled, with various mitigation measures being adopted in order to reduce the potential negative impact of these risks from a residual risk perspective.

To monitor operational risk, there are established mechanisms for regular communication on operational risk events associated with operational, information systems, conduct and model risks, which include a description of the risk as well as its classification into three grades (high, medium and low).

These mechanisms aim to minimize operational risk events and related losses, allowing for a close follow-up of these events and a fast acting on their resolution and the introduction of risk mitigation measures to avoid future occurrences of the same events and potential associated losses.

Additionally, it is intended to monitor the net losses associated with operational risk events through the definition of limits and tolerances for this metric in the RAF, permitting, in this manner, to mitigate the Group's operational risk. The RAF dashboard is reported monthly to the Finance and Risk Committee.

The Group objective is the minimization of non-compliance breaches and related losses, complying with laws, regulations and guidelines relevant to its nature and business activity, bearing in mind that risk mitigation measures and controls must be adequate to the inherent level of compliance risk subjacent to the activities of the Group. The Group maintains a close track on its internal policies and is focused in strengthening the effectiveness of controls in order to avoid compliance breaches. The Group maintains an updated compliance risk database which includes the registry of compliance tables, eventual breaches, time of resolution and implementation of mitigation measures.

In addition, there are complementary risk mitigation measures, in order to strengthen the compliance risk monitoring process.

The above mentioned monitoring is complemented by the monitoring of the response time to high- and medium-level non-compliance, measured by the period between the identification of a non-compliance and the preparation of an action plan by the Compliance Department for the structural resolution thereof, through the definition of limits and tolerances for this metric in the RAF, allowing, in this manner, for the mitigation of the Group’s compliance risk. The RAF dashboard is reported monthly to the Finance and Risk Committee.

To monitor strategy risk, there are established mechanisms, described below, with the objective of mitigating the risk of exposure to the risk of inadequate definition or implementation of strategic decisions. To this end, the Group, on the one hand, monitors the evolution of the commercial activities developed and the main indicators, based on the strategic plan "Strategic Planning Finantipar Group" and the resulting business plan, and, on the other hand, identifies aspects that may cause adverse impacts on said activities, and which call for the adoption of adequate measures. These indicators include, amongst others, the loan portfolio, the funding, the capital and the net interest income margin, in respect of which the Group is focused on sustainable growth, and the shareholder structure, in respect of which the Group is focused on stability. The evolution of these indicators is monitored through the analysis of the management accounts as well as of the regular schedules that are reported monthly to the Finance and Risk Committee. Possible strategy risk events are reported to the Finance and Risk Committee on a monthly basis.

Additionally, it is intended to monitor the profitability of the Group's assets through the definition of limits and tolerances for this metric in the RAF, allowing, in this manner, for the mitigation of the Group's strategy risk. The RAF dashboard is reported monthly to the Finance and Risk Committee.

To monitor reputation risk, there are established mechanisms, described below, with the objective of mitigating the risk of a negative perception of the Group's public image. To this end, the Group monitors the evolution of that image, as well as the evolution of the assessment of any vulnerabilities that may negatively affect same, and which call for the adoption of adequate measures. In particular, press releases and public opinion, in general, cyber-attack attempts/occurrences and complaints from customers and counterparts. Possible reputation risk events are reported to the Finance and Risk Committee on a monthly basis.

Additionally, it is intended to monitor the variation of customer deposits through the definition of limits and tolerances for this metric in the RAF, allowing, in this manner, for the mitigation of the Group's reputation risk. The RAF dashboard is reported monthly to the Finance and Risk Committee.

2.7. Information on the governance system

The information required by paragraph a) of no. 2, article 435, is indicated in the following table.

Number of positions held by members of the management body of Finantipar as at 31 December 2018:

Member of the Board of Directors	Group Companies	Non-Group Companies
Eduardo de Almeida Catroga	-	1
João Carlos Rodrigues Sabido Silva	-	1
Sandra Paulino Guerreiro Matos Chaves	-	-

As regards the disclosure of the information referred to in paragraph b) and c) of no. 2 of article 435 of Regulation (EU) 575/2013, the "Policy for the Selection and Adequacy Assessment of Members of the Management Body, of the Supervisory Body and of Holders of Essential Functions" of the Group, which updated version was approved by Banco Finantia General Shareholders´ Meeting on May 31, 2019, establishes that the members of the management body shall meet the necessary requirements of repute, professional qualification, independence and availability, considering the nature, size and complexity of the activity and the demands and responsibilities associated with the specific functions to be carried out.

On the other hand, in the scope of the individual assessment of members of the management and supervisory bodies, a collective assessment of the body as a whole must be made, in order to verify whether the body itself, considering its composition, collectively possesses the qualification and professional experience in relevant areas, and adequate independence and sufficient availability to fulfil its legal and statutory functions.

With regard to the diversification policy of the members of the corporate bodies, in this regard chapter “4.1.2. Requirements of collective adequacy” of the "Policy for the Selection and Adequacy Assessment of Members of the Management Body, of the Supervisory Body and of Holders of Essential Functions" of the Group establishes that “diversity in the composition of the management and supervisory bodies, namely diversity of gender, of professional values, and of generational diversity, to improve the performance of the respective body, and to ensure a better balance in its composition, should be promoted.", document that can be consulted at https://www.finantia.pt/pt/outra-informacao-obrigatoria.

Regarding paragraph d) of no. 2 of article 435, and despite the fact that a risk committee has not been formally established, as this is only mandatory for institutions which are significant in terms of size, internal organization and nature, scope and complexity of their activities, the functions assigned to the risk committee are performed by the Finance and Risk Committee of Banco Finantia, with Banco Finantia, including its subsidiaries, being the entity carrying out the Group's operational activities.

Finantipar, in turn, whilst parent company, monitors the evolution of the risk profile and control through the reports produced by Banco Finantia and the respective implications for the Group, and is responsible for establishing and monitoring the Risk Management Model of the Group.

Thus, the ultimate responsibility for the strategies and policies relating to the Group's risk assumption, management, and control rest with the Board of Directors of Banco Finantia.

The Finance and Risk Committee is composed of two managing directors and the heads of the Financial Markets, Corporate Banking, Accounting, Management Information and Financial Reporting, Risk Management, Credit, Legal and Compliance departments. At the invitation of the Chairman of the Committee, the managing director of Finantipar and other departments heads may participate in the meeting.

The Finance and Risk Committee meets monthly, and a report is distributed covering all aspects of the Group's financial activity/risks (including of Finantipar). Minutes are kept of the meetings, being filed in the Intranet. All members of the Committee, the members of the Board of Directors and of the Supervisory Board and the Compliance, Audit and Risk Management departments have access to the minutes.

The heads of the various departments present have the function of informing their employees of any decisions that may have been taken that are relevant to the performance of their duties.

In chapter 2.4 of this Report, a detailed description of the flow of risk information to the management body is also presented.

3. Own funds (article 437)

Own funds are calculated in accordance with the prudential framework established by Regulation (EU) No. 575/2013 (CRR) and Directive 2013/36/EU (CRD IV), both issued by the European Parliament and Council, on 26 June 2013 ("Basel III").

3.1. Reconciliation of the own funds elements

thousand euros, except for %

Elements of own funds	Finantipar	Banco Finantia
Share capital	19,507	150,000
Share premium	18,208	12,849
Retained earnings	240,851	248,708
Fair value reserves	(25,153)	(39,817)
Minority interests in CET1	73,001	141
Intangible assets	(819)	(231)
Treasury shares	(12)	(38)
Requirements for prudent valuation (AVA)	(1,734)	(1,721)
Common Equity Tier 1 capital	**323,849**	**369,892**
Instruments issued by subsidiaries that are given recognition in AT1 Capital	9,739	19
Tier 1 capital	**333,588**	**369,910**
Instruments issued by subsidiaries that are given recognition in T2 Capital	12,985	25
Total capital	**346,572**	**369,935**
RWA	**1,772,384**	**1,758,550**
CET1 (%)	**18.3%**	**21.0%**
Tier 1 (%)	**18.8%**	**21.0%**
Total Capital (%)	**19.6%**	**21.0%**

3.2. Description of the main characteristics of the own funds instruments

Own funds comprise Tier 1 capital and Tier 2 capital.

Tier 1 capital consist of the sum of the core capital - Common Equity Tier 1 ("CET1") and the additional Tier 1 capital. At 31 december 2018, additional tier 1 and tier 2 only includes minority interests.

Own funds Tier 1 complies with the minimum prudential requirements established by Banco de Portugal based on the results of the Supervisory Review and Evaluation Process (SREP).

The following table presents the breakdown of own funds as at 31 December 2018:

thousand euros

Own Funds as at December 2018		
	Finantipar	**Banco Finantia**
Own Funds	**346,572**	**369,935**
Tier 1 Capital	**333,588**	**369,910**
Common Equity Tier 1 Copital	**323,849**	**369,892**
Capital instruments eligible as CET1 Capital	37,703	162,812
Paid up capital instruments	19,507	150,000
Share premium	18,208	12,849
(-) Own CET1 instruments	(12)	(38)
Retained earnings	(999)	72,020
Previous years retained earnings	(14,418)	52,750
Eligible year results	13,419	19,271
Accumulated other comprehensive income	(25,153)	(39,817)
Other reserves	241,849	176,687
Minority interest given recognition in CET1 capital	73,001	141
Transitional adjustments due to additional minority interests	0	0
Adjustments to CET1 due to prudential filters	(1,734)	(1,721)
(-) Goodwill	(588)	0
(-) Other intangible assets	(231)	(231)
Additional Tier 1 Capital	**9,739**	**19**
Instruments issued by subsidiaries that are given recognition in AT1 Capital	9,739	19
Tier 2 Capital	**12,985**	**25**
Instruments issued by subsidiaries that are given recognition in T2 Capital	12,985	25

The analysis of the table demonstrates that a large part of the own funds is comprised of capital, retained earnings and reserves.

The following table presents a description of the main characteristics of own funds instruments issued, in accordance with paragraphs (b) and (c) of article 437 of Regulation (EU) 575/2013.

	Capital Instruments main features template - Finantipar ([1])	Shares
1	Issuer	Finantipar, S.A.
2	Unique identifier (eg, CUSIP, ISIN or Bloomberg identifier to private placement)	PTFNA0AN0006
3	Governing law(s) of the instrument	Portuguese
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1 Capital
5	Post-transitional CRR rules	Common Equity Tier 1 Capital
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Individual basis
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	The amount recognised in regulatory capital and the issue amount are identical.
9	Nominal amount of instrument	
9a	Issue price	
9b	Redemption price	
10	Accounting classification	Paid up capital instruments
11	Original date of issuance	15/06/1992
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividend
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Total
20b	Fully discretionary, partially discretionary or mandatory (in terms of amt)	Total
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible intoSe convertíveis, especificar em que tipo de instrumento p	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	
36	Non-compliant transitioned features	
37	If yes, specify non-compliant features	

([1]) Show "N/A" if the question is not relevant.

