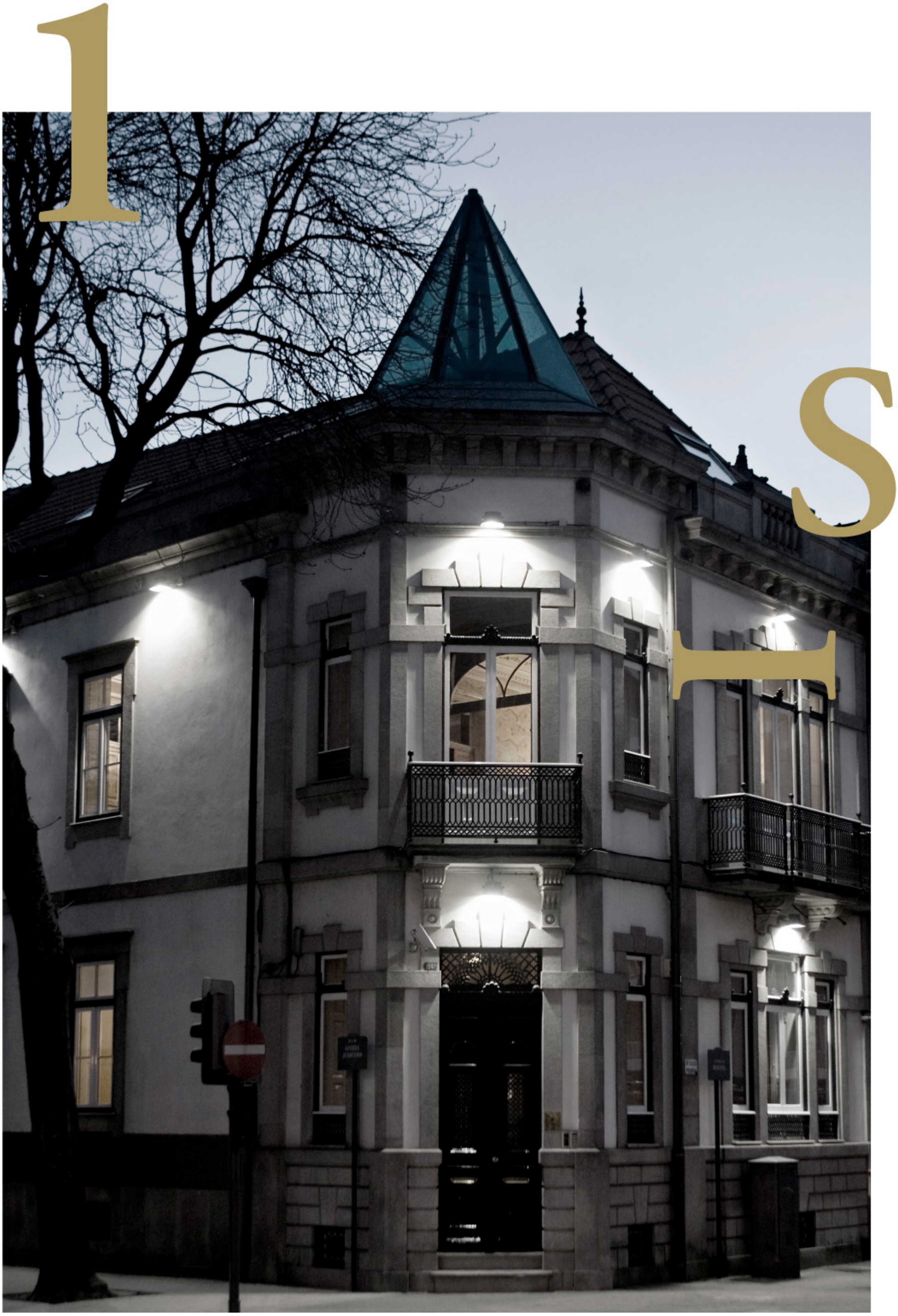
R A '18

REPORT & ACCOUNTS

EST. 1833
BANCO CARREGOSA

INDEX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SUMMARY OF INDICATORS

Except where otherwise stated, amounts are expressed in euro

INCOME STATEMENT	2018	2017
Financial margin	5 749 662	5 067 579
Income from equity instruments	225 749	126 981
Net commissions	3 516 421	4 202 294
Gains from financial transactions	2 175 314	1 569 412
Other net operating income – Exchange	(16 917)	(223 167)
Other operating income	(398 545)	(407 547)
Net operating revenue	11 251 684	10 335 551
Staff costs	(4 291 470)	(4 095 526)
Other administrative costs	(4 411 277)	(4 104 189)
Structure costs	(8 702 747)	(8 199 715)
Amortisations	(818 790)	(622 153)
Provisions	(3 333)	(3 466)
Impairments	(329 277)	(385 992)
Pre-tax profit	1 397 537	1 124 224
Taxes	(250 797)	(323 571)
Net result	1 146 740	800 654

BALANCE SHEET	2018	2017
Total net assets	303 218 538	274 589 280
Equity	34 090 702	34 552 025
Own funds	36 317 465	35 371 327
Client deposits	233 823 285	195 775 894
Loans granted	101 901 308	94 349 516
Transformation ratio	43.58%	49.10%
Overdue loans / Loans granted	2.01%	1.45%
Loans granted / Net assets	33.61%	35.01%
Assets under supervision (assets under management, custody and client deposits)	1 094 381 059	863 529 459

OTHER INDICATORS	2018	2017
Liquidity coverage ratio (LCR)	340.1%	341.6%
Financial margin (in % of net operating revenue)	51.10%	49.03%
Provisions and impairments (in % of net operating revenue)	2.96%	3.77%
Common Equity Tier 1 ratio (CET1)	16.29%	20.81%
Risk-weighted assets (RWAs) (in % of Total Assets)	209 295 621	163 737 974
Return on assets (ROA)	0.40%	0.32%
Return on equity (ROE)	3.20%	2.29%
Financial margin / Interest-bearing asset	2.57%	2.70%
Structure costs / Net operating revenue	77.35%	79.34%

2

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Shareholding structure and Corporate bodies

OFFICERS OF THE MEETING	Luís Manuel de Faria Neiva dos Santos	CHAIRMAN
	Maria Manuela Pereira Antunes	Secretary
	Ana Mafalda Mateus Freitas Gonçalves Malafaya	Secretary
BOARD OF DIRECTORS	Maria Cândida Cadeco da Rocha e Silva	CHAIRWOMAN
	Jorge Manuel da Conceição Freitas Gonçalves	VICE-CHAIRMAN
	António José Paixão Pinto Marante	Voting member
	Francisco Miguel Melhorado de Oliveira Fernandes	CHAIRMAN OF THE EXECUTIVE COMMITTEE [EC]
	Paulo Armando Morais Mendes	Voting member [EC]
	Paulo Martins de Sena Esteves	Voting member [EC]
SUPERVISORY COMMITTEE	To be assigned	CHAIRMAN
	Ricardo Jorge Mendes Fidalgo Moreira da Cruz	Voting member
	Maria da Graça Alves Carvalho	Voting member
STATUTORY AUDIT FIRM (SROC)	Marques da Cunha, Arlindo Duarte & Associados represented by Joaquim Manuel Martins da Cunha	Full member [SROC]
	António Magalhães & Carlos Santos, represented by Carlos Afonso D. L. Freitas dos Santos	Alternate [SROC]
SHAREHOLDERS WITH HOLDINGS OF MORE THAN 5% OF EQUITY	Maria Cândida Cadeco da Rocha e Silva	
	Jorge Manuel da Conceição Freitas Gonçalves	
	Projeto Inverso, SGPS, SA	

The members of the corporate bodies for the 2018-2020 three-year period were elected by the General Shareholders' Meeting on 30 May 2018. On that date, Dr. Fernando Miguel Costa Ramalho was also elected Administrator, and Dr. Rodrigo de Melo Neiva Santos was elected alternate member of the Supervisory Board, whose registration is still to be confirmed by Banco de Portugal.

Professor Dr. Álvaro José Barrigas do Nascimento resigned as Chairman of the Supervisory Committee as of 31 August 2018.

As a result thereof, the General Shareholders' Meeting of 18 December elected Dr. Homero José de Pinho Coutinho as Chairman of the Supervisory Committee, whose registration is still to be confirmed by Banco de Portugal.

3

MESSAGE FROM THE CHAIRWOMAN OF THE BOARD OF DIRECTORS

Dear Shareholders,

We once again come before you to give an account of the most relevant events of 2018, whose results are shown herein.

In 2018, one of our biggest concerns is to perfect our organisation by investing in improving the preparation of our staff, so that they are better suited to what we expect of them, and thus meet the ever increasing demands of our regulators. We promoted the participation of several collaborators in post-graduate training, increased the number of CFAs in our team – we have already 5 CFAs – and our compliance officer received her post-graduate diploma from the International Compliance Association.

We know that we have to keep on improving, as this is an ever more demanding environment. This might seem a minor effort, but, in fact, it is quite exhausting for a bank the size of Banco Carregosa. The unexpected events arising in the financial sector make regulators excessively concerned about dealing with the gaps where those events may still occur, making banking life difficult. Understandably difficult, but nevertheless difficult!

As regards in-house progress, we are glad to inform you that we have reached one of the objectives set for 2018 – to reach € 1 bn in assets under supervision – before year-end. This is not the only sign that we are still growing – we have improved the net operating revenue (+9%) and net results (+42%), strengthened the teams and promoted the launch of new products, including income property funds, all of which have performed well.

To diversify our offer to our clients, we have partnered with a precious metals manufacturer of reference in Germany, with more than 150 years of activity, which enabled us to trade in gold bars with full reliability.

We are please to inform you of the inauguration of the refurbished facilities in Lisbon, as we are determined to pursue the opening of modern facilities initiated in 2017 in Porto to receive our clients.

I shall finish by referring to the most important events of this financial year. Although results weren't exactly what we had hoped for, they were still positive and show an improvement compared to the previous year.

For my part, I shall always seek to deserve your trust.

Maria Cândida Rocha e Silva
Chairwoman of the Board of Directors


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MANAGEMENT REPORT

4.1. BANCO CARREGOSA

In compliance with legal and statutory provisions, the Board of Directors of Banco L. J. Carregosa S.A. presents the 2018 Reports and Accounts.
In compliance with the Portuguese Companies Code, this document includes, throughout its contents and notes to the financial statements, information on each mandatory heading listed in Article 66(5) (Management Report).

The name Carregosa has been linked to the financial sector for 185 years. It began its business as a foreign currency exchange house in 1833 at Rua das Flores, Porto, making it the oldest financial institution in the Iberian Peninsula still in activity. Throughout the 20th century, Casa Carregosa grew, innovated and developed, adapting itself to a modern, increasingly sophisticated and demanding world.

Having receiving the license to operate as a banking entity in 2008, L. J. Carregosa – Sociedade Financeira de Corretagem then became known as Banco Carregosa, which will soon commemorate its 10th anniversary.

The purpose of Banco Carregosa was very specific – to specialise in private banking, anchored in the values of independence and customised service, with a view to offering serious and transparent advice to clients and to give priority to clients' interests.

Ten years later, we are pleased to see that Banco Carregosa has earned its place in the Portuguese banking sector and that we have prepared the way forward to enhance its position as a reference in *wealth management* in Portugal.

4.2. BUSINESS SEGMENTS AND INTERNAL ORGANISATION

In line with the major strategic guidelines defined for 2016-2018, the Bank's activity is based on the following essential pillars:

- Consolidation of private banking, with a focus on private clients of high net worth and affluent private clients with high savings/investment potential; and;
- Additionally, to act in segments – company and institutional investors – and/or specific services, where the Bank currently maintains a significant activity, ensuring an appropriate return consistent with its position and expertise.