	Capital Instruments main features template - Banco Finantia ([1])	Shares
1	Issuer	Banco Finantia, S.A.
2	Unique identifier (eg, CUSIP, ISIN or Bloomberg identifier to private placement)	PTFBI0AN0012
3	Governing law(s) of the instrument	Portuguese
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1 Capital
5	Post-transitional CRR rules	Common Equity Tier 1 Capital
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Individual basis
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	The amount recognised in regulatory capital and the issue amount are identical.
9	Nominal amount of instrument	
9a	Issue price	
9b	Redemption price	
10	Accounting classification	Paid up capital instruments
11	Original date of issuance	31/07/1987
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividend
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Total
20b	Fully discretionary, partially discretionary or mandatory (in terms of amt)	Total
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible intoSe convertíveis, especificar em que tipo de instrumento p	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	
36	Non-compliant transitioned features	
37	If yes, specify non-compliant features	

(**[1]**) Show "N/A" if the question is not relevant.

In accordance paragraphs (d) and (e) of article 437 of Regulation (EU) 575/2013, the following table is published, disclosing the filters applied and deductions and elements not deducted from own funds, as at 31 December 2018:

thousand euros

		(A) Amount at disclosure date		(B) Regulation (EU) No 575/2013 article reference
		Finantipar	Banco Finantia	
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	37,715	162,849	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Instrument type 1	37,715	162,849	EBA list 26 (3)
	of which: Instrument type 2	0	0	EBA list 26 (3)
	of which: Instrument type 3	0	0	EBA list 26 (3)
2	Retained earnings	(999)	72,020	26 (1) (c)
3	Accumulated other comprehensive income (and other reserve, to include unrealised gains and losses under the applicable accounting standards)	216,697	136,871	26 (1)
3a	Funds for general banking risk	0	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	0	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	73,001	141	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	0	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**326,414**	**371,881**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	(1,734)	(1,721)	34, 105
8	Intangible assets (net of related tax liability)	(819)	(231)	36 (1) (b), 37
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met)	0	0	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	0	0	33(1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	0	0	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0	33(1) (b)
15	Defined-benefit pension fund assets	0	0	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments	(12)	(38)	36 (1) (f), 42
17	DDirect, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	0	0	36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	0	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector	0	0	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions	0	0	(b), 258
20d	of which: free deliveries	0	0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	0	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold	0	0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	0	36 (1) (i), 48 (1) (b)
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary difference			36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year	0	0	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items	0	0	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	0	0	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(2,565)**	**(1,989)**	
29	**Common Equity Tier 1 (CET1) capital**	323,849	369,892	

Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	0	0	51, 52
31	of which: classified as equity under applicable accounting standards	0	0	
32	of which: classified as liabilities under applicable accounting standards	0	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	0	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	9,739	19	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	0	0	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**9,739**	**19**	
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments	0	0	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution	0	0	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0	56 (d), 59, 79
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013	0	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution	0	0	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	**0**	
44	**Additional Tier 1 (AT1) capital**	**9,739**	**19**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**333,588**	**369,910**	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	0	0	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	0	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	12,985	25	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	0	0	486 (4)
50	Credit risk adjustments	0	0	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	**12,985**	**25**	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	0	0	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to artificially inflate the own funds of the institution	0	0	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0	0	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	0	0	66 (d), 69, 79
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013	0	0	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	**0**	
58	**Tier 2 (T2) capital**	**12,985**	**25**	
59	**Total capital (TC = T1 + T2)**	**346,572**	**369,935**	
60	**Total risk-weighted assets**	**1,772,384**	**1,758,550**	

Capital ratios and buffers				
61	Common Equity Tier 1	18.3%	21.0%	92 (2) (a), 465
62	Tier 1	18.8%	21.0%	92 (2) (b), 465
63	Total capital	19.6%	21.0%	92 (2) (c)
64	Institution-specific buffer requirement	1.9%	1.9%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	1.9%	1.9%	
66	of which: countercyclical buffer requirement	0.0%	0.0%	
67	of which: systemic risk buffer requirement			
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer			CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	18.8%	21.0%	CRD 128
69	[non-relevant in EU regulation]			
70	[non-relevant in EU regulation]			
71	[non-relevant in EU regulation]			

Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (i), 45, 48
74	Empty set in the EU	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase-out arrangements	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase-out arrangements	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	484 (5), 486 (4) & (5)

4. Capital Requirements (article 438)

4.1. Summary of the method used to assess the adequacy of internal capital

In addition to the regulatory perspective, the Group also considers the risks and the financial resources available (Risk Taking Capacity "RTC") from the economic perspective, by conducting the internal capital adequacy self-assessment exercise (ICAAP) envisaged in Pillar 2 of Basel III and in Instruction No. 15/2007, of the Banco de Portugal.

The risks and the RTC are estimated on a going concern basis to ensure that the Group is able, at all times, to liquidate all its liabilities in a timely manner.

To quantify the risks, the Group has developed a number of internal capital requirement calculations that estimate the maximum potential loss over a one-year period, with a 99.9% confidence interval. These methodologies cover all categories of risk to which the Group is exposed, except for the market and operational risks, for which regulatory requirements are used.

The Group has assumed a conservative perspective for the economic capital requirements, defining same as the higher of the regulatory and the internal capital requirements, by risk category.

The ICAAP results are continuously monitored to ensure that the Group's capital is sufficient to cover the risks, incurred or potential, and are reported monthly to the Finance and Risk Committee. From the analysis of the results, it can be concluded that the Group has a solid and robust capital position, presenting a coverage ratio of 198,6% in December 2018, substantially above the minimum level of 150% defined in the RAF.

The aforementioned monthly capital adequacy analysis is supplemented at the end of each year by a prospective analysis of the economic capital requirements and of the financial resources available, over a three-year horizon, in the scope of the annual ICAAP exercise and of the preparation of the Group's Funding and Capital Plan.

The above mentioned monitoring is supplemented by the performance of stress tests, which cover all categories of risk to which the Group is exposed, except for market risk.

The stress tests aim to provide a better understanding of the Group's risk profile, allowing for the assessment of the internal capital and of the capacity to absorb shocks, and to facilitate the detection of vulnerabilities in the Group's exposure to different risk categories.

Two types of stress tests are performed:

- Sensitivity analyses, carried out every six months - consist of assessing the impact on the Group's financial condition resulting from the application of shocks to risk parameters (including, amongst others, PD, LGD, ratings, interest rates and foreign exchange rates).
- Scenario analyses, carried out annually - consist of assessing the impact on the Group's financial condition resulting from the application of simultaneous and consecutive shocks to several factors that affect the business plan.

The results of the stress tests reinforce the conclusion that the Group has a solid and robust capital position, presenting in December 2018, for the most extreme shock, a coverage ratio of 177,2%.

4.2. Credit risk – own funds minimum requirements

The Group applies the Standardised Approach in the calculation of the capital requirements for credit risk, in accordance with the prudential rules in force at the reference date, according to article 112, Title II, Part III, Chapter 2.

Under this method, exposures (elsewhere also “positions at risk”) are classified according to the counterparty, by risk classes. The exposure value of an asset element corresponds to its net carrying amount after making the adjustments for specific credit risk, additional value adjustments and other own funds’ reductions, related to the asset element.

To calculate the amounts of the risk weighted assets ("RWA"), risk weighting coefficients are applied to all exposures, unless deducted from own funds. The application of risk weighting coefficients is based on the risk class to which the exposure is allocated and on its credit quality. Credit quality is determined by reference to ECAI (External Credit Assessment Institutions) credit assessments. Whenever necessary to determine capital requirements, 8% of the risk-weighted exposure amounts is considered.

An external credit assessment may only be used to determine the risk weighting coefficient of an exposure if it has been issued by an ECAI or has been approved by an ECAI in accordance with Regulation (EC) No. 1060/2009. EBA publishes on its website the list of ECAIs authorized under no. 4 of article 2 and no. 3 of article 18 of Regulation (EC) No. 1060/2009.

Under the new EBA guidelines (in line with paragraph c) to f) of article 438), the capital requirements and the corresponding RWA exposures on a quarterly basis, as presented in the following table, provide an overview of the denominator used in the calculation of the capital requirements as at 31 December 2018:

thousand euros

Finantipar			RWAs		Minimum capital requirements
			Dec/18	Sep/18	Dec/18
	1	**Credit risk (excluding CCR)**	**1,546,686**	**1,556,330**	**123,735**
Art. 438.º (c) (d)	2	Of which the standardised approach	1,546,686	1,556,330	123,735
Art. 438.º (c) (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Art. 438.º (c) (d)	4	Of which the advanced IRB (AIRB) approach	-	-	-
Art. 438.º (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Art.107.º Art.438º (c) (d)	6	**CCR**	**86,712**	**76,731**	**6,937**
Art.438º (c) (d)	7	Of which mark to market	82,795	72,225	6,624
Art.438º (c) (d)	8	Of which original exposure			-
	9	Of which the standardised approach			-
	10	Of which internal model method (IMM)			-
Art.438º (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP			-
Art.438º (c) (d)	12	Of which, credit value adjustment (CVA)	3,917	4,506	313
Art.438º (e)	**13**	**Settlement risk**	-	-	-
Art.449º (o) (i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**3,171**	**1,532**	**254**
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	3,171	1,532	254
Art.438º (e)	**19**	**Market risk**	**33,717**	**25,701**	**2,697**
	20	Of which the standardised approach	33,717	25,701	2,697
	21	Of which IMA	-	-	-
Art.438º (e)	**22**	**Large exposures**	-	-	-
Art.438º (f)	**23**	**Operational risk**	**102,099**	**168,235**	**8,168**
	24	Of which basic indicator approach	102,099	168,235	8,168
	25	Of which standardised approach	-	-	-
	26	Of which advanced measurement approach	-	-	-
Art.437º (2), Art. 48º and Art.60º	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	-	-	-
Artigo 500.º	**28**	**Floor adjustment**	-	-	-
	29	**Total**	**1,772,384**	**1,828,528**	**141,791**

Template 4: EU OV 1 - General information about RWAs, suggested by the EBA Guidelines (EBA/GL/2016/11)

Banco Finantia			RWAs		Minimum capital requirements
					thousand euros
			Dec/18	Sep/18	Dec/18
	1	**Credit risk (excluding CCR)**	**1,534,263**	**1,543,714**	**122,741**
Art. 438.º (c) (d)	2	Of which the standardised approach	1,534,263	1,543,714	122,741
Art. 438.º (c) (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Art. 438.º (c) (d)	4	Of which the advanced IRB (AIRB) approach	-	-	-
Art. 438.º (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Art.107.º Art.438º (c) (d)	6	**CCR**	**86,712**	**76,731**	**6,937**
Art.438º (c) (d)	7	Of which mark to market	82,795	72,225	6,624
Art.438º (c) (d)	8	Of which original exposure			-
	9	Of which the standardised approach			-
	10	Of which internal model method (IMM)			-
Art.438º (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP			-
Art.438º (c) (d)	12	Of which, credit value adjustment (CVA)	3,917	4,506	313
Art.438º (e)	**13**	**Settlement risk**	**-**	**-**	**-**
Art.449º (o) (i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**3,171**	**1,532**	**254**
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	3,171	1,532	254
Art.438º (e)	**19**	**Market risk**	**33,722**	**25,701**	**2,698**
	20	Of which the standardised approach	33,722	25,701	2,698
	21	Of which IMA	-	-	-
Art.438º (e)	**22**	**Large exposures**	**-**	**-**	**-**
Art.438º (f)	**23**	**Operational risk**	**100,683**	**166,109**	**8,055**
	24	Of which basic indicator approach	100,683	166,109	8,055
	25	Of which standardised approach	-	-	-
	26	Of which advanced measurement approach	-	-	-
Art.437º (2), Art. 48º and Art.60º	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**-**	**-**	**-**
Artigo 500.º	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**Total**	**1,758,550**	**1,813,787**	**140,684**

Template 4: EU OV 1 - General information about RWAs, suggested by the EBA Guidelines (EBA/GL/2016/11)

As it can be verified, there was stability in the evolution of the RWA and in its structure between September and December 2018.

With another level of risk disaggregation, as at 31 December 2018, the amount of the risk-weighted exposure amounts can be analysed below:

thousand euros, except for %

Risk weighted exposures (RWA)	Finantipar		Banco Finantia	
	RWA	8% of RWA	RWA	8% of RWA
CREDIT AND COUNTERPARTY RISK				
Central governments or central banks	257,645	20,612	257,040	20,563
Regional governments or local authorities	4,340	347	4,157	333
Institutions	409,580	32,766	409,580	32,766
Corporates	936,587	74,927	925,079	74,006
Retail	585	47	585	47
Multilateral development banks	-	-	-	-
Defaulted exposures	6,407	513	6,407	513
Equity exposures	-	-	-	-
Other exposures	14,336	1,147	14,210	1,137
Securitisation positions	3,171	254	3,171	254
sub-total	**1,632,651**	**130,612**	**1,620,228**	**129,618**
RISK EXPOSURES AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES				
Position risk	20,351	1,628	20,351	1,628
Foreign exchange risk	13,366	1,069	13,371	1,070
Commodities risk	-	-	-	-
sub-total	**33,717**	**2,697**	**33,722**	**2,698**
OPERATIONAL RISK (OpR)				
OpR Basic indicator approach	102,099	8,168	100,683	8,055
sub-total	**102,099**	**8,168**	**100,683**	**8,055**
Credit valuation adjustment - CVA				
Standardised method	3,917	313	3,917	313
sub-total	**3,917**	**313**	**3,917**	**313**
TOTAL	**1,772,384**	**141,791**	**1,758,550**	**140,684**

This table presents the capital requirements as at 31 December 2018, calculated in accordance with prudential rules in force at that date and with the risk classes detailed in accordance with article 112 of the CRR.

4.3. Market risk - Minimum requirements for own funds

The Group only uses the standard method on the trading book, with no trading book sub-portfolio being covered by the Internal Models method.

The risks of the trading book are assessed in accordance with the provisions of Regulation (EU) No. 575/2013, with the respective requirements being set out in the previous table, namely in the position risk, according to article 92, in number 3, paragraphs (b) and (c).

As regards foreign exchange rate risk, the standard method for calculating the respective minimum fund requirements is also used, with the calculation of the minimum requirements for commodity risk not being applicable to its activity.

5. Exposure to counterparty credit risk (article 439)

Credit risk consists of the likelihood of negative impacts on results or capital due to the inability of a counterparty to meet its financial commitments to the Group, including possible restrictions on the transfer of payments from abroad.

The Group has sought to minimize credit risk through a careful analysis, based on strict credit analysis standards of its debtors and counterparties, as well as a systematic monitoring of the economic environment and other aspects that may contribute to the deterioration of the quality of the credit granted.

The main sources of credit risk are on-balance sheet and off-balance sheet operations, covering the most diverse financial instruments, namely credit, trade finance, swaps, bonds, guarantees or interbank transactions.

It is fundamental to identify, measure, monitor and control credit risk, considering not only individual or transactional credit risk, but also in overall portfolio terms and its correlations with risks of another nature.

Credit risk is sought to be mitigated through the diversification of the loan portfolio - by geographical area, counterparties and sectors of activity.

Credit Risk Management policies and procedures are subject to periodic review, being ratified by the competent body. These policies are contained in the Credit Risk Management Manual and in the Manual for the Identification, Evaluation, Monitoring and Control of Risks.

Exposure to credit risk is only possible after a credit limit is assigned to the risk entity. It is the responsibility of the Credit Department to analyse and prepare its opinion, proposing a limit. For the approval of the proposal, the signature of two executive directors of Banco Finantia is required. Compliance with these limits is monitored daily by the Risk Management Department, and this department is also responsible for monitoring the geographical concentration, by countries and regions. The Finance and Risk Committee monitors both the compliance with the limits and the composition of the portfolio on a monthly basis.

The instruments belonging to the banking portfolio are subject to prudential capital requirements for credit risk.

Counterparty credit risk derives from the risk of default of a particular counterparty on a transaction before the final settlement of its respective financial flows.

Hence, policies aimed at securing guarantees and establishing credit reserves is based on the monitoring and analysis of the counterparty risk associated with a set of financial transactions involving financial instruments. This analysis aims to determine the need for a margin deposit/reimbursement, to cover all or part of this risk, with the collateral being cash or securities to be deposited in a so-called "Margin Account".

Policies relating to the risks of unfavourable correlation consist of a constant effort to diversify counterparties, including regional diversification, to mitigate the effects of a possible contagion in the financial markets. In particular, the Group established an important metric to monitor the degree of counterparty diversification in Money Market and Repos operations, with this being the weight of the 5 Largest Repos and MM counterparties. This metric has been included in the RAF and its monthly monitoring in the Finance and Risk Committee ensures that the granularity of the counterparties complies with the limit and tolerance approved by the BD, which allows for the mitigation of the risks of unfavourable correlation amongst the Group's counterparties.

5.1. Methodologies used to allocate internal capital

The allocation of economic capital to counterparty credit risk is the responsibility of the Risk Management Department. The regulatory capital requirement is used in the allocation of economic capital to the counterparty credit risk. Despite this conservative approach, the Group is currently developing an internal methodology to allocate economic capital to counterparty credit risk, with estimated finalization date end of year 2019.

The counterparty credit exposure limits are set in EUR and are monitored on the basis of the respective net exposure by counterparty.

5.2. Net credit risk related to derivative instruments

The information related to positive gross amount of the contracts calculated according to the fair value, the benefits in terms of remuneration, current credit risk after remuneration, guarantees held and the net credit risk related to derivative instruments is presented in the financial statements of Finantipar and Banco Finantia, namely in Note 27 (Activity risk management) – (http://finantipar.finantia.com/ and https://www.finantia.pt/pt/banco-finantia_pt/informacao-financeira/).

5.3. Measures for the exposure amount

The Measures for the exposure amount according to the methods defined in Part III, Title III, Chapter 6, sections 3 to 6, depending on the method applicable, namely for repurchase operations and credit derivatives are subject to prudential capital requirements for counterparty credit risk.

For these operations, the exposure is determined using the mark-to-market valuation method, defined in article 274 of the CRR, which consists of adding to the market value of the operation, when positive, its potential future appreciation, which results from the multiplication of the notional by a prudential factor in function of the type of contract.

As at 31 December 2018, the amount of the risk-weighted exposure amount for derivative financial instruments can be analysed as follows:

thousand euros

Derivative financial instruments	Finantipar			Banco Finantia		
	Institutions	Corporates	TOTAL	Institutions	Corporates	TOTAL
Original risk exposure	41,088	-	41,088	41,088	-	41,088
Credit risk mitigation techniques	-	-	-	-	-	-
Adjusted risk exposure	41,088	-	41,088	41,088	-	41,088
Amount of the risk-weighted exposure amount	**19,946**	**-**	**19,946**	**19,946**	**-**	**19,946**

The Credit Valuation Adjustment (CVA) is applied to all transactions of this type under Part III, Title VI of the CRR. The CVA reflects the current market value of the counterparty's credit risk for the institution calculating it.

The following table presents a comprehensive overview of the methods used to calculate the regulatory exposure of Counterparty Credit Risk (CCR) and the main parameters used by each method, as well as the risk-weighted exposures, as at 31 December 2018.

thousand euros

Finantipar and Banco Finantia	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		161,139	105,448			266,587	102,740
Total							**102,740**

Template 25: EU CCR1suggested by the EBA Guidelines (EBA/GL/2016/11)

The following table presents an overview of the impact of the off-setting and collateral held in exposures for which the exposure amount is valued in accordance with Part III, Title II, Chapter 6 of the CRR, as at 31 December 2018.

thousand euros

Finantipar and Banco Finantia	Gross positive fair value or net carrying amount [1]	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	19,404		19,404		19,404
SFT	647,839		647,839		647,839
Total	**667,244**		**667,244**		**667,244**

[1] corresponds to the positive amount of the contracts calculated in terms of the fair value and the value of the contract operation calculated in terms of amortized cost.

Template 31: EU CCR5-A suggested by the EBA Guidelines (EBA/GL/2016/11)

The following table presents the exposure to counterparty risk by asset classes and asset weighting coefficients, as at 31 December 2018. An analysis of the table reveals that counterparty risk is concentrated in companies and institutions.