To support these lines of action, the functional organisation of the Bank consists of four core areas – business areas, services, support and control –, as described below.

Business areas

The first core area is formed by four Business Areas, which are based on the relational model that the Bank intends to establish with its clients. Three of these areas are primarily commercial in nature, familiarising the target clients with the Bank's products and services in order to offer a consistent service:

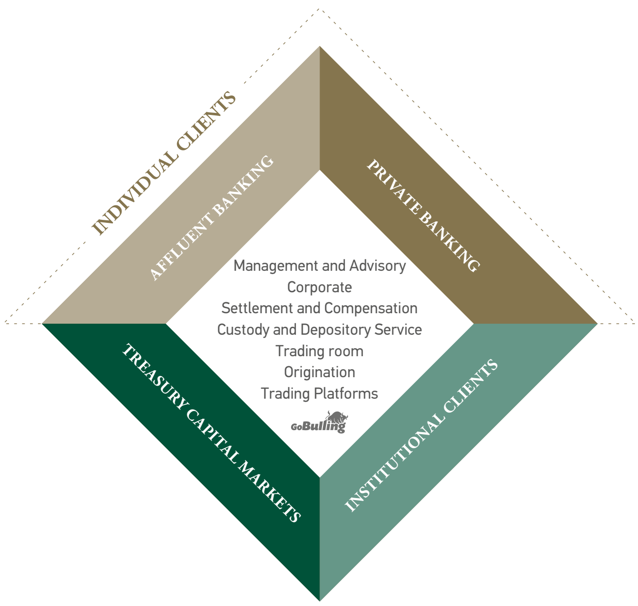
PRIVATE BANKING;

AFFLUENT BANKING;

CORPORATE BUSINESS.

The clients' areas are also fed by two external commercial networks – the Investor Advisor Network (RAI), for private clients, and the Corporate Sales Network (RVI) for institutional clients.

A fourth key Business Area is also part of this area: cash management and own portfolio.



Services

The second core area consists of a number of key activities aligned with the organisation's key competences, built on the core activities of private banking services – custody, execution and asset management/advisory services – to which the Bank added other activities arising from the convenience in using the Bank's balance sheet to better support the business – credit granting and own portfolio management. In other words, these areas generate client-related products and services and consist of seven groups of essential services:

- Cash management and own portfolio;
- Advisory, sourcing and asset management;
- Loans;
- E-trading;
- Trading room;
- Clearing, settlement and custody;
- Corporate;
- Other banking services.

Services are the foundations that feed the commercial teams of each business area, defined according to the characteristics of the segment they target, seeking to approach the market with three consistent commercial propositions adjusted to the needs of the target clients, exploring niches that value proximity, quality and flexibility of the solutions they offer.

Support areas

The third core area includes all the support functions to the activity that do not establish or generate trade relations, or generate products as such, even though they have a major part to play in their materialisation.

Control areas

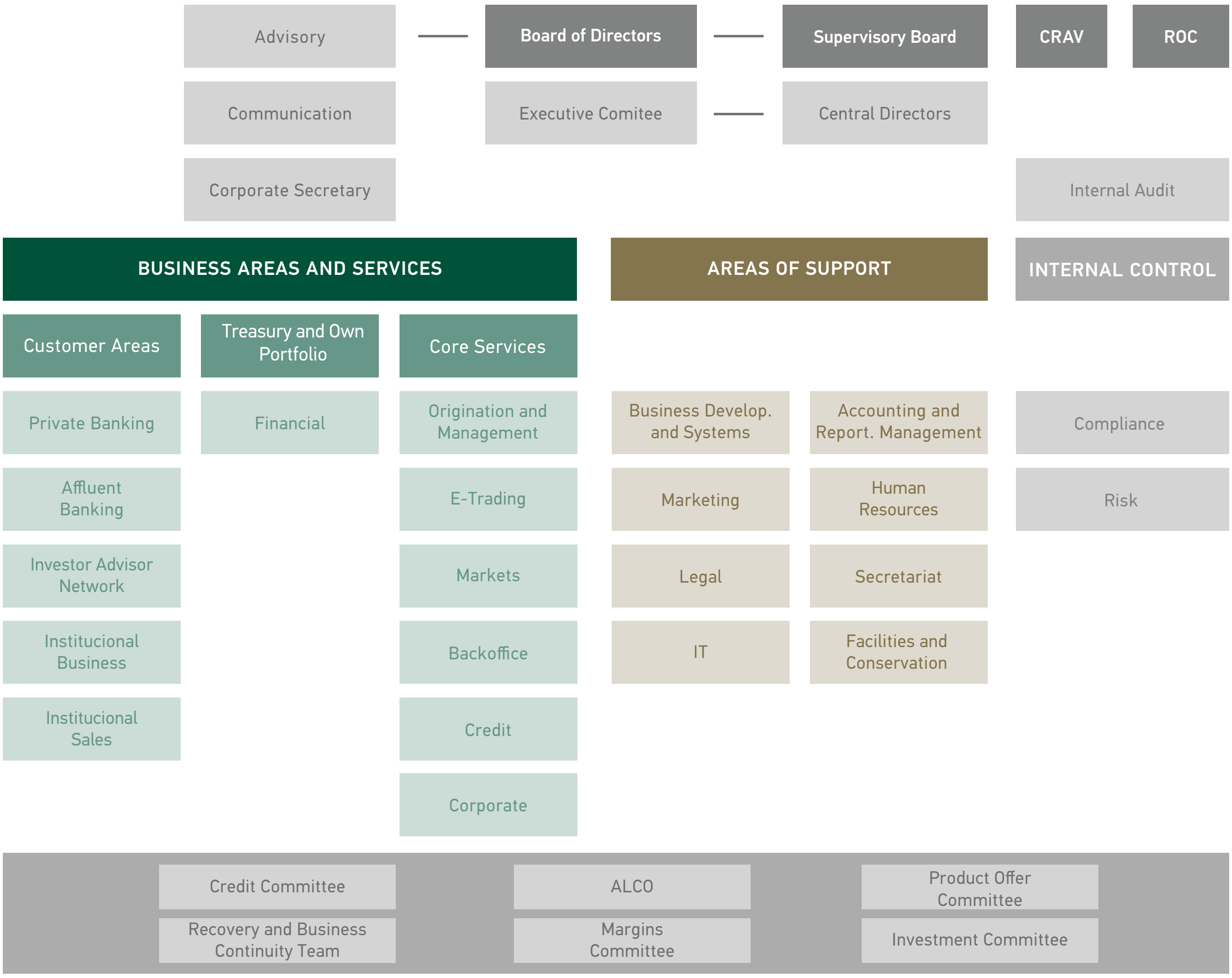
Finally, the fourth core area corresponds to the internal control areas that ensure, in an independent manner, risk management, compliance verification and internal auditing. The first two form the second line of defence and the last one the third line of defence.

Internal organisation

The Bank's organisation and composition of the Management and Supervisory Bodies consists of a Board of Directors and a Supervisory Board, with a Statutory Auditor.

The Bank also has a Remunerations and Assessment Committee (CRAV), appointed by the shareholders for a three-year period, in charge of: keeping the remuneration policy up to date, establishing the remuneration of the members of the board of directors and supervisory board, monitoring the impact of the remuneration provisions and compliance with legal and regulatory provisions that deal with remuneration issues, as well as assessing the members of the management and supervisory bodies, and both these bodies collectively, reporting the results to the General Meeting and to the authorities.

The Bank employs 96 staff; therefore, its organisation is based on a functional organisational structure with simple reporting lines, as shown in the organisational chart below.



Internal control system

The Internal Control System (ICS) plays a key role in Banco Carregosa, aiming to enforce the legal obligations and duties to which the Bank is subject, and to appropriately manage the activity-related risks, thus ensuring its stability and continuity.

The Bank's ICS consists of three departments: Risk, Compliance and Internal Audit, all of which are committed to promoting an internal control environment and culture with high ethical and integrity standards.

Internal audit

Internal Audit plays an essential role in monitoring the internal control system. Considering the risks to which the banking activity is exposed, Internal Audit defines a monitoring action plan that enables all activities, processes and systems to be analysed, in order to assess the adequacy of the ICS, issuing, where appropriate, recommendations based on the findings thereof. The main weaknesses found and compliance with the recommendations made are reported to the competent governing bodies.

Compliance

The Compliance Department monitors the compliance of legal and regulatory obligations of practices, conducts and procedures of Banco Carregosa. To that end, it frequently monitors any legal amendments in order to reduce any risks of breaching the regulations. In 2018, we note the adaptation of the institution to the changes introduced by the Markets in Financial Instruments Directive (MiFID II), in its various dimensions. Regarding the prevention of money laundering and terrorist funding, the Compliance Department has a critical role in that it is responsible for defining the mechanisms to monitor and detect suspicious transactions.

Risk management system

Risk management consists of the identification, evaluation, measurement, monitoring and control of all materially relevant risks to which the Group is exposed, in order to bring the exposure levels in line with the limits established in the RAS - *Risk Appetite Statement*.

The purpose of this is that the Bank will not be forced to change its strategy or incur in losses that materially affect its financial position. Thus, the risk management policy aims to maintain a balance between:

i) Adequate level of capital (principle of solvency);
ii) Remuneration of risks assumed (principle of profitability);
iii) Maintaining a financially stable structure.

The Risk Department therefore ensures the application of the risk management systems and evaluates, in terms of quality and quantity, all the business risks to which the Bank is exposed. It is also responsible for preparing and presenting periodic reports for informing the corporate bodies and regulating authorities on issues relating to risk management, identifying material risks, in particular market, credit, liquidity and operational risk.

Market risk

Market risk is the likelihood of negative impacts affecting the results or capital due to unfavourable changes in the market price of banking and trading portfolio instruments, including fluctuations in interest rates, foreign exchange rates, stock quotes and price of goods.

This risk is primarily associated to the trading portfolio, consisting of short-term positions held by the Bank, in a speculative logic, although it affect other own portfolios of the Bank.

Credit risk

Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the Bank. Credit risk is found mainly in credit exposures, credit lines (including secured credit), guarantees, derivatives and the Bank's deposits in other credit institutions.

Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements.

Liquidity risk

Liquidity risk reflects the Bank's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational risk

Operational risk is the loss resulting from the inadequacy or failure of procedures, staff, internal systems or external events, and also legal risks, as laid down in EU Regulation 575/2013. Operational risk must be assessed at two different levels: technical and organisational. At a technical level, Banco Carregosa has also chosen to invest strongly in computerisation. As a result of this strategy, the Bank has a solid computer system, highly flexible and reliable for the Bank's operating processes. The Bank's information systems contain sensitive and confidential private financial and personal data. Only the staff at Banco Carregosa is allowed to access these systems, in addition to subcontracted workers, under an appropriate framework, involved in the system's development or operation, or whose work involves the recording, review or retrieval of that data. This privilege is based on trust, good faith and is duly documented. At organisational level, in particular in the means and form used in reporting, monitoring risk and rules and policies related thereto, the Bank had to redefine and seek a new compromise between commercial interests and risks involved.

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Background

5.1 MACROECONOMIC BACKGROUND

2018 started out in a very favourable economic situation, marked by worldwide GDP growth, driven by a strong push forward in emerging economies, ending with a worldwide economic slowdown, gripped by a less favourable economic sense due to the maturity of the economic cycle, the reversal of global monetary conditions, and the threats to international trade arising from the discussion of customs tariffs between the USA and China, impacting both the economies of these two countries and global economy.

Early in the year, world economic growth forecast, measured by the World Bank[1] through real global GDP growth forecasts, was of 3.1%, revised to 3% in its January 2019 report. Developed economies accounted for about 2% and emerging economies contributed with a 4.2% growth, which is lower than what was initially anticipated.

[1] World Bank, Global Economic Prospects, 8 January 2019.

In the USA, the approval of Trump's administration tax plan strengthened the optimism for growth among economic agents, which reflected in household consumption, in the repatriation of North-American multinationals' funds, and in the growth of corporate results.

Positive US GDP growth and employment trends were observed over the course of the year (149 000 jobs on average were created per month in 2018 and an historically low unemployment rate, at 3.9% in December 2018), although the positive growth of US GDP registered a downward trend in the last quarters of the year. This raised concern among economic agents, as the business cycle of the US economy reached a long maturity at the end of 2018 – US GDP grew for the tenth year running.

The strength of US economic data pushed the Federal Reserve to continue the standardisation programme of the monetary policy. In fact, the Federal Reserve, which already had halted the quantitative easing in October 2017, initiated in that year a cycle of interest rate hikes, which it maintained throughout the year. In 2018, the Federal Reserve interest rate of reference[2] increased 100 basis points (bp) to 2.5% at year-end. Alongside the increase in short-term market interest rates (USD Libor 3m had a similar build-up, from 110 bp to 280 bp), the long-term market rates also increased, but at a slower pace. The same was true for the US sovereign debt yields, with a widespread rise in rates along the entire curve. However, the rise was more pronounced in short-term rates, leading to the spread (difference between yields) between the 10 and 2-year maturities to reduce from the 50 basic points early in the year to about 20 basis points in late 2018. The flattening of the curve may be worrying, as the reversal of the curve is often a foretaste of a reversal of economic growth.

[2] Fed funds target rate, upper bound – The short-term interest rate defined as the target by the Federal Open Market Committee (FOMC) of the Federal Reserve as part of its monetary policy.

On the other hand, inflation, measured by the consumer price index, which had reached a 2.9% peak in June 2018, fell to 1.9% in December 2018. This is also a sign that the US economy was losing momentum in the second half of the year.

In contrast, in the Eurozone, despite the commitment of the European Central Bank (ECB), economic growth remained weak. GDP growth in the Eurozone was lower than expected, following a very strong first half of the year, ending the year with a year-on-year growth of 1.8% (0.6% less than in 2017), very much dur to decelerated exports, reflecting the weight of international trade in the "urozone economy.

Real estate investment and the growth in domestic consumption helped maintain a positive growth rate. Industrial production showed lower than expected growth rates, largely due to a fall in motor vehicle production in the third and fourth quarters, due to the introduction of European gas emission regulations. Inflation in the Eurozone, measured by the consumer price index, remained below the Central Bank's targets, at 1.8%, in line with US inflation.

It was within this framework that the European Central Bank initiated the standardisation of the monetary policy, doing away with net purchases of assets under the asset purchase programme[3], implemented since 2015, but nevertheless maintaining the reinvestment of reimbursed assets. The monthly amount of the reinvestment should be of €20 bn. During the four years of the Asset Purchase Programme, the ECB's balance rose by more than €2,500 bn.

[3] APP – Asset Purchase Programme. The APP includes all asset purchase programmes implemented since 2015 by the ECB as part of its non-conventional monetary policy measures to combat the risks of a prolonged low inflation period.

The unclear results of the legislative elections in Italy and the anti-European positions of the new coalition government created a volatile situation, mostly felt in terms of the credit risk of the Italian public debt. By contrast, most of the Eurozone countries saw the spread of their public debt tighten against the German sovereign debt.

The development of negotiations for the agreement on the withdrawal of the UK from the European Union underpinned 2018, and there is still a lot of uncertainty concerning the political and economic outcome of this process.

At a global level, the low levels of inflation were supported by the drop in the price of energy-producing raw materials. The price of crude saw a downward trend in the year, but with an increase in volatility. The expectation of a global economic slowdown also reflected in the price of industrial and agricultural raw materials. The appreciation of the US dollar also contributed to the fall in prices of raw material.

In fact, the upward trend in US interest rates led to a strengthening of the US currency. A stronger US dollar, a decreasing trend in the price of raw materials and higher interest rates, at a time when world economy began to decelerate, had a negative effect on emerging economies, especially those with balance of payments deficits, where a weakening of the local currency may trigger inflationary spikes. Turkey was a good example of this, compounded by political events, as was also the case in Mexico and Brazil.

China was another source of concern at the end of the year: the slowdown of its growth in the second half of the year sounded an alarm in global countries.

5.2 PORTUGUESE ECONOMY

The growth rate of the Portuguese economy in 2018 was lower than in recent years, but still positive, thus maintaining the recovery trend initiated in 2013.

Indeed, economic activity in Portugal benefitted from a favourable domestic environment, with increased employment and household's disposable income, together with an increase in access to credit.

The latest forecasts saw a GDP increase close to 2.1% in 2018, lower than in 2017 (2.8%) and similar to that projected for the euro area average.

The evolution evidenced in the Portuguese economy is based on the greater performance of exports and investment.

In the labour market, projections point to an increase in employment (+2.3%) and, consequently, a drop in the unemployment rate, reaching about 6.6% at the end of 2018 (*vs.* 7.9% in 2017).

As regards inflation (measured by the HICP – Harmonised Index of Consumer Prices), prices increased in 2018 by 1.2% (compared to 1.6% in 2017), reflecting the evolution of commodity prices (+0.5%), in particular the 4.8% increase in the energy component of industrial commodities and of services (+2.1%), due to the significant increase in the prices of tourism-related services.

Forecasts for 2019 point to the maintenance of the aforementioned trends, with a moderate GDP growth (1.8%), reflecting more buoyant exports and investment (expected growth of 3.7% and 6.6%, respectively), and a stabilisation/drop in private consumption (a 2.0% growth).

5.3 FINANCIAL MARKETS IN 2018

The beginning of 2018 seemed to show that markets were keeping up with the positive global economy perception. However, concerns about the future development of global economy and the uncertainties raised by the trade tensions between the US and China eventually dictated an overall negative year for the risk classes and, for the most part, also negative for the fixed rate instruments. In the share segment, the MSCI AC World index, valued in USD, depreciated by 9.4% in 2018. The main contributor to this development was the negative performance of all major world indices. The US market was under the spotlight, being volatile for 9 months, but still increasing, with tax plan effects and improved corporate earnings helping indices reach successive highs.

However, market correction after October resulted in a negative performance in the year. One of the factors with the strongest weight in the evolution of US indices was the behaviour of share process of companies in the Internet sector and in the new economy, such as Alphabet and Netflix.

INDEX (BASE NET TOTAL RETURN)	2017	2018
MSCI AC World in EUR	8.9%	-4.8%
MSCI AC World in USD	24.0%	-9.4%
S&P 500	21.1%	-4.9%
NIKKEY 225	20.9%	-10.7%
STOXX 600 EUROPE in EUR	10.6%	-10.8%
MSCI Emerging Markets (EUR)	20.6%	-10.3%
MSCI China in USD	54.1%	-18.9%
MSCI Brazil in BRL	26.5%	16.3%
DAX 30	12.5%	-18.3%
CAC 40	11.7%	-8.9%
IBEX 35	10.5%	-12.2%
MIB 30 (Italy)	16.3%	-14.0%
FTSE 100	11.9%	-8.7%
SMI (Switzerland)	8.6%	-5.3%
PSI 20	19.3%	-8.7%

The huge expectations in the growth of earnings of companies like Apple, Facebook, Alphabet (owner of Google) or Netflix, for example, resulted in the increase in the main US share indices until late September. The share gains of this group of companies were largely reversed in the last third of the year, even though the technological sector was one of the best performing sectors in 2018. The performance of the S&P 500 index, on a *net total return* basis, was of -4.8% in 2018. Overall, however, the earnings of US companies in 2018 were quite positive, and many share buyback programmes were strengthened.

European stock markets had a more negative year, with the Pan-European Stoxx Europe 600 generalist index, on a *net total return* basis and in euro, performing at -10.8%. The lack of prominent new economy companies in Europe contributed to this result. One of the worst contributors to the performance of the European markets was German shares, due, on the one hand, to the exposure of German companies to international trade and, on the other hand, to the weight of the motor vehicle sector in the German economy, which, as already mentioned, performed very poorly. The European banking sector also had a negative impact on the indices, not only due to the low profitability of the sector, but also to the exposure of the European banking sector to Turkey.

Finally, the Italian market, in particular the financing sector, suffered with the rising country risk as a result of the legislative elections, which resulted in the rise to power of a coalition of political forces known for their critical position on European integration.

Emerging stock markets also performed negatively, reflecting the increases in interest rates by the US Federal Reserve, impacting on their external debts and the depreciation of their currencies. In contrast, the Brazilian stock market was quite positive, reflecting the optimism following the elections.

As for the debt market, the euro interest rates showed did not vary considerably, while in the US the rates increased, following the interest rate hikes decided by the Federal Reserve. As regards sovereign debt, at longer maturities, due to the duration effect, this was a negative year for US issues, while the Eurozone showed an overall drop in yields and a narrowing of spreads *versus* Germany. Italy was the exception, for the reasons already mentioned. Raw materials, especially crude, also had a particularly negative year: Brent crude fell by 18.7%, with several factors weighing in, in particular the uncertainty over world demand, the lack of a strong deal between the major producing countries, and the greater energy dependence of the US. In terms of currencies, the year was marked by the rise of the US dollar against the major currencies, in an economy characterised by a cycle of gradual increases in the short-term interest rates and controlled inflation.

SOVEREIGN DEBT SPREAD *VS.* GERMANY (BP)	2 YEARS	5 YEARS	10 YEARS	2 YEARS (VAR YTD)	5 YEARS (VAR YTD)	10 YEARS (VAR YTD)
France	15	20	36	-1	15	11
Italy	37	94	158	72	118	92
Spain	26	58	114	12	7	4
Portugal	47	61	149	-22	16	-1
United Kingdom	107	93	77	30	30	27

5.4 OUTLOOK FOR 2019

The main reasons for the slowdown in world growth felt in the second half of 2018 resulted from the slowing of international trade and the drop in industrial production. In early 2019, trade tensions remained high and some large emerging markets face with considerable pressure from the financing markets.

The US government is raising uncertainty for 2019 with the adoption of a protectionist policy, reflected in the imposition of tariffs and quotas on Chinese imports and imports from other trading partners, and with the abandonment of free trade pacts, actual or announced. The outcome of the bilateral negotiations between China and the US is the main variable for world economy in the short term. It is generally believed that they will reach an agreement in the end, as no-one will benefit is trade tensions are prolonged.

In this context, developed economies are expected to continue to grow, although less buoyant than in the early 2018. If there are no unforeseen events, for example, if tensions between China and the US escalate, then all developed economies should not head into recession in 2019.

There may be some positive factors for the emerging economies, in particular a break in the interest rate hike by the US Federal Reserve and a potential weakening of the US dollar. For this to happen, the drop in international trade must not, however, worsen.

One of the marginally positive factors for 2018 is that, with the correction felt in stock markets in the last quarter of the year, in early 2019 companies were cheaper in relative terms than 12 months ago.

As regards debt, the arguments for an underexposure to the class are the same: interest rates are very low – in the short term, in euro, they are negative for issuers with better credit quality –, and the risk of liquidity and duration events is still high.

5.5 REGULATORY FRAMEWORK

New legislation introduced in 2018 impacted significantly on Banco Carregosa's activity in three distinct areas: financial intermediation, prevention of money laundering and terrorist financing, and data protection.