Exposures value for credit risk by exposures classes and risk weight

thousand euros

Finantipar and Banco Finantia

Exposures classes	Risk weight											Total	Of which unrated
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1 Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	
2 Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	
3 Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	
4 Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	
5 International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	
6 Institutions	-	-	-	-	102,933	163,001	-	-	653	-	-	266,587	
7 Corporates	-	-	-	-	-	-	-	-	-	-	-	-	
8 Retail	-	-	-	-	-	-	-	-	-	-	-	-	
9 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	
10 Other items	-	-	-	-	-	-	-	-	-	-	-	-	
11 Total	**-**	**-**	**-**	**-**	**102,933**	**163,001**	**-**	**-**	**653**	**-**	**-**	**266,587**	

Template 28: EU CCR3 suggested by the EBA Guidelines (EBA/GL/2016/11)

Risk-weighted assets (RWA) by exposures classes and risk weight

thousand euros

Finantipar and Banco Finantia													
Exposures classes	Risk weight											Total	Of which unrated
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1 Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	
2 Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	
3 Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	
4 Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	
5 International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	
6 Institutions	-	-	-	-	20,587	81,500	-	-	653	-	-	102,740	
7 Corporates	-	-	-	-	-	-	-	-	-	-	-	-	
8 Retail	-	-	-	-	-	-	-	-	-	-	-	-	
9 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	
10 Other items	-	-	-	-	-	-	-	-	-	-	-	-	
11 Total	-	-	-	-	**20,587**	**81,500**	-	-	**653**	-	-	**102,740**	

Template 28: EU CCR3 suggested by the EBA Guidelines (EBA/GL/2016/11)

The RWA and the corresponding exposure amount of transactions subject to capital requirements for CVA according to Part III, Title VI is presented in the following table, as at 31 December 2018.

thousand euros

Finantipar and Banco Finantia	Exposure value	RWAs
1 Total portfolios subject to the advanced method		
2 (i) VaR component (including the 3× multiplier)		
3 (ii) SVaR component (including the 3× multiplier)		
4 All portfolios subject to the standardised method	35,526	3,917
EU4 Based on the original exposure method		
5 Total subject to the CVA capital charge	**35,526**	**3,917**

Template 26: EU CCR2 suggested by the EBA Guidelines (EBA/GL/2016/11)

For purposes of calculating capital requirements, the Group only uses the standardised approach. The exposure value is the value used to calculate the risk-weighted exposure. The RWA corresponds to the capital requirement for CVA multiplied by the factor presented in article 92 in number 4, paragraph b) of the CRR.

The table below presents a breakdown of the exposures related to credit derivative transactions, detailed by derivatives acquired or sold, as at 31 December 2018.

thousand euros

Finantipar and Banco Finantia	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
Notionals			
Single-name credit default swaps	-	-	-
Index credit default swaps	-	-	-
Total return swaps	-	-	-
Credit options	-	-	-
Other credit derivatives	-	-	-
Total notionals	**-**	**-**	**-**
Fair values			
Positive fair value (asset)	**-**	**-**	**-**
Negative fair value (liability)	**-**	**-**	**-**

Template 33: EU CCR6 suggested by the EBA Guidelines (EBA/GL/2016/11)

6. Capital buffers (article 440)

The countercyclical buffer corresponds to an additional reserve consisting of Tier 1 (CET1) capital, which aims to protect the banking sector in periods when systemic cyclical risk increases due to excessive credit growth. When risks materialize or decrease, this additional reserve of own funds ensures that the banking sector has greater capacity to absorb losses and remain solvent, without interrupting the granting of credit to the real economy.

The General Regime of Credit Institutions and Financial Companies (Title VII-A - Section III) establishes the legal basis for the implementation of the countercyclical buffer in Portugal. In this scope, the Banco de Portugal is responsible for defining and disclosing, on a quarterly basis, the percentage of the countercyclical reserve applicable to all credit institutions and investment companies with credit exposures over the domestic non-financial private sector. The percentage shall be defined between 0% and 2.5% (of the total amount of exposures), except when exceptional circumstances justify the definition of a higher percentage.

The reserve percentage for each institution, i.e. the "institution-specific countercyclical reserve percentage", is a weighted average of the countercyclical reserve percentages applicable in the countries where the institution's credit exposures are located. The percentages of countercyclical reserve up to 2.5% shall be mutually and automatically reciprocal, if defined by other EU/EEA Member States. If defined by third country authorities, reserve percentages up to 2.5% shall be recognized, provided that the table for the definition of the countercyclical reserve of the third country is considered by the Banco de Portugal as equivalent. If the countercyclical reserve percentages fixed by other EU/EEA Member States or third countries are higher than 2.5%, the Banco de Portugal shall decide on their recognition on a case-by-case basis.

As reported by the Banco de Portugal on 28 September 2018, and following a decision of the respective Board of Directors, the percentage of countercyclical reserve applicable to exposures and credit to the domestic non-financial private sector for the 4th quarter remains at 0% of the amount of the total exposure (https://www.bportugal.pt/page/reserva-contraciclica).

As at 31 December 2018, the specific countercyclical buffer is 0%, as demonstrated below:

thousand euros, except for %

Finantipar	
Total risk exposure amount	**1,772,384**
Institution specific countercyclical buffer rate	**0.00%**
Institution specific countercyclical buffer requirement	**-**

Template suggested by Delegated Regulation (EU) 2015/1555

thousand euros, except for %

Banco Finantia	
Total risk exposure amount	**1,758,550**
Institution specific countercyclical buffer rate	**0.00%**
Institution specific countercyclical buffer requirement	**-**

Template suggested by Delegated Regulation (EU) 2015/1555

7. Indicators of global systemic importance (article 441)

Not applicable as Finantipar and Banco Finantia are not institutions identified as Global Systemically Important Institutions (G-SII) under article 131 of Directive 2013/36/EU.

8. Credit risk adjustments (article 442)

Definitions, for accounting purposes, of “past due credit”, “impaired credit” and “default credit”

The Group classifies as past due credit the capital instalments and accrued interest amounts unpaid after their due date. At the date of the termination of the contracts, all capital instalments, due or past due, are considered past due.

The Group regularly assesses the existence of objective evidence of impairment in its loan portfolio. A loan, or a loan portfolio, defined as a group of loans with similar risk characteristics, is impaired when: (i) there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition and (ii) when this event (or events) has an impact on the recoverable amount of the future cash flows from that loan, or loan portfolio, that can be reliably estimated.

Any instruments that show a default (delay) of more than 90 days in the payment of principal or interest, regardless of the amount owed, are considered in default.

Since 1 january 2018, in this scope are also considered all the general principles definied under IFRS 9 and the guidelines regarding credit impairment calculation established by Banco de Portugal´s Carta Circular 2018/00000062 of 15 november 2018.

Description of the type of value adjustments and of provisions associated with exposures objet of impairment

On 1 January 2018, the accounting standard IFRS 9 - Financial Instruments, entered into force. IFRS 9

IFRS 9 establishes a new set of rules for the accounting and recognition of financial instruments, based onthree pillars: classification and measurement of financial assets, recording of impairment and hedge accounting.

requires that all financial assets, for measurement purposes, be classified in one of the following categories: 1) Financial assets at amortized cost; 2) Financial assets at fair value through other comprehensive income (FVOCI); and 3) Financial assets at fair value through profit or loss

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

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

IFRS 9 introduces the Expected Credit Loss (ECL) model, in lieu of the incurred loss model (IAS39). The ECL corresponds to the weighted average of the credit losses, using as weighting factor the probability of occurrence of default events. A credit loss is the difference between the cash flows due to an entity in accordance with the agreed contract, and the cash flows that the entity expects to receive, discounted at the original effective interest rate. To calculate expected cash flows, consideration should be given to amounts that may be generated by collateral or any other risk mitigant.

Impairment is measured as: i) Expected credit losses for 12 months – expected losses resulting from possible default events of the financial instrument in the 12 months following the reporting date. It does not represent the loss of expected cash flows over the next 12 months, instead it is the effect of any credit loss on an asset weighted by the likelihood that such loss will occur in the next 12 months; and ii) Expected credit losses over the useful life of the instrument – expected losses that may occur from a default event over the life of a financial instrument. As the expected credit losses consider the amounts and the payment periods, the credit loss also occurs when there is a considerable delay in payments, even when the entity estimates the full receipt of the amounts. The ECL over the useful life of the asset represents the expected credit losses that result from all possible default events over the life of the financial instrument. The useful life of the instrument is understood as the maximum contractual period during which the Group is exposed to the credit risk related to that operation.

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

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

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

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

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

The significant increase in credit risk (SICR) is determined according to a set of both quantitative and qualitative criteria. Several approaches may be used to assess whether there has been a significant increase in credit risk, but the following elements should always be considered: i) the change in the risk of non-compliance since the initial recognition; ii) the expected life of the instrument; and iii) adequate support information that is available at no cost or significant effort, which may affect credit risk.

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

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

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

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

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

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

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

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

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

Estimates of expected credit losses – Individual analysis

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

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

Estimates of expected credit losses – Collective analysis

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

The expected credit losses are estimates of credit losses that are determined as follows: i) financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive; and ii) financial assets with impairment at the reporting date: the difference between the gross accounting value and the present value of the estimated cash flows.

The main inputs used to measure the expected credit losses on a collective basis include the following variables: i) Probability of Default – PD; ii) Loss Given Default – LGD; and iii) Exposure at Default – EAD.

When financial asset are credit impaired, after all recovery measures being taken in accordance with Group´s policies and when the recovery expectations are significantly reduced, the Group recognizes a credit written off against assets in the period in which it is considered irrecoverable in whole or in part, with the gross carrying amount of a financial asset being reduced by the amount of such annulment, and coming to represent the estimated recovery amount. Credits written off are recorded as off-balance sheet items. Subsequent recoveries of credit written off are recognized in profit against decrease of credit impairment during the period.

Within the scope of IFRS 9 transition period, the Group decided not to apply the the transitional period arrangements for mitigating the impact of the introduction of IFRS 9 on own funds under n.8 of article 473a of Regulation (EU) No 575/2013.

The impact of adopting IFRS 9 on the Group’s equity attributable to the shareholders of the Bank, with respect to 1 January 2018, was positive in € 1,295 thousand (positive impact of € 1,297 thousand on the Group’s total shareholders’ equity, including non-controlling interests). As of 31 december 2018, the own funds, own funds ratios and leverage ratio includes the total impact of adoting IFRS 9 or expected credit losses.

Indication of value adjustments and of amounts recovered recorded directly in the income statement, relating to the financial period in question and to the prior financial period

Recoveries of loans previously written off from assets are recognized in the income statement though the reduction of the amount of the impairment losses for the period. During the 2018 financial year, the Group and the Bank recovered Euros 4,989 thousand (2017: Euros 2,459 thousand) related to loans previously written off.

Concentration risk

Concentration risk is taken into account in the process of approving exposure limits for a group of counterparties, there being maximum amounts for these limits, based on the type of counterparty and its rating.

Country and sector exposure control is carried out by the Financial Markets Department and the Risk Management Department at least monthly, and the results are reported to the Finance and Risk Committee.

As at 31 December 2018, the total of the original exposures, after the accounting offsetting and broken down by risk classes can be analysed as follows:

thousand euros

Exposures classes	Finantipar		Banco Finantia	
	Original exposure, after accounting offsets	Original exposure (average over the period)	Original exposure, after accounting offsets	Original exposure (average over the period)
Central governments or central banks	580,898	531,624	574,690	525,476
Regional governments or local authorities	50,888	50,769	49,975	49,850
Multilateral Development Banks	-	1,730	-	1,730
Institutions	720,934	736,241	720,933	736,240
Corporates	906,227	952,322	894,709	940,610
Retail	785	1,067	785	1,067
Exposures in default	20,585	24,747	20,585	24,747
Equity	-	-	-	-
Other items	14,402	14,899	14,275	14,827
TOTAL	**2,294,719**	**2,313,400**	**2,275,952**	**2,294,548**

Note: the average value of the "Original exposure" corresponds to the value of the semiannual positions of the respective year.