The Second Markets in Financial Instruments Directive – MiFID II –, whose complex regulations were in force since January, was transposed into national law in August, and the internal implementation of amendments initiated in 2017 continued, particularly as regards product governance, best execution, training duties and duties applicable to the registration of interactions. Specifically, the Governance Policy on Financial Products produced and traded by the Bank was approved, the execution reports were published, pursuant to ESMA[4] RTS 28, and relevant collaborators received training, under the CMVM Regulation 3/2018. Additionally, the model for recording interactions with clients within the scope of services encompassing the transmission and execution of orders was implemented. Moreover, changes had to be made regarding the procedure for marketing the products covered by the PRIIPs[5] Regulation.

[4] European Securities and Markets Authority

[5] Packaged retail investment and insurance-based products

Training of collaborators and the review of procedures applicable to the marketing of financial instruments are expected to continue in 2019.

As regards prevention of money laundering and terrorist financing, Banco de Portugal approved Notice 2/2018, which regulates and implements the provisions regarding the preventive duties of Law 83/2017 of 18 August, which transposed Directive 2015/849/EU ("Fourth AML Directive") into national law. In 2019, the focus on money laundering prevention will not be so much on the introduction of new control and prevention duties, but rather on reports that enable sector entities to assess the risk of entities under their supervision, as well as the controls implemented by these entities. In this sense, Banco de Portugal published Instruction 5/2019, which establishes the reporting duties of the entities under its supervision, whilst CMVM submitted the draft instruction that will regulate these matters to Public Consultation 3/2019. Additionally, Ordinance 310/2018 established the information on operations to be transmitted to the Financial Information Unit (*Unidade de Informação Financeira* - UIF) and to the Central Department for Investigation and Penal Action (*Departamento Central de Investigação e Ação Penal* - DCIAP).

Finally, regarding data protection, the General Data Protection Regulation (GDPR) came into force on 25 May through Regulation (EU) 2016/679), which, being directly enforceable in Portuguese legal system, represents a change in paradigm in how the rights of data subjects are exercised and in the approach by institutions to the challenges imposed by the protection of the privacy of the various stakeholders. To that end, the internal personal data protection procedures were reviewed, a set of policies were created to ensure the rights of participation of data subjects, and the lead management system was entirely reviewed.

Recovery plan

The Bank's Recovery Plan is implemented and fulfils two objectives: to address the provisions of Banco de Portugal (BdP) under Notice 3/2015, which establishes that credit institutions must submit a Recovery Plan and, on the other hand, to check if the bank can recover from extreme financial situations, in particular in terms of solvency and liquidity, based on its own mechanisms and without needing external support. It thus fulfils the purpose of anticipating systemic or idiosyncratic contingencies that may occur in a financial institution, and of determining how they should be managed by the institution.

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Overview of the Activity

6.1 PRIVATE BANKING

The primary business area of Banco Carregosa is private banking, based on the concept of *Global Wealth Management*, in which the relationship with and knowledge of the client are essential. The knowledge and expertise of the Bank and its private bankers are put at the service of the client, in an independent, transparent, innovative and customised manner.

The teams in Porto and Lisbon were strengthened in 2018, with an overall 50% increase in the number of private bankers, in order to accommodate the increasing number of clients and maintain the quality of services provided. The diversity of these new members brought more knowledge to the team, making it stronger. In terms of skill enhancement, we also note the training and certification obtained under the MiFID II, and the fact that one of the team members completed level 3 of the CFA.

The overall development of the activity was positive: assets under supervision rose by 13.5%; the loans portfolio grew positively up to August, in line with the budget, contributing significantly to the earnings; the number of clients continued to rise, accompanied by an increase in the average balance of clients' accounts.

Although the monitoring of clients' financial situation focuses primarily on financial assets, it often also covers other aspects, such as real estate and tax affairs. Therefore, the Bank wishes to provide an overall service to support their client's equity and investment decisions. As such, the number of expert advisory services increased, as did the support given to structuring investment and divestment operations, assistance in debt and/or equity capital issuance, and the development of financial solutions suited to the clients' investment needs/opportunities.

The new team will be consolidated in 2019, enabling the expansion of the commercial activity and of the client database, maintaining a strict discipline in terms of advice and customisation of solutions.

6.2 AFFLUENT BANKING

In 2018, the Affluent segment outperformed the objective it had set itself for the first two years of full activity: double the segment's portfolio value as at the end of 2016.

This was possible after a growth of almost 30% in 2018, which is particularly positive given the sharp declines in the market at the end of the year that affected the portfolio value and the investors' perception. Note, in this respect, that the segment recorded a net inflow 13% higher than the one registered in 2017.

Affluent banking has materialised the objectives it had set by attracting clients with high savings and investment potential, cultivating a close relationship with them and providing solutions suited to their needs.

Investment options available to clients include online trading platforms, although Investment Funds and discretionary management strategies adapted to the clients' investment objectives are increasingly important.

Moreover, the Bank still provides various savings options: in addition to the usual term deposits, and promotional term deposits, structured deposits are also available (although fewer in number compared to 2018 due to the entry into force of a new regulatory framework), which aim to achieve a potentially higher return through exposure to the stock market, but guaranteeing the repayment of the invested capital and, typically, a minimum remuneration.

This segment is embodied in the Private and Business Department, assisted in its activity by the Network of Investment Advisors.

In 2018, both commercial teams were strengthened and the Lisbon agency was refurbished in the first quarter of the year. The purpose of this intervention was to adapt the customer service space to the segment's new positioning and to the image already adopted at the Porto agency, which was inaugurated in 2017.

In 2019, the Bank hopes to increase the number of relational managers in Lisbon and hire new staff for the Network of Investment Advisors, with a view to maintaining growth levels in line with those of recent years.

Improve commercial processes and user experience. The Bank's CRM system evolved significantly with tools that enable a better and clearer monitoring of our clients and potential clients (leads). With these changes, we are able to extract information about clients, know them better, direct what we have to offer according to their profile (preferences and best fits), and inform them about Banco Carregosa's solutions. At the same time, we are now able to plan scheduled appointments, remind each manager of any incidents, events or of any other information that the manager may required in order to provide a better service.

The Bank's website has also undergone some changes: new products and improved security mechanisms are now available thanks to an innovative solution – biometric authentication. Delegated Regulation 2018/389 on the technical standards for stronger customer authentication under the implementation of Directive (EU) 2015/2366 of the European Parliament and of the Council, of 25 November, on payment services in the domestic market (Payment Services Directive, revised – PSD2), establishes three requirements for a solution to be considered secure:

- that the client uses something he/she has (computer/smartphone),
- that the client uses information that only he/she knows (access code),
- depends on who the person is.

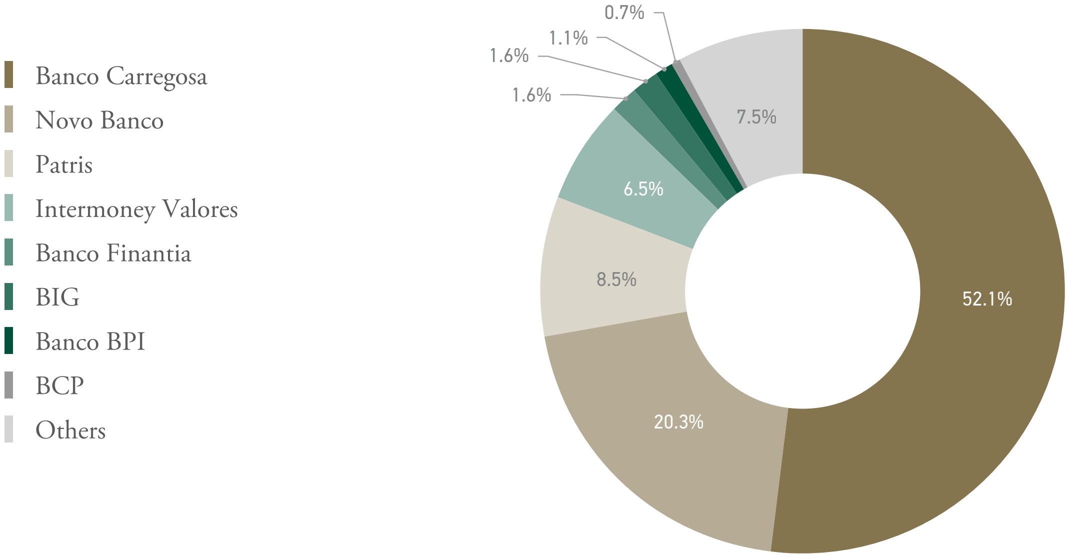
The form of authentication available uses facial recognition using a camera incorporated in smartphones to confirm the user's identity. This is an additional authentication feature that ensures maximum security when using homebanking.

This solution, which was specifically certified to standard ISSO/IEC 30107-3, uses the most powerful technology in "liveness detection", the only one 100% approved in all anti-forgery tests. Moreover, it operates on a "deep learning" basis, and its efficacy improves as it is used, enabling it to detect if the user is being coerced, is nervous, is using a disguise, or has aged or lost weight. This is another example of artificial intelligence applied to the financing sector.

6.3 CORPORATE BUSINESS

The corporate business area primarily operates in intermediation, where it is the market leader in the debt segment (public and private), with a share of more than 50% in the domestic market.

Value of orders received in debt (public and private) by financial intermediary



Source: CMVM

The Corporate Sales Network team was adjusted throughout the year; therefore, results are expected to be felt in 2019, with the growth of the activity and of stock market commissions, along with the maintenance of the leading position in the debt segment.

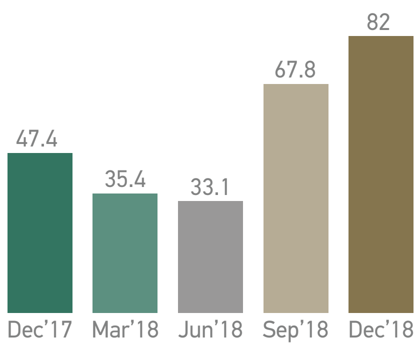
6.4 CASH AND OWN PORTFOLIO

Keeping the short-term interest rates in the negative continued to put pressure on the Bank's cash management. Therefore, using the high surplus liquidity and meeting the risk ratios and limits proved to be particularly challenging.

Although the Bank prioritised loan granting as an alternative to investments in debt securities, in order to feed its relational network with clients, it nevertheless pursued the project to reformulate the management of its own portfolio. The first results of this reformulation were felt in the second half of the year, with an increase in the volume of securities and greater dynamism in its management.

The autonomisation of portfolios, according to a policy of objectives and limits, was just the first step. Based on a global portfolio, others were created: a portfolio for strategic assets, a group of investment and trading portfolios, and several portfolios of different departments that have holdings in financial assets. The treasury portfolio is the closing portfolio that ensures the investment of surplus liquidity and serves as a balancing element in meeting internal and prudential ratios. The Financial Department continued to be in charge of monitoring compliance with the objectives of the various portfolios. The ultimate objective of the process now initiated is the allocation of income and expenses to the various areas responsible for their origination and the optimisation of equity consumption and resources made available to the Bank.

Evolution of the Own Portfolio (€ million)



Source: Banco Carregosa

As regards means of payment, the Bank kept a closer eye on the changing market conditions. We have not yet considered using the new payment mechanisms, in particular instant payments, as they are not stabilised enough and our clients have not yet felt it is necessary.

Internal developments in the own portfolio management policy and pricing model are expected for 2019, thus allowing for a better management of asset allocation.

6.5 MAIN SERVICES

Sourcing and management

2018 was particularly challenging for asset management, both due to the volatile financial markets and to the introduction of new regulation that affected the management and marketing of investment products.

The origination of investment products by Banco Carregosa in 2018 was affected by the regulation on retail financial products (PRIIPs) and by the lack of definition regarding the final version of the transposition to the national law of the European regulation on the governance policy concerning the production and marketing of financial products (MiFID II), which was finally transposed in August 2018. For the first time since the Bank began to market structured notes in 2014, no offer was made in 2018. Similarly, only two structured deposits were launched during the year.