This framework is intended to respond to the template 6 CRB-A to the EBA's new guidelines (EBA/GL/2016/11)

The amount of the original position is the exposure amount before impairment, without considering the effect of mitigants.

The following table presents the total amount and the average amount of the net exposures over the period by risk classes, as at 31 December 2018.

thousand euros

Finantipar	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	578,718	513,798
Regional governments or local authorities	50,887	51,127
Public sector entities	-	-
Multilateral development banks	-	2,551
International organisations	-	-
Institutions	720,697	738,600
Corporates	905,235	944,060
Of which: SMEs	-	-
Retail	781	1,237
Of which: SMEs	-	-
Secured by mortgages on immovable property	-	-
Of which: SMEs	-	-
Exposures in default	6,406	12,762
Items associated with particularly high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	-	-
Other exposures	14,385	16,962
Total standardised approach	**2,277,110**	**2,281,096**
Total	**2,277,110**	**2,281,096**

Note: the net value of exposures corresponds to the net exposure to value adjustments and provisions.

The average value of the net exposure corresponds to the value of the quarterly positions of the respective year.

Template 7: EU CCB-B sugsuggested by the EBA Guidelines (EBA/GL/2016/11)

thousand euros

Banco Finantia	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	572,510	507,071
Regional governments or local authorities	49,974	50,204
Public sector entities	-	-
Multilateral development banks	-	2,551
International organisations	-	-
Institutions	720,697	738,599
Corporates	893,727	931,776
Of which: SMEs	-	-
Retail	781	1,237
Of which: SMEs	-	-
Secured by mortgages on immovable property	-	-
Of which: SMEs	-	-
Exposures in default	6,406	12,762
Items associated with particularly high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	-	-
Other exposures	14,258	16,926
Total standardised approach	**2,258,353**	**2,261,125**
Total	**2,258,353**	**2,261,125**

Note: the net value of exposures corresponds to the net exposure to value adjustments and provisions.

The average value of the net exposure corresponds to the value of the quarterly positions of the respective year.

Template 7: EU CCB-B sugsuggested by the EBA Guidelines (EBA/GL/2016/11)

As at 31 December 2018, the Group had no exposure to any country (excluding Portugal) above 10% of the total net value of the exposures. The geographical distribution (by geographical zone) of exposures broken down by risk classes can be analysed as follows:

thousand euros, except for %

Finantipar

Exposures classes	Dec/18					
	European Union	Europe (Non-EU)	North & Central America	South America	Asia & Middle East & Oceania	Africa
Central governments or central banks	359,081	30,988	33,089	44,875	69,692	40,994
Regional governments or local authorities	50,887	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Institutions	416,461	48,789	51,367	37,161	139,857	27,061
Corporates	132,878	124,850	119,344	263,638	215,044	49,480
Retail	781	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	5,101	-	-	1,305	-	-
Equity exposures	-	-		-	-	
Other exposures	13,511	-	874	-	-	-
Total Net Value	**978,701**	**204,627**	**204,674**	**346,980**	**424,593**	**117,535**
% of Total Net Value	**43.0%**	**9.0%**	**9.0%**	**15.2%**	**18.6%**	**5.2%**

This framework is intended to respond to the template CRB-C to the EBA's new guidelines (EBA/GL/2016/11)

thousand euros, except for %

Banco Finantia

Exposures classes	Dec/18					
	European Union	Europe (Non-EU)	North & Central America	South America	Asia & Middle East & Oceania	Africa
Central governments or central banks	352,873	30,988	33,089	44,875	69,692	40,994
Regional governments or local authorities	49,974	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Institutions	416,461	48,789	51,367	37,161	139,857	27,061
Corporates	124,349	124,850	116,365	263,638	215,044	49,480
Retail	781	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	5,101	-	-	1,305	-	-
Equity exposures	-	-	-	-	-	
Other exposures	13,384	-	874	-	-	-
Total Net Value	**962,923**	**204,627**	**201,695**	**346,980**	**424,593**	**117,535**
% of Total Net Value	**42.6%**	**9.1%**	**8.9%**	**15.4%**	**18.8%**	**5.2%**

This framework is intended to respond to the template CRB-C to the EBA's new guidelines (EBA/GL/2016/11)

As at 31 December 2017, the geographical distribution (by geographical zone) of exposures broken down by risk classes can be analysed as follows:

thousand euros, except for %

Finantipar

Exposures classes	Dec/17 European Union	Europe (Non-EU)	North & Central America	South America	Asia & Middle East & Oceania	Africa
Central governments or central banks	312,257	42,540	29,115	45,528	84,639	46,179
Regional governments or local authorities	55,307	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	3,347
Institutions	381,655	33,937	42,620	70,937	159,669	21,997
Corporates	160,625	149,360	111,171	280,545	164,689	40,019
Retail	2,452	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	16,012	-	-	15,419	-	-
Equity exposures	-	-	-	-	-	
Other exposures	17,989	-	3,269	-	-	-
Total Net Value	**946,297**	**225,837**	**186,176**	**412,428**	**408,997**	**111,542**
% of Total Net Value	**41.3%**	**9.9%**	**8.1%**	**18.0%**	**17.9%**	**4.9%**

This framework is intended to respond to the template CRB-C to the EBA's new guidelines (EBA/GL/2016/11)

thousand euros, except for %

Banco Finantia

Exposures classes	Dec/17 European Union	Europe (Non-EU)	North & Central America	South America	Asia & Middle East & Oceania	Africa
Central governments or central banks	303,939	42,540	29,115	45,528	84,639	46,179
Regional governments or local authorities	54,408	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	3,347
Institutions	381,655	33,937	42,620	70,937	159,669	21,997
Corporates	149,028	149,360	107,818	280,545	164,689	40,019
Retail	2,452	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	16,012	-	-	15,419	-	-
Equity exposures	-	-	-	-	-	-
Other exposures	17,967	-	3,269	-	-	-
Total Net Value	**925,460**	**225,837**	**182,822**	**412,428**	**408,997**	**111,542**
% of Total Net Value	**40.8%**	**10.0%**	**8.1%**	**18.2%**	**18.0%**	**4.9%**

This framework is intended to respond to the template CRB-C to the EBA's new guidelines (EBA/GL/2016/11)

As at 31 December 2018, the breakdown by sector of activity can be analysed as follows:

thousand euros, except for %

Exposures classes	Finantipar				
	Sovereigns	Financial Corporates	Others Corporates	Households	Others
Central governments or central banks	578,718	-	-	-	-
Regional governments or local authorities	50,887	-	-	-	-
Multilateral development banks	-	-	-	-	-
Institutions	-	720,697	-	-	-
Corporates	-	159,278	745,957	-	-
Retail	-	-	-	781	-
Exposures in default	-	-	1,307	5,099	-
Equity exposures	-	-	-	-	-
Other exposures	-	-	12,769	-	1,616
Total original exposure	**629,606**	**879,976**	**760,033**	**5,880**	**1,616**
% of total original exposure	**27.6%**	**38.6%**	**33.4%**	**0.3%**	**0.1%**

This framework is intended to respond to the template 9 CRB-D to the EBA's new guidelines (EBA/GL/2016/11)

thousand euros, except for %

Exposures classes	Banco Finantia				
	Sovereigns	Financial Corporates	Others Corporates	Households	Others
Central governments or central banks	572,510	-	-	-	-
Regional governments or local authorities	49,974	-	-	-	-
Multilateral development banks	-	-	-	-	-
Institutions	-	720,697	-	-	-
Corporates	-	156,578	737,149	-	-
Retail	-	-	-	781	-
Exposures in default	-	-	1,307	5,099	-
Equity exposures	-	-	-	-	-
Other exposures	-	-	12,758	-	1,500
Total original exposure	**622,484**	**877,275**	**751,214**	**5,880**	**1,500**
% of total original exposure	**27.6%**	**38.8%**	**33.3%**	**0.3%**	**0.1%**

This framework is intended to respond to the template 9 CRB-D to the EBA's new guidelines (EBA/GL/2016/11)

The residual maturity (RM) broken down by the various asset classes can be analysed as follows, as at 31 December 2018:

thousands of euros, except for %

Exposure classes	Finantipar				
	On demand	RM <1 year	1 year<RM< 5 years	RM > 5 years	No stated maturity
Central governments or central banks	20,623	34,490	83,094	440,510	-
Regional governments or local authorities	-	913	34,883	15,091	-
Multilateral development banks	-	-	-	-	-
Institutions	17,150	318,330	264,758	120,459	-
Corporates	-	38,337	316,197	550,702	-
Retail	-	781	-	-	-
Exposures in default	-	-	-	-	6,406
Equity exposures	-	-	-	-	-
Other exposures	49	14,336	-	-	-
Total standardised approach	**37,822**	**407,187**	**698,933**	**1,126,762**	**6,406**
% for total original exposure	**1.7%**	**17.9%**	**30.7%**	**49.5%**	**0.3%**

Template 10: EU CRB-E suggested by the EBA Guidelines (EBA/GL/2016/11)

thousands of euros, except for %

Exposure classes	Banco Finantia				
	On demand	RM <1 year	1 year<RM< 5 years	RM > 5 years	No stated maturity
Central governments or central banks	20,623	34,341	80,724	436,821	-
Regional governments or local authorities	-	-	34,883	15,091	-
Multilateral development banks	-	-	-	-	-
Institutions	17,150	318,330	264,758	120,459	-
Corporates	-	35,030	313,675	545,022	-
Retail	-	781	-	-	-
Exposures in default	-	-	-	-	6,406
Equity exposures	-	-	-	-	-
Other exposures	49	14,210	-	-	-
Total standardised approach	**37,822**	**402,691**	**694,041**	**1,117,393**	**6,406**
% for total original exposure	**1.7%**	**17.8%**	**30.7%**	**49.5%**	**0.3%**

Template 10: EU CRB-E suggested by the EBA Guidelines (EBA/GL/2016/11)

The following table provides a breakdown of the exposures by risk classes, in default and performing, the credit risk adjustments and the write-offs as at 31 December 2018.