The new regulatory framework also required a number of technological adaptations, in particular to respond to the strengthening of information duties.

The Bank's management strategies had a negative performance in 2018. The Active Value share strategy – which is driven by a fundamental and value-based logic – was the most penalised, due to the strong comparative appreciations of companies with greater weight in market indices, to the detriment of companies with smaller capitalisation and more dependent on the value factor. In fact, relative appreciations of value and growth companies again differed throughout the year.

To offer and alternative to clients who seek exposure to stock markets without departing too much from the behaviour of reference indices, in 2018 a new strategy was launched – designated Carregosa Grandes Capitalizações –, for managing a share portfolio aligned with the MSCI World 100% Hedged to EUR Net Total Return Index, but with the possibility of seeking potential additional gains against the index through long dynamic positions.

A new strategy was also launched exclusively for investment in bonds and in debt products, intended for investors with substantial portfolios. The Sourcing and Management Department continued to provide portfolio management solutions based on an asset allocation approach and to help in the preparation of investment proposals.

A new Investment Director took up office in January 2019 and the team was strengthened, and is now concentrated in Porto.

The activity plan for 2019 includes the launch of new investment advisory services and the provision of new investment products in the Affluent segment. To ensure the success of these initiatives, the Sourcing and Management Department will rely on a strengthened and experienced team.

Loans

Having recognised the relevance of this activity, the Bank formed the Loan Department in 2018, which had been incubating within the Financial Department. This contributed to raising the profile of the service and enabled its manager to act more decisively. There were several regulatory developments focused on a new model for calculating impairments, promoted by the Risk Department, in line with the entry into force of IFRS9 early in the year. Also in terms of loans, a new project was started to improve and perfect the pricing of transactions.

To support the lending activity and following the start of the new reporting system to the Central Credit Register (*Central de Responsabilidades de Crédito* – CRC), as part of the implementation of the EU project designated AnaCredit, Banco Carregosa reformed the entire information system that supported this activity. This impacted on the characterisation of lending operations (contractual, accounting, risk and credit events), on the registration and management of associated securities, and on the implementation of the structure of reports to be submitted under the CRC. Note also the scope and exigency of this project, which involved a significant number of resources.

E-trading and markets

2018 marked the implementation of the MiFID II, which impacted significantly on the brokerage activity of the financing system. The implementation thereof had a strong technological impact on trading services, given the renewed obligations of pre and post trade transparency and the changes introduced in the information flows in the various trading venues.

The "reception and transmission of orders" service, executed through traditional means and e-trading platforms, maintained the segmentation by clients between the Porto and Lisbon teams, the first one serving the Corporate Business, Private Banking and Treasury and Own Portfolio, and the second one the Affluent Banking clients. As regards e-trading platforms for accessing the market, Banco Carregosa uses the GoBulling Pro and GoBulling Pro Go applications. The proprietary GoBulling Next platform, used in-house, is already available at some clients. Regarding the growth of traded volumes in the spot market reported by the financial intermediaries in Portugal, it continued to decline in practically all asset classes.

SPOT MARKET	2018	2017	2016	2015
No. of orders by security (thousands)	1 327.1	1 731.8	1 473.3	1 925.4
Shares	1 051.3	1 317.8	1 194.1	1 578.5
Public debt	76.3	69.1	21.9	20.7
Private debt	38.0	63.1	71.8	103.8
Warrants	58.5	55.3	76.7	97.3
Other securities	103.0	226.6	108.9	125.2
Value of orders by security (billion euro)	77.5	105.1	84.8	130.5
Shares	16.3	20.5	18.6	29.4
Public debt	41.4	48.0	40.6	47.3
Private debt	12.9	28.2	17.5	26.8
Warrants	0.3	0.3	0.3	0.4
Other securities	6.5	8.1	7.9	26.6

Similarly, the futures market dropped in 2018, with ESMA intervening by restricting the offer of certain derivatives (*e.g.*, CFDs and Binary Options) to "non-professional" investors, which contributed to reducing the number of transactions.

FORWARD MARKET	2018	2017	2016	2015
No. of contracts (thousands)	29 707 624	36 942 008	41 015 325	58 198 069
Futures	649	721	645	546
CFDs	29 574 116	36 642 422	40 680 329	57 441 841
Other derivatives	110 655	264 919	305 215	726 944
Others	22 204	33 945	29 136	28 737
Value (billion euro)	91	91	116	142
Futures	35	37	58	64
CFDs	54	51	54	74
Other derivatives	2	3	4	5
Others	0	0	0	0

The drop in transaction volumes, in particular in the spot market, necessarily had an impact on the revenue generated by the trading services, which was partly mitigated by gains in market share in the trading of shares, bonds and OTC derivatives.

	MARKET SHARE (IN VALUE)			
FINANCIAL PRODUCT	2018	2017	2016	2015
Shares:				
Offline and Online	5.60%	5.20%	3.90%	2.90%
Online	6.40%	7.00%	5.20%	5.70%
CFDs				
Bonds	52.10%	46.00%	25.10%	0.40%
Spot market Orders received online	8.20%	6.90%	8.50%	9.00%
Futures	1.30%	2.70%	2.30%	3.40%
Options	n/d	2.30%	1.10%	0.40%

Source: Banco Carregosa, CMVM

Clearing, settlement and custody

Currently, Banco Carregosa operates as custodian and clearing member in 28 distinct markets. In 2018, the Bank agreed new custody contracts and ended the year with clients' assets under custody amounting to €692 M, which represents an increase of 44% compared to 2017. Banco Carregosa began to work in 2013 as a clearing member of the Iberian Electricity Derivatives Market. The electricity market in 2018 was characterised by a sharp hike in prices, with the annual contract of reference reaching a historical high of €64/MWh, as shown in the graph below.

Annual Contract Price 2019 (€/MWh)

Source: Banco Carregosa, CMVM

Although market agents expect a drop in futures prices, the increase recorded in the current year casts doubts on the electricity price development in 2019.

These doubts are underpinned by the evolution in the price of gas and coal (several coal-fired power plants are expected to close in the coming years), the evolution of the cost of CO2 allowances (the price of which increased 2.7 times in 2018 *vs.* 2017, albeit from a very low base), the increasing productive capacity of renewable sources, and the political decisions with an impact on the sector.

In the context of political decisions, we highlight the question of the potential extension of the suspension until March 2019 of the 7% tax charged to electricity producers by the Spanish government (contributing to a deceleration in prices in the last quarter of 2018). This decision will be closely monitored by the Portuguese government, as it implies the revision of harmonisation mechanisms and prices.

As a consequence of the expansion of OMIClear's clearing services of natural gas futures contracts, traded in MIBGAS Derivatives, the Bank became a clearing member for the Iberian natural gas market.

As regards developments in the OMIP market, 6 new trading members were admitted, in part as a result of the expansion of the natural gas offer.

The profile of clients and trading members served remained the same, predominantly Iberian agents.

We note that the volumes traded by the Bank increased, on average, by about 40% compared to the previous year, largely due to the admission of new members.

As a consequence of the already mentioned expansion to the natural gas segment, we project the admission of new members for next year, and some diversity given the profile of our current clients.

The Bank continued its admission process as trading and clearing member of the Pan-European EEX/ECC energy market.

Depositary of investment funds

At the end of 2018, Banco Carregosa Banco Carregosa provided depositary services to 10 real estate investment funds and 12 venture capital funds.

The total net value of these funds amounted to €359 M on 31 December 2018, of which €245 M relate to real estate investment funds and €114 M to venture capital funds.

Compared to 2017, these figures represent a growth of more than 40%, a trend that should be maintained in the coming year.

Precious metals

At the end of 2018, the Bank began to market precious metals, offering an extensive variety of high-purity (999.9), LBMA certified gold bullion bars. The service covers a broad range of functionalities and innovative offers that fit the characteristics of its private banking and affluent clients.

6.6. HUMAN RESOURCES

The main objectives of Banco Carregosa's human resource management is to attract, develop and retain the best talent in the organisation, by creating the right environment where employees feel motivated to explore all their potential, with a positive and constructive attitude, making them want to grow with the organisation.

In 2018, the number of staff increased again, especially that of the commercial teams.

Staffing development

	DEC. 2018	DEC. 2017
Porto	76	70
Lisbon	20	18
Total	96	88

Source: Banco Carregosa

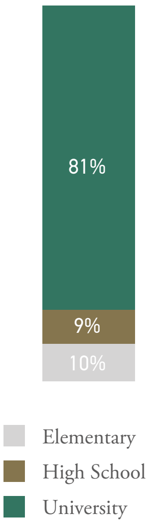
Like the strategy adopted in recent years, the Bank has invested in the training of its staff and the development of key competences for the sector. To that end, it has continued to pursue the CFA certification (Chartered Financial Analyst®) for some of its staff. In 2018, two members received the level 3 certification under the programme promoted by the Bank. It also encouraged Master's and Post-Graduate training, some of them objectively supported by the Bank, and some abroad.

The *Anti-Money Laundering & Combating the Financing of Terrorism* (AML/CFT) and MiFID II certification have been at the centre of the Bank's concerns regarding staff training.

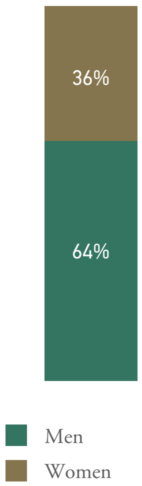
Considering the wealth of knowledge at the organisation, the Bank organised the Workshops Carregosa in the format of *brown bag lunch*. These are awareness-raising and informative sessions held during lunch hour to make staff aware of important issues concerning the organisation and the sector, promoting informal debates and the exchange of ideas. Some of the topics addressed include the presentation of new policies, procedures and products. These workshops are part of the strategy to strengthen internal communication, which also involves the publication of a monthly newsletter with various topics about the Bank's activity, so that all staff are properly informed about the most relevant initiatives and information essential to the life of the organisation.

As regards the staff's qualifications, university education still prevails.

Distribution by Qualifications



Distribution by Gender

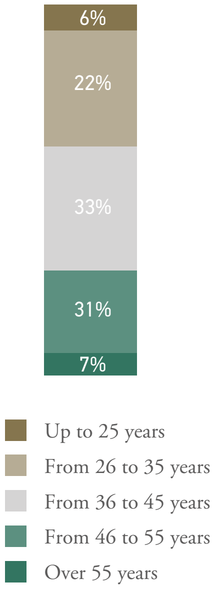


Source: Banco Carregosa

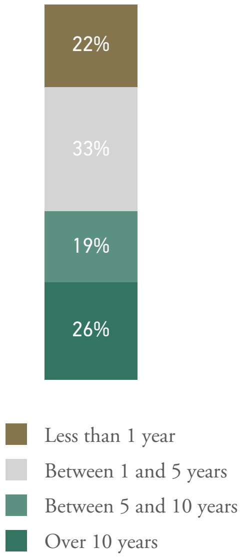
The distribution of employees by gender has remained stable, with one female for every two male employees.

At the end of 2018, the average age of the team members was 42 years, with an average seniority at the institution of 7 years. If we were to consider seniority in banking, this figure would have been higher, as a large part of the team has experience in other institutions of reference in the sector.

Distribution by Age Bracket



Distribution by Seniority



Source: Banco Carregosa

6.7 COMMUNICATION AND MARKETING POLICY

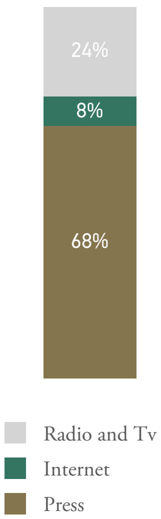
Banco Carregosa stands out in the Portuguese financial sector, as it is not a typical bank for wide market segments, offering a large number of products and services, or an investment bank exclusively for companies.