thousands of euros

Finantipar	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	-	580,898	2,180	-	-	(467)	578,718
Regional governments or local authorities	-	50,888	1	-	-	-	50,887
Public sector entities	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-
Institutions	-	720,934	236	-	-	(1,820)	720,697
Corporates	-	906,227	991	-	-	(3,273)	905,235
Of which: SMEs	-	-	-	-	-	-	-
Retail	-	785	4	-	-	25	781
Of which: SMEs	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-
Of which: SMEs	-	-	-	-	-	-	-
Exposures in default	20,585	-	14,180	-	-	(4,969)	6,406
Items associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a shortterm credit assessment	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other exposures	-	14,402	17	-	-	13	14,385
Total standardised approach	**20,585**	**2,274,134**	**17,610**	**-**	**-**	**(10,491)**	**2,277,110**
Total	**20,585**	**2,274,134**	**17,610**	**-**	**-**	**(10,491)**	**2,277,110**
Of which: Loans	5,200	116,326	785	-	-	(12,258)	120,741
Of which: Debt securities	13,435	1,688,382	12,812	-	-	(3,702)	1,689,005
Of which: Offbalance-sheet exposures	-	14,370	10	-	-	-	14,359

Template 11: EU CR1-A suggested by the EBA Guidelines (EBA/GL/2016/11)

thousands of euros

Banco Finantia	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	-	574,690	2,180	-	-	(463)	572,510
Regional governments or local authorities	-	49,975	1	-	-	-	49,974
Public sector entities	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-
Institutions	-	720,933	236	-	-	(1,820)	720,697
Corporates	-	894,709	981	-	-	(3,276)	893,727
Of which: SMEs	-	-	-	-	-	-	-
Retail	-	785	4	-	-	25	781
Of which: SMEs	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-
Of which: SMEs	-	-	-	-	-	-	-
Exposures in default	20,585	-	14,180	-	-	(4,969)	6,406
Items associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a shortterm credit assessment	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other exposures	-	14,275	17	-	-	13	14,258
Total standardised approach	**20,585**	**2,255,367**	**17,600**	**-**	**-**	**(10,490)**	**2,258,353**
Total	**20,585**	**2,255,367**	**17,600**	**-**	**-**	**(10,490)**	**2,258,353**
Of which: Loans	5,200	121,526	886	-	-	(7,048)	125,840
Of which: Debt securities	13,435	1,683,327	24,932	-	-	(3,701)	1,671,830
Of which: Offbalance-sheet exposures	-	14,370	10	-	-	-	14,359

Template 11: EU CR1-A suggested by the EBA Guidelines (EBA/GL/2016/11)

The analysis of the exposures by risk classes, in default and performing by type of counterparty is presented in the following tables, as at 31 December 2018:

thousands of euros

Finantipar	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Sovereigns	-	631,787	2,181	-	-	(467)	629,606
Financial Corporates	13,435	880,422	446	-	-	(1,567)	893,411
Others Corporates	1,951	759,524	14,877	-	-	1,118	746,597
Households	5,200	785	105	-	-	(6,534)	5,880
Others	-	1,616	-	-	-	(3,042)	1,616
Total	**20,585**	**2,274,134**	**17,610**	**-**	**-**	**(10,491)**	**2,277,110**

This framework is intended to respond to the template 12 CR1-B to the EBA's new guidelines (EBA/GL/2016/11)

thousands of euros

Banco Finantia	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Sovereigns	-	624,665	2,181	-	-	(463)	622,484
Financial Corporates	13,435	877,721	446	-	-	(1,567)	890,710
Others Corporates	1,951	750,696	14,867	-	-	1,127	737,779
Households	5,200	785	105	-	-	(6,534)	5,880
Others	-	1,500	-	-	-	(3,053)	1,500
Total	**20,585**	**2,255,367**	**17,600**	**-**	**-**	**(10,490)**	**2,258,353**

This framework is intended to respond to the template 12 CR1-B to the EBA's new guidelines (EBA/GL/2016/11)

The geographical breakdown of the following table presents the materially significant geographical areas, considering all the countries in respect of which the Group has exposure, as at 31 December 2018.

thousands of euros

Finantipar	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
European Union	5,329	975,744	2,373	-	-	(6,563)	978,701
Europe (Non-EU)	1,800	204,855	2,027	-	-	(206)	204,627
North & Central America	21	204,894	241	-	-	1,390	204,674
South America	13,435	346,162	12,617	-	-	(1,858)	346,980
Asia & Middle East & Oceania	-	424,650	57	-	-	(4,009)	424,593
Africa	-	117,829	294	-	-	755	117,535
Total	**20,585**	**2,274,134**	**17,610**	**-**	**-**	**(10,491)**	**2,277,110**

Template 13: EU CR1-C suggested by the EBA Guidelines (EBA/GL/2016/11)

thousands of euros

Banco Finantia	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
European Union	5,329	959,956	2,363	-	-	(6,562)	962,923
Europe (Non-EU)	1,800	204,855	2,027	-	-	(206)	204,627
North & Central America	21	201,915	241	-	-	1,390	201,695
South America	13,435	346,162	12,617	-	-	(1,858)	346,980
Asia & Middle East & Oceania	-	424,650	57	-	-	(4,009)	424,593
Africa	-	117,829	294	-	-	755	117,535
Total	**20,585**	**2,255,367**	**17,600**	**-**	**-**	**(10,490)**	**2,258,353**

Template 13: EU CR1-C suggested by the EBA Guidelines (EBA/GL/2016/11)

Impaired positions and the exposures by days in arrears can be analysed as follows, as at 31 December 2018:

thousands of euros

Finantipar and Banco Finantia	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	784	25	4	26	19	13,107
Debt securities	-	-	-	-	-	13,435
Total exposures	784	25	4	26	19	26,542

Template 14: EU CR1-D suggested by the EBA Guidelines (EBA/GL/2016/11)

The following table presents a general summary of productive and non-productive exposures, credit risk adjustments, and financial guarantees and collateral received by type of exposure, as at 31 December 2018.

thousands of euros

Finantipar	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On nonperforming exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Debt securities	1,713,188	-	20,695	13,435	13,435	13,435	-	682	-	12,130	-	-	-
Loans and advances	242,144	29	162	5,200	5,200	5,200	127	695	1	101	39	-	-
Off-balance-sheet exposures	120,478	-	-	-	-	-	-	(13)	-	-	-	-	-
Total	**2,075,810**	**29**	**20,858**	**18,635**	**18,635**	**18,635**	**127**	**1,364**	**1**	**12,231**	**39**	**-**	**-**

Template 15: EU CR1-E suggested by the EBA Guidelines (EBA/GL/2016/11)
According the amounts presented in the FINREP (template 18 and 19)

One verifies that of the total gross exposure of Euros 2,075,810 thousand, only about 0.9% is non-productive exposure.

thousands of euros

Banco Finantia	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On nonperforming exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Debt securities	1,694,698	-	20,695	13,435	13,435	13,435	-	672	-	12,130	-	-	-
Loans and advances	242,143	29	162	5,200	5,200	5,200	127	695	1	101	39	-	-
Off-balance-sheet exposures	120,478	-	-	-	-	-	-	(13)	-	-	-	-	-
Total	**2,057,319**	**29**	**20,858**	**18,635**	**18,635**	**18,635**	**127**	**1,354**	**1**	**12,231**	**39**	**-**	**-**

Template 15: EU CR1-E suggested by the EBA Guidelines (EBA/GL/2016/11)
According the amounts presented in the FINREP (template 18 and 19)

One verifies that of the total gross exposure of Euros 2,057,319, only about 0.9% is non-productive exposure.

Adjustments for specific and general credit risk

The table below represents the evolution of the Bank's individual and collective impairment during 2018, with each caption being broken down as follows:

> Opening balance: Impairment stock as at 1 January 2018;

> Increases due to amounts allocated to provisions for losses estimated on loans during the period:

- Impairment constituted due to the contracting of new loans;
- Impairment increases due to changes in the type of analysis (collective or individual);
- Impairment increases due to a deterioration from the initial recognition.

> Reductions due to amounts used against accumulated credit risk adjustments:

- Impairments annulled due to settlement/amortization of loans;
- Impairment decreases due to changes in the type of analysis (collective or individual);
- Impairment decreases due to an improvement from the initial recognition;

> Decreases due to amounts used against accumulated credit risk adjustments: represents the application of the Group's credit write-off policy;

> Closing Balance: Impairment Stock as at 31 December 2018.

thousands of euros

	Finantipar	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	8,569	-
2	Increases due to amounts set aside for estimated loan losses during the period	48,232	-
3	Decreases due to amounts reversed for estimated loan losses during the period	(37,475)	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	(10,007)	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	984	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	3,305	-
9	**Closing balance**	13,608	-
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	4,989	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	10,757	-

Template 16: EU CR2-A suggested by the EBA Guidelines (EBA/GL/2016/11)

thousands of euros

	Banco Finantia	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	8,569	-
2	Increases due to amounts set aside for estimated loan losses during the period	48,210	-
3	Decreases due to amounts reversed for estimated loan losses during the period	(37,454)	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	(10,007)	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	984	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	3,297	-
9	**Closing balance**	13,598	-
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	4,989	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	10,756	-

Template 16: EU CR2-A suggested by the EBA Guidelines (EBA/GL/2016/11)

The table below details the changes in the total loans and debt securities in default:

thousands of euros

	Finantipar and Banco Finantia	Gross carrying value defaulted exposures
1	**Opening balance**	**38,699**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	(7,360)
3	Returned to non-defaulted status	(5,946)
4	Amounts written off	(6,758)
5	Other changes	-
6	**Closing balance**	**18,635**

Template 17: EU CR2-B suggested by the EBA Guidelines (EBA/GL/2016/11)

9. Unencumbered assets (article 443)

The encumbered assets comprise mostly assets recognized in the balance sheet provided as collateral in repo operations. In 2017 and 2018, the Group increased the number of active counterparties in the repo market, having also increased the average maturity of the operations, thereby contributing to the diversification of its funding sources. Since 2016 there has been no funding from the European Central Bank.

As at 31 December 2018, the composition of the encumbered and unencumbered assets is as follows:

thousands of euros

Finantipar	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	798,074		1,229,713	
Equity instruments	-	-	-	-
Debt securities	798,074	796,734	903,870	1,070,002
Other assets	-		325,842	

This framework is intended to respond to the EBA's new guidelines (EBA/GL/2014/03)

thousands of euros

Banco Finantia	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	798,074		1,229,713	
Equity instruments	-	-	-	-
Debt securities	798,074	796,734	903,870	1,070,002
Other assets	-		325,842	

This framework is intended to respond to the EBA's new guidelines (EBA/GL/2014/03)

As at 31 December 2018, the detail of the collateral received is as follows:

thousands of euros

Finantipar	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	10,580	-
Equity instruments	-	-
Debt securities	10,580	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-

This framework is intended to respond to the EBA's new guidelines (EBA/GL/2014/03)

thousands of euros

Banco Finantia	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	10,580	-
Equity instruments	-	-
Debt securities	10,580	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-

This framework is intended to respond to the EBA's new guidelines (EBA/GL/2014/03)

As at 31 December 2018, liabilities associated with encumbered assets received were as follows:

thousands of euros

Finantipar	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	647,839	808,654

This framework is intended to respond to the EBA's new guidelines (EBA/GL/2014/03)

thousands of euros

Banco Finantia	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	647,839	808,654

This framework is intended to respond to the EBA's new guidelines (EBA/GL/2014/03)

In the Group, the main reason for the encumbrance of assets arises from financing needs, namely through repos transactions over securities from its own portfolio.