The Bank targets private clients whose priorities are to invest their savings and their profitability, by investing in financial markets. Although the Bank offers its services to companies, its primary focus is on private high net-worth clients or clients with prospects of increasing their savings potential or of investing in the future. Banco Carregosa has managed to present a differentiating value proposal that has enabled it to reach high levels of satisfaction and recognition among its clients.

Banco Carregosa's communication policy aims to publicise its business model, position in the market, and its product and financial service offers to these target segments, thus also contributing to a greater financial literacy of the general public. To this end, the Bank uses the main communication instruments with the media (*non-paid media*), direct communication (*owned media*) and marketing (*paid media*).

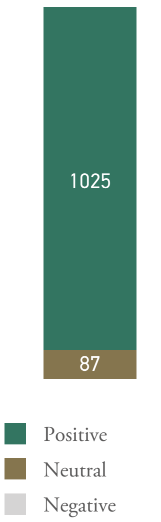
With regard to communication with the media in 2018, Banco Carregosa was cited in more than 1,000 news articles published in about 90 media agencies.

Distribution of news by type of media



Source: Manchete, Media Report 2018

Qualitative analysis of news about Banco Carregosa



Source: Manchete, Media Report 2018

Distribution of news on Banco Carregosa by type of media

The online media were responsible for the largest Advertising Value Equivalent, or AVE, with a weight of 90%. The generalist media were the preferred channels, with 70% of the total news. As regards AVE, the generalist media stood out, contributing with 90% to the total value.

The number of "positive" or "neutral" news represented almost all the news analysed.

In 2018, the Bank reached a total of 1.8 million people and the news with references to Banco Carregosa was responsible for a total of €15.5 M in AVE.

Although the number of news items dropped compared to 2017 (1,112 in 2018 compared to 1,210 in the previous year), the space taken up by the news was much greater, resulting in a substantially higher AVE than that of the same period in 2017 (more than €15.5 M compared to €6.5 M in 2017)[6].

In addition to posting information in the social media, Banco Carregosa also communicates directly with its clients and other stakeholders, i.e., others who have or may have any relations with the Bank. One of the most used instruments was the periodical or one-off newsletters sent to its clients, about products, services or events with impact on the market.

Banco Carregosa maintains a strong presence in the social media, in particular LinkedIn and Facebook, posting informative contents in texts, audio and videos almost everyday on the Banco Carregosa and GoBulling brand pages in these social networks.

Designed especially for clients but open to others with an interest in financial markets, several seminars were held in Porto and Lisbon during 2018 along with over twenty webinars covering different relevant practical topics for investors. The topics chosen often had pedagogical goals, contributing towards improving the financial literacy of attendees.

Direct communication included hosting, co-hosting and supporting several economics, financial and business events and sponsoring conferences. For instance, "Outlooks Banco Carregosa" where the major political and economic outlooks and projections for global financial markets are presented; the "*Conversas Carregosa*" [Carregosa Talks] cycle to discuss national and international trends; the APGEI conference on "The internationalisation of companies: political and geopolitical constraints"; JPAB conferences "The capitalization of companies" and "Foundations as instruments for asset management"; and "Road Show Portugal Invest 2018".

Events and sponsorships in academia and social welfare are also of note, such as the 2nd edition of the "*As Jornadas de Ideias Políticas*" [Policy Ideas Seminar], a conference led by Professor Manuel Monteiro, from the Lusíada University of Porto, the theme of which was "Brainstorming Policy is still crucial to designing the best City Government", and support given to a series of international conferences under the banner "*O que de verdade importa*" [What really matters], which hosted an event in Porto.

The budget for marketing increased in 2018 to match the expansion of the Bank's activity to the new Affluent Banking market segment. Creating this new business area involved an investment in the brand's identity, positioning and reputation, in media, advertising, events and promotional activities and materials.

[6] All data cited are collected, checked and provided by an external, independent company from Banco Carregosa

Unlike the Banco Carregosa brand, private banking segment, which does not base its reputation on publicity campaigns, the Banco Carregosa brand, Affluent clients segment and GoBulling – the Bank's brand for the online trading platforms – maintains a strong presence in the digital media, through publicity campaigns, products and services. The Bank also invests in sponsorships, relational activities and events that project the brands to its target audience. This is the case of the already famous "Stock Exchange Game", which the Bank has organised together with Jornal de Negócios and ISCTE-IUL continuously for 16 years.

Given the role of these initiatives in learning how financial markets operate, in 2018 the Bank renewed its partnership with Católica Porto Business School to create another "stock exchange game", in this case for university students. In this game nd through the virtual Investment Club, these students can come into contact with the trading and management of an investment portfolio on the GoBulling platforms.

Banco Carregosa also supported the following academic activities in 2018:

- The 2nd edition of "The Economy and the Future", an academic essay contest jointly organised by the Portuguese Association of Economists, the Faculty of Economics of the University of Porto, and Banco Carregosa;
- The annual Business Trip Visit of ITIC (ISCTE Trading & Investment Club) to the trading room of Banco Carregosa in Lisbon;
- The participation in the EEG Business Day of the School of Economics and Management (EEG) of the University of Minho, to bring students into contact with companies; and
- Support to the FEP's "Master's in Economics and Environmental Management Seminars" with an exhibition on "the behaviour of commodity prices, particularly energy commodities, on international markets".

2018 was also an important year for internal communication at Banco Carregosa. A number of new initiatives were implemented to promote cross-cutting and efficient communication within the organisation, encouraging alignment and the engagement of the Bank's in-house stakeholders and also boosting Banco Carregosa's organisational culture.

6.8 SOCIAL RESPONSIBILITY

Banco Carregosa's social responsibility is split across four main areas – arts, health, education and sports –, the spreading of initiatives and support across the country being also a matter of fundamental concern.

As regards cultural patronage, in 2018 the Bank supported various forms of arts through the following initiatives:

- In music, Banco Carregosa was once again part of Christmas Concert "Big Silent Night Music", held at the Calouste Gulbenkian Foundation's Grande Auditório, supported the Porto "In Spiritum" music festival, the "Gala de Opera" concert held by the Youth Symphony Orchestra and the "Classic Weekend Marina de Albufeira", an open-air promenade concert held on the steps of the Our Lady of Prayer Chapel, which included a classical programme interpreted by the Ensemble Algarve Camerata.
- In painting, the Bank channelled funds to the National Museum of Ancient Art for the acquisition of a multimedia multi-touch application associated with the "Panels of Saint Vincent". Entitled "Atravessar os Painéis", the app was designed to provide *in loco* interpretation of the work of art. This digital solution allows visitors to, at any time, compare information displayed on the screen with the panels on display in the museum.
- To promote cultural heritage, the Bank was patron of the *"A Decoração Floral nos Tapetes Mughal"* [The Floral Decoration of Mughal Carpets] exhibition, a set of extraordinary specimens from the Calouste Gulbenkian Museum Founder's collection that were an important part of the new floral style that developed in Mughal, India, and abundantly incorporated in architectural design and decorative arts during the reign of Emperor Shah Jahan (r. 1628-1658).
- Also of note, with regard to the dissemination of art, is the pursuit of the protocol signed with Santa Casa da Misericórdia do Porto (SCMP) which aims primarily at displaying works of art from the SCMP collection in the Bank's facilities. In 2018, the "Visita d'Autor Banco Carregosa" was particularly of note, which highlighted the 19th century bourgeois elite from the city of Porto, namely Joaquim Pinto da Fonseca and his daughter Capitolina Baldaque Pinto da Fonseca.

In health-related areas, the Bank renewed its support to the "Banco Carregosa / Secção Regional do Norte da Ordem dos Médicos" award, which aims at distinguishing the best clinical research projects in Portugal. The Bank also renewed support provided in previous years, such as sponsorship of the Congress of the University of Porto's Faculty of Medicine, the "13th YES Meetings", several donations to non-profit organisation "Mama Help", which helps patients suffering from breast cancer and their families, and aid to the AMI Foundation for humanitarian aid projects. The Bank also sponsored the "1st SKY Meeting - Surgical Knowledge for the Youth" and "Med Win 4.0 - a Window into Medical Careers", both led by the Students Association of the University of Porto's Faculty of Medicine. Banco Carregosa also sponsored the "International Day of People with Disabilities" Congress, organised by the Pedro Hispano Hospital, Local Healthcare Unit of Matosinhos.

In Education, the Bank allocated funds to the Youth Symphony Orchestra for a Scholarship for the training and professionalisation of musicians with high artistic potential from the Youth Symphony Orchestra. The Bank also offered financial support to the Lusíada University of Porto to award a student who achieved the highest grade in one of the University's graduate courses. Finally, Banco Carregosa has joined "Expedition EPIS 2018: European Year of Cultural Heritage", helping to ensure that 50 EPIS students could visit some of Portugal's most iconic monuments to help foster interest in cultural heritage and encourage them to discover the wealth of Portugal's history.

The Bank sponsored a number of sports initiatives, covering different audiences and age groups.

7

Accounting Policies

BASIS OF PRESENTATION

Banco L. J. Carregosa, S.A. is a private capital Bank with head-office in Portugal operating under the appropriate permits issued by the Portuguese authorities since November 2008.

COMPARABILITY OF INFORMATION

As of 1 January 2016, following the publication of Notice 5/2015, of 30 December, of Banco de Portugal (BdP), the separate financial statements of the Bank were processed in conformity with the International Financial Reporting Standards (IAS/IFRS) adopted in the European Union, which were already used in the preparation and presentation of its consolidated financial statements since 2005.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Compliance Statement on the financial reporting

The members of the Board of Directors of Banco Carregosa hereby declare that:

- To the best of their knowledge, the financial statements referred to before give a true and fair view of the assets and liabilities, financial situation and results of Banco Carregosa, in accordance with the said standards, and have been approved at the Board of Directors meeting held on **7 May 2019**.

- The management report faithfully describes the evolution of businesses, performance and financial position of Banco Carregosa and the Group in the 2018 financial year.


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INFORMATION IN ACCORDANCE WITH ARTICLE 66 OF THE COMPANIES CODE

The company and its related entities have no outstanding debts to the State.

The Bank did not acquire, dispose of, or hold any own shares.

As at December 2018, one loan agreement and one guarantee agreement were entered into with Director Dr. António Marante and/or entities related to him, for a debt amount of €1 600 000 under the first agreement and liabilities in the amount of €75 000 under the second agreement. The granting of these loans/liabilities were first authorised by the Board of Directors, the aforementioned Director having no part in the voting, and all complemented with the favourable opinions of the Supervisory Committee, in compliance with Article 397 of the Companies Code and Article 85(5)(8) of the RGICSF.

Under Chapter VI, Article 66(1)(b) of the C.S.C. (Companies Code), the annex to the consolidated and separate accounts under "General Administrative Costs" contains the fees for the financial year charged by the Statutory Auditor, in connection with the statutory audit of annual accounts, the total fees charged for other assurance and reliability services, the total fees charged for tax advisory services, and the total fees charged for other non-audit services.

The mandatory incorporation of the international accounting standards is fulfilled.


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Remuneration Policy of Management Bodies, Supervisory Bodies and Employees

Pursuant to Article 18 of Banco de Portugal Notice no. 10/2011, of 29/12 and of Article 115-I of the RGICSF, the remuneration policy has been prepared in accordance with the principles and rules set out in said Notice and also in accordance with Articles 115-C to 115-F of the RGICSF.

This policy, as will be explained in more detail below, is appropriate and proportional to the size and organisation of the institution, avoiding excessive risk exposure, and is based on the values of justice and equity, accountability and transparency, determining the effective performance of Banco Carregosa's employees.

10.1 REMUNERATION POLICY OF THE MEMBERS OF THE ADMINISTRATIVE AND SUPERVISORY BODIES OF BANCO L. J. CARREGOSA, S.A.

The remunerations of the governing bodies of Banco Carregosa are decided by a Remuneration Committee elected by the General Shareholders' Meeting, pursuant to the Company's articles of association.

By decision of the General Meeting of 30 May 2017, a new advisory body was created – the Remuneration and Assessment Committee (CRAV) – as a result of the merger of the remuneration committee and the assessment committee. The committee's regulation, which lays down its functional bases, pursuant to the law in force and the Remuneration Policy of the Members of the Administrative and Supervisory Bodies and of the Statutory Auditor, is available on the Bank's website. In 2018, the CRAV members did not receive any remuneration for the performance of their duties.

Mandated for the three-year period 2017/2019, this Committee is composed of Dr. Luis Neiva Santos, the chairman, and by Dr.ª Maria Cândida Rocha e Silva. Prof. Dr. Álvaro Nascimento left office on 31 August 2018, and a third independent member will be elected at the next General Meeting to be held in May 2019.

In 2018, the CRAV met three times: in May, August and November.

The Committee decided that there would be no variable remuneration dependent or not on the individual or collective performance. It also decided that the conditions for social welfare and retirement pensions of the executive directors would not be different from those of the remaining employees of the Bank.

For the 2018, financial year, the monthly fixed remunerations for the members of the management bodies were determined as follows:

MEMBERS	2018
Chairman of the Board of Directors	4 000.00 €
Chairman of the Executive Committee	6 000.00 €
Voting members of the Executive Committee	5 800.00 €

Fixed remunerations are payable on a 14-month/year basis.

The members of the Executive Committee of Banco Carregosa only hold positions of responsibility in other companies on behalf of or in the interest of Banco Carregosa, and the remunerations earned are to be considered in the overall individual remuneration, decided by the CRAV.

The remaining members of the Board of Directors of Banco L. J. Carregosa, S.A. not mentioned in the preceding table (non-executive directors), receive an attendance fee of €1,000.

If the members of the Board of Directors are dismissed from office, according to the policy of Banco Carregosa they will receive compensation as provided by law. The members of the Board of Directors will not receive any additional payment, the same criteria applying to the remaining employees.

The Chairman of the Supervisory Committee and its voting members receive an attendance fee of €1,560 and €1,060, respectively, paid 12 times a year.

10.2 REMUNERATION OF OTHER BANCO L. J. CARREGOSA, S.A. EMPLOYEES

The process for determining the remuneration is guided by the values of justice and equity, responsibility and balance between duties and employees.

The majority of the remaining Bank employees only receive a fixed salary, the Bank having sought to take into account the level of responsibility, specificity of functions and contributions of each employee. Employees with commercial functions in the e-Trading and Private and Business departments, in line with the practice in this business segments, earned, up to July 2018, in addition to a fixed salary, a variable supplement, objective and proportional to the income generated by the clients they monitor. As of August, this variable remuneration was no longer determined according to the income generated by Clients.
The size of the Bank and the constant scrutiny carried out by managers exist to prevent the conflicts of interest that may be raised by variable remunerations.

Where necessary, the persons within the units responsible for monitoring functions, for human resources, or external experts are consulted so as to enable them to form an independent opinion on the adequacy of the remuneration, and on its effects on risk management, capital and liquidity of the Bank.

The remuneration of employees referred to in Article 1(2) of Notice No. 10/2011 of Banco de Portugal does not include a variable component. Pursuant to Article 17(1)(e) of said Notice, we would also like to inform that 21 new employees were hired in 2018. The table below shows the remaining requirements related to said article.

AREAS OF ACTIVITY	TOTAL REMUNERATIONS	
	Fixas	Variáveis (*)
Management and Supervisory Bodies		
Board of Directors	78 066.27 €	0.00 €
Executive Committee	254 738.37 €	0.00 €
Supervisory Committee	39 480.00 €	0.00 €
Advisory		
Advisory	87 879.37 €	0.00 €
Central Management		
Central Management	84 523.45 €	0.00 €
Communication		
Communication	54 659.88 €	0.00 €
Business Areas and Services		
Private Banking	348 315.02 €	13 000.00 €
Private and Business Department	219 453.93 €	31 856.33 €
Investment Advisory Network	41 375.74 €	0.00 €
Institutional Sales Network	101 195.66 €	0.00 €
Financing	127 755.94 €	0.00 €
Sourcing and Management	274 071.69 €	0.00 €
e-Trading	139 056.84 €	12 050.68 €
Markets	153 416.41 €	487.41 €
Operations	211 412.65 €	250.00 €
Support Areas to Business and Services		
Internal Audit	45 240.75 €	0.00 €
Compliance	90 156.49 €	0.00 €
Risk	81 436.58 €	0.00 €
Business Development and Systems	91 830.46 €	0.00 €
Marketing	79 529.71 €	0.00 €
Legal	94 507.78 €	0.00 €
Information Technologies	102 661.05 €	0.00 €
Accounting and Management Information	139 195.80 €	0.00 €
Human Resources	25 467.87 €	0.00 €
Secretariat	84 322.39 €	0.00 €
Facilities and Maintenance	111 385.87 €	0.00 €
Overall Total	3 161 135.97 €	57 644.42 €

*Remunerations exclusively in cash.

EMPLOYEES WITH FIXED AND VARIABLE REMUNERATIONS IN 2018	
No. of employees with exclusively fixed remunerations	112
No. of employees with fixed and variable remunerations	14

Note: Includes annual staff deployments

EMPLOYEES WHO CEASED THEIR FUNCTIONS IN 2018	
No. of employees	12
Consideration for non-renewal of contract	1 200.00 €
Overall cash consideration	71 850.00 €
Paid to one single employee:	49 500.00 €

11

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ACCUMULATION OF OFFICES HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS

DECEMBER 2018

DIRECTOR	COMPANY	OFFICE
MARIA CÂNDIDA CADECO ROCHA E SILVA	IMOCARREGOSA, S.A.	Chairwoman of the Board of Directors
	GORDIO, S.A.	Chairwoman of the Board of Directors
	PARADIGMAXIS Arquitetura e Engenharia de Software S.A.	Director
JORGE MANUEL DA CONCEIÇÃO FREITAS GONÇALVES	IMOCARREGOSA, S.A.	Director
	GORDIO, S.A.	Director
	PARADIGMAXIS Arquitetura e Engenharia de Software S.A.	Director
ANTÓNIO JOSÉ PAIXÃO PINTO MARANTE	CHAMINÉ BRANCA Sociedade Compra e Venda Propriedades, Lda.	Manager
	AUSCHILL & AUSCHILL, S.A.	Director
	ORCHARDLEIGH & BLUE Soc. Investimentos Imobiliários, Lda.	Manager
	MARCEL & MARIA Administração de Imóveis S.A.	Manager
	IATESOL Serviços Náuticos e Atividades Turísticas, Lda.	Manager
	GABILOURES Investimentos Imobiliários, S.A.	Director
	PATUR Construções e Hotelaria do Pátio, Lda.	Manager
	PORTO ANTIGO Sociedade Turística, Lda.	Manager
	CONSNOBA Construção e Compra e Venda Imóveis, S.A.	Director
PAULO ARMANDO MORAIS MENDES	FUNDAÇÃO DR. ERNESTO MORAIS	Chairman of the Supervisory Board

12

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PROPOSED DISTRIBUTION OF PROFITS

Under Article 66(5)(f), and for the purpose of Article 376(1)(b) both of the Companies Code, and under Article 97 of the RGICSF and Article 25 of the Company's articles of association, it is hereby proposed that the net profit for the year in the amount of €1 146 740.22 (positive) be transferred to:

LEGAL RESERVE: 114 674.03€

RETAINED EARNINGS: 1 032 066.19€

13

ACKNOWLEDGEMENTS

The Board of Directors would like to thank the Shareholders for the trust they placed in it to conduct the company's business, and wishes to extend its thanks to:

The governing bodies, presiding general board members, supervisory committee and statutory audit firm, for the cooperation shown;

The Bank's employees, for their committed, dedicated and competent contribution, indispensable to the smooth running of the Bank.

14

Review of the Financial statements

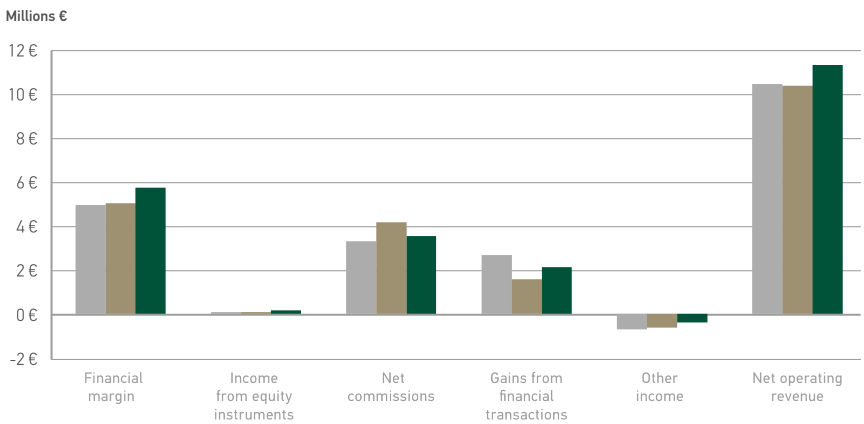
14.1 SEPARATE ACCOUNTS

The Bank ended the year with a net positive result of **€1 146 740**, compared to the **€800 654** drecorded in the previous year.

These results reflect a number of year-on-year changes which, given their relevance, are shown in detail below:

Net Operating Revenue amounted to €11.3 M, more than in 2017 in about 8.9%. The breakdown shows a positive variation in the financial margin of about €682 k (13.5%), a positive growth of €605 k (38.6%) in gains from financial transactions, and a decrease in net fees of €685 k (-16.3%), these being the most significant variations.

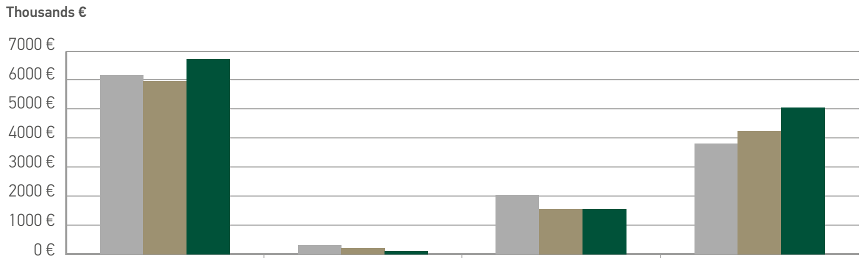
	2018	2017	2016
Financial margin	5 749 662 €	5 067 579 €	4 981 821 €
Income from equity instruments	225 749 €	126 981 €	95 200 €
Net fees/commissions	3 516 421 €	4 202 294 €	3 290 785 €
Gains from financial transactions	2 175 314 €	1 569 412 €	2 670 021 €
Other net operating income - exchange	(16 917 €)	(223 167 €)	(38 697 €)
Other net operating income	(398 545 €)	(407 548 €)	(595 894 €)
Net operating revenue	11 251 684 €	10 335 551 €	10 403 234 €



The increase in the **financial margin** was largely due to the increase in interest on clients' loan portfolio, that of the own portfolio being similar to the previous year, despite the significant increase in the amount invested in own portfolio at the end of 2018.