Asset encumbrance can also be triggered for several reasons, namely:

- Due to the existence of the initial margin or trading margin underlying derivative financial instrument transactions;
- Due to the existence of legal requirements such as the assets pledged to the Deposits Guarantee Fund and the Investors Compensation Scheme;
- Due to the financing needs of the activity.

In relation to the main sources of encumbrance, the following additional information is disclosed:

- Derivative transactions:

Collateral is transferred under Credit Support Annexes (CSA) existing between Group companies and various counterparties in the scope of International Standard Swaps and Derivatives Association (ISDA) standard contracts. Each CSA constitutes an operation under the ISDA agreement, celebrated between the Group and the respective counterparty, under which terms the party that at any time is obligated to provide collateral transfers the money or securities (as agreed) to the counterparty. There is a legally effective ownership change of the money or securities transferred.

In the CSA, which are subject to negotiation between the parties, the conditions applicable with respect to collateral are established, namely (i) the periodicity of the valuation of the market value of the derivative operations contracted between the parties; (ii) the threshold (iii) the Independent Amount and (iv) the Minimum Transfer Amount.

- Sale transactions with repurchase agreement:

In the case of transactions under Global Master Repurchase Agreements (GMRA) between Group companies and counterparties, the parties agree that in case one of the parties has a Net Exposure in relation to the other party, said party may request a margin transfer in an amount at least equal to the value of the Net Exposure. The need for an Initial Margin may also be established.

10. Use of ECAIs (article 444)

As mentioned above, the Group uses the Standardised Approach in the calculation of capital requirements for credit risk coverage.

On that basis, the risk-weighted exposure amounts are determined on the basis of weighting coefficients as defined in the CRR. The application of these weighting coefficients is based on the class to which the exposure is allocated and its credit quality. Credit quality can be determined on the basis of credit assessments from external rating agencies (ECAIs), or of credit assessments from export credit agencies (ECA).

As regards the banking portfolio, i.e. for all risk classes except retail, the Group uses the credit ratings of three internationally recognized rating agencies.

When only one credit assessment, established by a recognized ECAI, is available for a given exposure, this valuation is used to determine the applicable risk weighting coefficient. When there are two credit assessments, established by recognized ECAIs, with different risk weighting coefficients, the highest risk weighting coefficient is applied. When there are more than two credit assessments, established by recognized ECAIs, the two lowest risk weighting coefficients serve as the reference. If the two risk weighting coefficients are different, the highest is applied. If they are identical, that risk weighting coefficient is applied.

When a credit assessment exists for a given issue or credit line, in which the exposure is included, that credit assessment is used to determine the applicable risk weighting coefficient. When there is no credit assessment directly applicable to a particular exposure, but there is a credit assessment for a given issue or credit line, in which the exposure is not included, or a general credit assessment of the issuer, such credit assessment is used in the cases defined in article 139 of the CRR.

The following table indicates the exposure values, after the conversion factor and after the credit risk reduction associated with each level of credit quality, as at 31 December 2018:

thousands of euros

Finantipar

Exposure classes	Risk weight									Total	Of which unrated
	0%	10%	20%	50%	75%	100%	150%	250%	Deducted		
Central governments or central banks	289,668	30,339	14,933	45,253	-	178,207		20,316	-	578,718	2,064
Regional government or local authorities	29,189	-	21,698	-	-		-	-	-	50,887	21,698
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Institutions	299	8,433	167,389	272,370	-	239,074	-	-	-	687,565	33,979
Corporates	-	-	-	7,158	-	828,215	69,862		-	905,235	84,257
Retail	-	-	-	-	781		-	-	-	781	781
Exposures in default	-	-	-	-	-	6,404	2		-	6,406	-
Other items	49	-	-	-	-	14,336	-	-	-	14,385	1,568
Total	**319,205**	**38,773**	**204,020**	**324,782**	**781**	**1,266,236**	**69,863**	**20,316**	**-**	**2,243,978**	**144,346**

Template 20: EU CR5 suggested by the EBA Guidelines (EBA/GL/2016/11).

thousands of euros

Banco Finantia

Exposure classes	Risk weight									Total	Of which unrated
	0%	10%	20%	50%	75%	100%	150%	250%	Deducted		
Central governments or central banks	285,882	30,339	12,564	45,253	-	178,207	-	20,264	-	572,510	2,064
Regional government or local authorities	29,189	-	20,785	-	-	-	-	-	-	49,974	20,785
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Institutions	299	8,433	167,388	272,370	-	239,074	-	-	-	687,565	33,979
Corporates	-	-	-	7,158	-	816,707	69,862	-	-	893,727	78,428
Retail	-	-	-	-	781	-	-	-	-	781	781
Exposures in default	-	-	-	-	-	6,404	2	-	-	6,406	-
Other items	49	-	-	-	-	14,210	-	-	-	14,258	1,451
Total	**315,419**	**38,773**	**200,737**	**324,782**	**781**	**1,254,602**	**69,863**	**20,264**	**-**	**2,225,221**	**137,488**

Template 20: EU CR5 suggested by the EBA Guidelines (EBA/GL/2016/11).

This table shows the risk-weighted exposure amount for which no rating recognized by an ECAI exists or for which a specific risk weighting coefficient is applied depending on its risk class.

11. Exposure to market risk (article 445)

The concept of market risk reflects the potential loss that can be recorded by a given book as a result of changes in interest rates and foreign exchange rates, and/or the prices of the different financial instruments that comprise it. For purposes of profitability analysis, and risk quantification and control, the trading book is characterized by positions held by the Group which purpose is to obtain short-term gains through sale or appreciation.

The following table presents the risk-weighted exposures (RWA) and the capital requirements for market risk as at 31 December 2018:

thousands of euros

Finantipar	Dec/18		Jun/18	
	RWA	Capital requirements	RWA	Capital requirements
Outright products				
Interest rate risk (general and specific)	20,351	1,628	40,578	3,246
Equity risk (general and specific)	-	-	-	-
Foreign exchange risk	13,366	1,069	-	-
Commodity risk	-	-	-	-
Options				
Simplified approach	-	-	-	-
Delta-plus method	-	-	-	-
Scenario approach	-	-	-	-
Securitisation (specific risk)	-	-	-	-
Total	**33,717**	**2,697**	**40,578**	**3,246**

Template 34: EU MR1 suggested by the EBA Guidelines (EBA/GL/2016/11)

thousands of euros

Banco Finantia	Dec/18		Jun/18	
	RWA	Capital requirements	RWA	Capital requirements
Outright products				
Interest rate risk (general and specific)	20,351	1,628	40,578	3,246
Equity risk (general and specific)	-	-	-	-
Foreign exchange risk	13,371	1,070	-	-
Commodity risk	-	-	-	-
Options				
Simplified approach	-	-	-	-
Delta-plus method	-	-	-	-
Scenario approach	-	-	-	-
Securitisation (specific risk)	-	-	-	-
Total	**33,722**	**2,698**	**40,578**	**3,246**

Template 34: EU MR1 suggested by the EBA Guidelines (EBA/GL/2016/11)

12. Operacional risk (article 446)

Description of the calculation methodology of capital requirements

The Group calculates the capital requirements for operational risk using the basic indicator method, using the methodology described in Regulation (EU) No. 575/2013.

Accounting elements considered to calculate the relevant indicator (Basic indicator method)

The relevant indicator for the calculation of capital requirements for operational risk is the sum of the financial margin with the operating income, on which the factor of 15% of the average of the last three years is applied in order to calculate the amount of the requirements.

The accounting captions in the income statement that form an integral part of the relevant indicator are as follows:

+ Interest and similar income
- Interest and similar charges
+ Income from equity instruments
+ Income from services and commissions
- Charges with services and commissions
+ Results of financial operations
+ Other operating income

thousands of euros

Operational risk	Finantipar	Banco Finantia
Relevant indicator		
2018	50,630	49,276
2017	54,254	53,682
2016	58,474	58,135
Own funds requirements for operational risk (A)	**8,168**	**8,055**
RWA of operational risk (A)/8%	**102,099**	**100,683**

13. Exposures in equities not included in the trading book (article 447)

As at 31 December 2018, the Group holds an immaterial position in shares in the banking portfolio.

14. Exposure to interest rate risk on positions not included in the trading book (article 448)

The interest rate risk of the banking portfolio arises from differences between the assets and liabilities of the banking portfolio in terms of the nature of the interest rate (fixed or variable), maturity and interest rate resetting periods, consubstantiating the possibility of losses arising from changes in the interest rate due to these differences.

Interest rate risk is measured by analysing the temporal mismatch of the maturities of assets, liabilities and fixed-rate off-balance sheet instruments, through their distribution by time buckets. These analyses are prepared monthly. On these mismatches, at least four times a year, sensitivity analyses (shocks) are applied with regard to market interest rate changes.

For the specialized financing portfolio, assumptions are used regarding the level of prepayments, payment delays and non-payment situations. For the remaining instruments, contractual maturities and resetting periods are used, with no potential early repayments or renewals being considered.

The interest rate risk of the banking portfolio is calculated using a Value-at-Risk (VaR) model, using the historical simulation method. This risk is subject to periodic control, through the calculation of the VaR and of the temporal mismatch. Interest rate risk is hedged, by decision of the Finance and Risk Committee, through appropriate instruments (currently interest rate swaps).

Each risk is analysed independently of the other risks, and no risk mitigation is considered due to the imperfect correlation between the different types of risk.

The following tables present the analysis of interest rate risk (banking portfolio):

thousands of euros, except for %

Finantipar			Impact	
			31/12/2018	31/12/2017
Total capital impact of a 200 bp shock in interest rates:	Amount	+ 200	-12 402	-28 543
		- 200	+17 023	+35 831
	% Total capital	+ 200	-3,02%	-6,26%
		- 200	4,15%	7,86%

"+ 200" = upward 200 basis point parallel rate shock

"- 200" = downward 200 basis point parallel rate shock

By currency, the above shocks are split as follows: USD between 38% and 40% and EUR between 60% and 62%.

thousands of euros, except for %

Banco Finantia			Impact	
			31/12/2018	31/12/2017
Total capital impact of a 200 bp shock in interest rates:	Amount	+ 200	-11 641	-27 103
		- 200	+16 123	+34 160
	% Total capital	+ 200	-2.98%	-6.39%
		- 200	4.12%	8.06%

"+ 200" = upward 200 basis point parallel rate shock

"- 200" = downward 200 basis point parallel rate shock

By currency, the above shocks are split as follows: USD between 42% and 44% and EUR between 56% and 58%.

15. Exposure to securitization positions (article 449)

As at 31 December 2018, the securitization position amounts to Euros 11,371 thousand, relating to securities belonging to the investment portfolio. The Group did not participate in the issue of securitization operations.

16. Remuneration policy (article 450)

As regards the remuneration policies and practices of Finantipar and Banco Finantia, the Group generally meets the requirements established in a manner appropriate to its size and internal organization, as well as to the nature, scope and complexity of the activities carried out.

The information on the remuneration policies and practices required by article 450 of Regulation (EU) No. 575/2013 is detailed and disclosed in Part II. Remuneration, pages 10-15 of the "Report on the Structure and the Corporate Governance Practices at Finantipar" and in Part II. Remuneration, pages 20-31 of the "Report on the Structure and the Corporate Governance Practices at Banco Finantia" (annex and integral part of the Annual Report and Accounts for 2018 of each of the companies), which can be consulted in https://www.finantia.pt/pt/banco-finantia_pt/informacaofinanceira/ respectively, supplemented by the following information:

(i) For purposes of the disclosure of information within the scope of paragraph a) of no. 1 of article 450, the Remuneration Committee of Finantipar was appointed during the General Shareholders Meeting held on 28 april 2017 for the triennium 2017/2019 and the Remuneration Committee of Banco Finantia was appointed during the General Shareholders Meeting held on 27 november 2017 for the triennium 2017/2019, having by deliberation of the General Shareholders Meeting of Banco Finantia held on 31 may 2019, extended the mandate for the triennium 2019/2021.

As regards the aggregate quantitative data on the remuneration of persons having a significant impact on the risk profile of Banco Finantia, as at 31 December 2018, the institution identified the members of the management and supervisory bodies and employees with essential functions, thereby including those responsible for the control functions.

The information requested in points (i) and (vi) of paragraph h) of no. 1 of article 450 of Regulation (EU) No. 575 / 2013 for members of the administrative and supervisory bodies is detailed in the "Report on the Structure and the Corporate Governance Practices at Finantipar", in Part II. Remuneration, Chapter B.1 Remuneration Policy of the Members of the Management and Supervisory Bodies, in pages 11-15 and in the "Report on the Structure and the Corporate Governance Practices at Banco Finantia" in Part II. Remuneration, Chapter B.1 Remuneration Policy of the Members of the Management and Supervisory Bodies, in pages 21-27. In this context, it is hereby informed that no stock or option attribution programme is in force for the employees of Banco Finantia.

As for employees with essential functions, as at 31 December 2018, those responsible for the control functions in accordance with Notice 5/2008 issued by Banco de Portugal, that is, the heads of the Internal Audit function, the Compliance function and the Risk Management function. In financial year 2018, their aggregate fixed remuneration amounted to Euros 188,081.76, with, in 2018, these employees also being paid an aggregate variable remuneration for their performance in the exercise of their respective functions during financial year 2017 of Euros 36,000.00.

17. Leverage (article 451)

The calculation of the regulatory leverage ratio is foreseen in article 429 of Regulation (EU) No. 575/2013, as amended by Delegate Act No. 62/2015, of 10 October 2014.

The leverage ratio is defined as the proportion of tier 1 capital divided by the exposure measure, consisting of on-balance sheet and off-balance sheet assets considered after some adjustments, associated, namely, with intra-group exposures, with securities financing transactions (SFTs), with values deducted from the numerator of the total capital ratio and with off-balance sheet elements, which aim to adequately address the different risk profiles of these exposures (in SFTs and derivatives add-ons are considered for future risks, whilst in the remaining off-balance sheet elements different conversion in credit ratios are applied according to the inherent risk of each exposure).

thousands of euros

Capital and total exposure mesure			
		Finantipar	**Banco Finantia**
20	Tier 1 capital	333,588	369,910
21	Leverage ratio total exposure measure	2,081,483	2,062,012
	Leverage ratio		
22	**Leverage ratio**	**16.0%**	**17.9%**

This framework is intended to respond to the template of Commission Implementation Regulation (EU) 2016/200

In calculating the ratio, the current regulatory standards are complied with, namely the provisions of Regulation (EU) 575/2013, as updated by Commission Delegated Regulation (EU) 2015/62, of 10 October, by Commission Implementing Regulation (EU) 2016/200, of 15 February and by Commission Implementing Regulation (EU) 2016/428, of 23 March, all of the European Commission.

The following tables present the breakdown of total exposure (ratio denominator) and the reconciliation of the total exposure measure with the relevant information disclosed in published financial statements, as at 31 December 2018.

thousands of euros

CRR leverage ratio exposures		Finantipar	Banco Finantia
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,016,979	1,997,634
2	(Asset amounts deducted in determining Tier 1 capital)	(819)	(945)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	2,016,161	1,996,690
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	19,404	19,404
5	Add-on amounts for PFE associated with all derivatives transactions (markto-market method)	21,683	21,683
EU-5	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivatives exposures**	41,088	41,088
SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	10,747	10,747
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures**	10,747	10,747
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	13,487	13,487
18	(Adjustments for conversion to credit equivalent amounts)	-	-
19	**Other off-balance sheet exposures**	13,487	13,487
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)			
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-

This framework is intended to respond to the template of Commission Implementation Regulation (EU) 2016/200

The following table presents the reconciliation of the total exposure measure with the relevant information disclosed in published financial statements, as at 31 December 2018:

thousands of euros

Summary reconciliation of accounting assets and leverage ratio exposures		Finantipar	Banco Finantia
1	Total assets as per published financial statements	2,047,131	2,027,786
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-	-
4	Adjustments for derivative financial instruments	21,683	21,683
5	Adjustment for securities financing transactions (SFTs)	-	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	13,487	13,487
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(819)	(945)
8	**Leverage ratio total exposure measure**	**2,081,483**	**2,062,012**

This framework is intended to respond to the template of Commission Implementation Regulation (EU) 2016/200

That laid down in article 429, no. 11, of the CRR is not applicable to the Group.

According to the figures presented, the position of the Group is comfortable. The monitoring of this ratio enables the management bodies to detect and take measures to avoid the risk of excessive leverage.

The Group does not face a risk of excessive leverage, taking into account the level of the leverage ratio as at 31 December 2018 (16,0% and 17,9%, respectively for Finantipar and for Banco Finantia) and the defined prudential minimum (3%). The leverage ratio is monitored on a monthly basis to verify whether corrective measures are required, with this being one of the metrics monitored under the RAF, through the validation of the maintenance of the current levels within the limits and tolerances defined by the Board of Directors.

18. Use of the IRB approach to credit risk (article 452)

Not applicable. The Group and its subsidiaries do not calculate the risk-weighted exposure amounts in accordance with the IRB Method.

19. Use of credit risk mitigation techniques (article 453)

"Credit risk mitigation" is a technique used to reduce the credit risk associated with one or more exposures held by the institution, the most common being "real credit protection" and "personal credit protection".

"Real credit protection" is a credit risk mitigation technique in which the reduction of the credit risk on an institution's exposure results from the institution's right - in the event of counterparty default or the occurrence of other specified credit events related to the counterparty - to liquidate, to obtain transfer or possession, to withhold certain assets or amounts, to reduce the exposure amount to the amount corresponding to the difference between the amount of the exposure and the amount of a claim on the institution, or replace it with that amount, whilst "personal credit protection" consists of a credit risk mitigation technique in which the reduction of the credit risk on an institution's exposure results from the obligation assumed by a third party to pay a certain amount in case of default of the borrower or the occurrence of other specified credit events;

The Group uses credit risk mitigation techniques to mitigate exposure to this risk, namely through collateral, such as cash deposits, eligible financial instruments, and other assets, as well as personal guarantees. Although some of the guarantees received may not be eligible as risk mitigation under the CRR, economically they effectively reduce the credit risk to which the Group is exposed.

The existence of guarantees is an element of consideration in the analysis of the credit risk of the investments made, being considered a risk mitigation element.

With respect to transactions with derivative financial instruments, the Group uses standard agreements as a way to mitigate credit risk, establishing the contractual relations with its counterparties through the signing of framework contracts in which the obligations are clearly defined.

In relation to interest rate risk hedging, this is ensured through the contracting of interest rate derivative instruments, which allow for the matching of maturities and average rate resetting periods of those assets with those resulting from the liabilities of the corresponding securitization operations.

The systematic monitoring of the distribution of assets and liabilities is carried out according to their rate resetting periods, and the risks that exceed the limits defined by the Finance and Risk Committee are regularly covered, through the use of appropriate instruments (currently interest rate swaps).

The foreign exchange position is systematically monitored, and the foreign exchange rate risk that exceeds the limits set by the Finance and Risk Committee is regularly hedged, through the use of appropriate instruments (e.g. spots, forwards, swaps).

The following table presents the book value of the exposures for which the Group uses risk mitigation techniques, as at 31 December 2018:

thousands of euros

Finantipar and Banco Finantia	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1 Total loans	484	33,616	33,132	-	-
2 Total debt securities	-	-	-	-	-
2a Total collateral	-	-	-	-	-
3 Total exposures	**484**	**33,616**	**33,132**	-	-
4 Of which defaulted	-	-	-	-	-

Template 18: EU CR3 suggested by the EBA Guidelines (EBA/GL/2016/11)

The following table demonstrates the effect of the prudential mitigation of collateral and the capital requirement, by risk class, as at 31 December 2018, applied under Part III, Title II, Chapter 4 of the CRR.

thousands of euros

Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Institutions	33,616	-	484	-	-	0%

Template 19: EU CR4 suggested by the EBA Guidelines (EBA/GL/2016/11)

The table does not cover derivative instruments, repurchase transactions, loan or securities or commodities transactions, long-settlement transactions and margin-lending transactions subject to Part III, Title II, Chapter 6 or subject to article 92, no. 3, paragraph f) of the CRR.

The exposures before CCF and CRM correspond to the exposure net of the value of adjustments and provisions. The RWA density, expressed as a percentage, results from the risk-weighted total exposures over the exposures after the application of CCF and CRM.

20. Use of the advanced measurement approaches to operational risk (article 454)

Not applicable. The Group and its subsidiaries do not use the Advanced Measurement Approaches provided for in articles 321 to 324 of the CRR in calculating their own funds requirements for operational risk.

21. Use of internal market risk models (article 455)

Not applicable. The Group and its subsidiaries do not use internal market risk models when calculating their capital requirements.

TRANSLATION NOTE

The above translation is a free translation of the original document issued in the Portuguese language. In the event of discrepancies or misinterpretations the original version shall prevail.