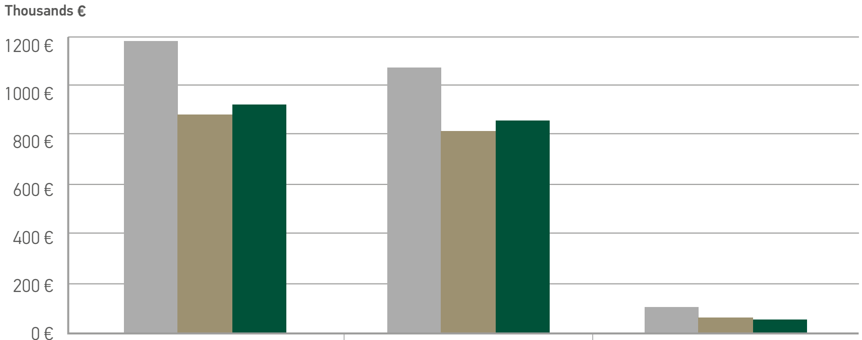
FINANCIAL MARGIN	2018	2017	2016
Interest and similar income	6 680 390 €	5 960 350 €	6 175 624 €
Interest on deposits	75 696 €	185 616 €	329 108 €
Interest on own bond portfolio	1 548 922 €	1 536 055 €	2 024 366 €
Interest on loan contracts+ Overdue	5 055 773 €	4 238 679 €	3 822 150 €
Interest and similar costs	(930 728€)	(892 771€)	(1 193 803€)
Interest on deposits	(870 218€)	(822 671€)	(1 086 241€)
Other interest	(60 511€)	(70 100€)	(107 562€)

In 2018, **interest and similar income** rrecorded an increase of €720 k (+12.1%), loan contract interest having increased €817 k or 19.3% due to the consistent growth of the portfolio until the last quarter of 2018. It subsequently dropped, either due to early amortisations or to end-of-period settlements, reaching a slightly higher figure at the end of the year than in 2017. Interest on deposits dropped €110 k (59.2%) and interest on own bond portfolio increased slightly by 1% compared to the previous year.



	Interest and similar income	Interest on deposits	Interest on own bond portfolio	Interest on loan contracts + overdue
2016	6 175 624 €	329 108 €	2 024 366 €	3 822 150 €
2017	5 960 350 €	185 616 €	1 536 055 €	4 238 679 €
2018	6 680 390 €	75 696 €	1 548 922 €	5 055 773 €

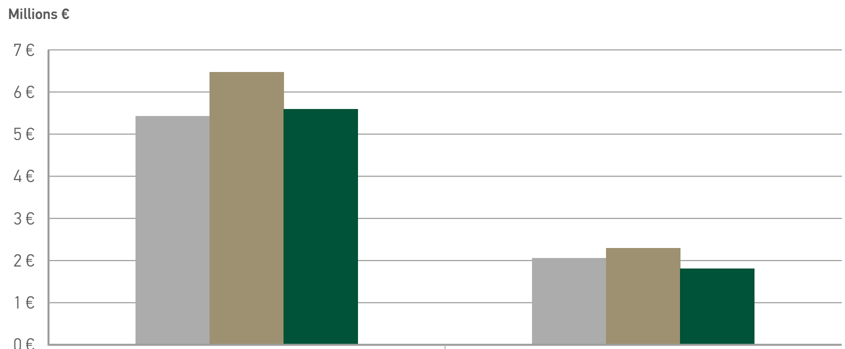
In turn, **interest and similar costs** increased by 4.3%, mainly reflecting higher charges on deposits as a result of the growth in client deposits.



	Interests and similar costs	Interest on deposits	Other interest
2016	1 193 803 €	1 086 241 €	107 562 €
2017	892 771 €	822 671 €	70 100 €
2018	930 728 €	870 218 €	60 511 €

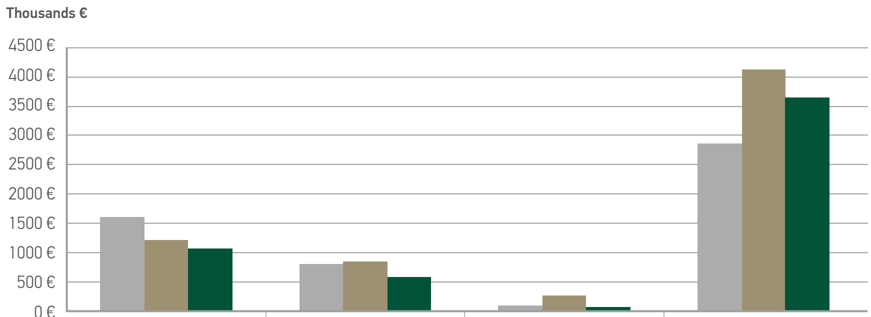
Income from equity instruments arises from the distribution of dividends of the investment fund Retail Properties, which grew positively at 7.78%.

Revenue and charges – service fees/commission present, in both cases, a negative year-on-year variation of 16.9% (-€1.1 M) and 17.9% (- €407 k), respectively. In terms of revenue, a 29.48% drop in share trading, 77.9% in OTC trading, and 27.4% in other commissions, in particular for placement and consultancy, which together justify the variation shown. Fees/commissions paid account for the drop in execution/settlement commissions in 29.7%, custody in 32.3%, and other banking services in 19.6%.



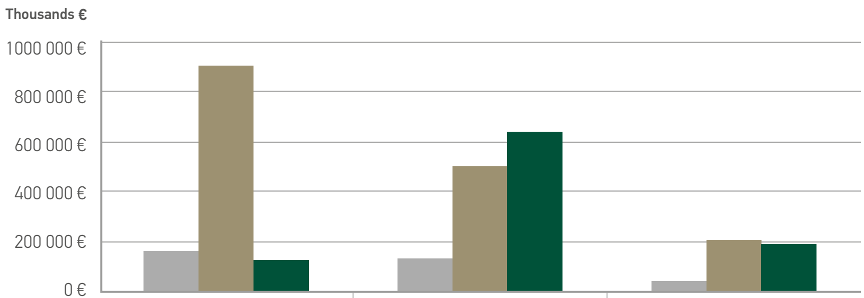
	Income from commissions	Commission charges
2016	5 361 619 €	2 070 834 €
2017	6 477 651 €	2 275 357 €
2018	5 384 657 €	1 868 237 €

Income from commissions



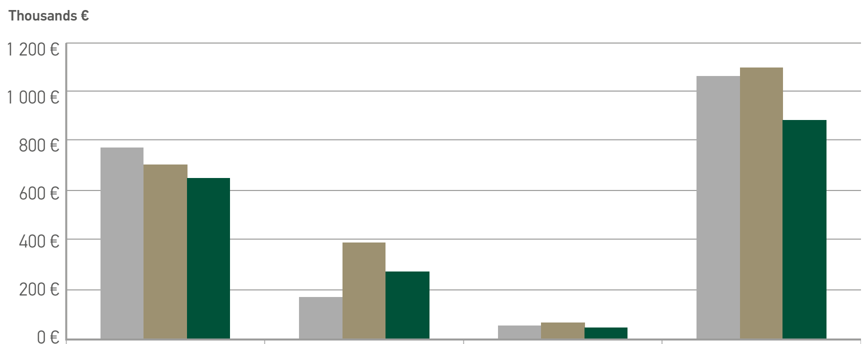
	Platform fees & commissions	Share trading	OTC trading	Other commissions
2016	1 607 452 €	790 455 €	86 678 €	2 877 034 €
2017	1 214 302 €	836 904 €	269 062 €	4 157 383 €
2018	1 079 727 €	590 160 €	59 333 €	3 655 437 €

Other Commissions



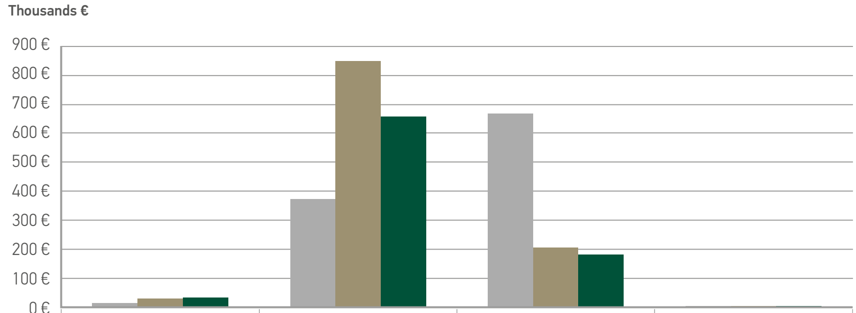
	Financial consultancy	For placement services	Other
2016	170 000 €	137 000 €	41 844 €
2017	947 865 €	523 487 €	215 060 €
2018	131 500 €	668 799 €	196 461 €

Commission charges



	Platform fees & commissions	Execution/ liquidation	Custody	Other banking services
2016	772 876 €	166 555 €	50 685 €	1 058 638 €
2017	701 216 €	388 952 €	66 759 €	1 094 133 €
2018	650 866 €	273 386 €	45 179 €	880 132 €

Other Banking Service Charges

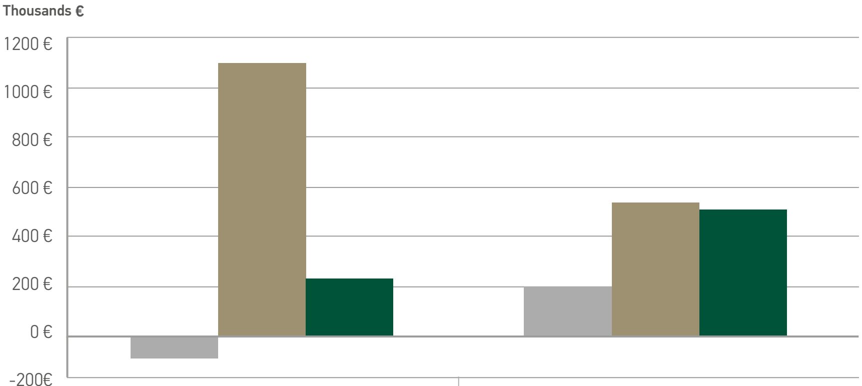


	Banking expenses	Institutional business	Commissions paid to invest. advis. and business introducers	Other
2016	13 321 €	374 084 €	670 575 €	658 €
2017	29 799 €	855 206 €	207 912 €	1 216 €
2018	33 982 €	664 484 €	180 713 €	954 €

Revenue from the Bank's securities portfolio, excluding income from income from equity instruments and income from currency revaluation together increased 38.6% compared to 2017, with a 73% increase in these portfolios at the end of 2018.

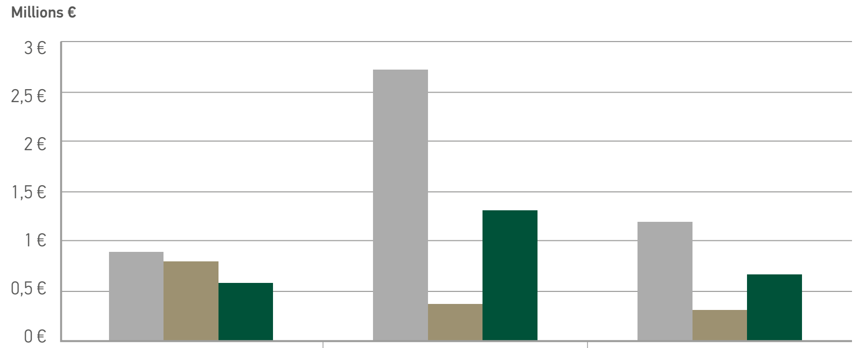
In 2018, **revaluation of currency position** recorded a negative result of €17 k, compared to €224 k in 2017.

Gains and losses
Financial assets and liabilities evaluated at fair value through profit or loss



	Gains +/- (Income)	Interest
2016	(113 754 €)	200 543 €
2017	1 106 140 €	565 247 €
2018	214 487 €	535 113 €

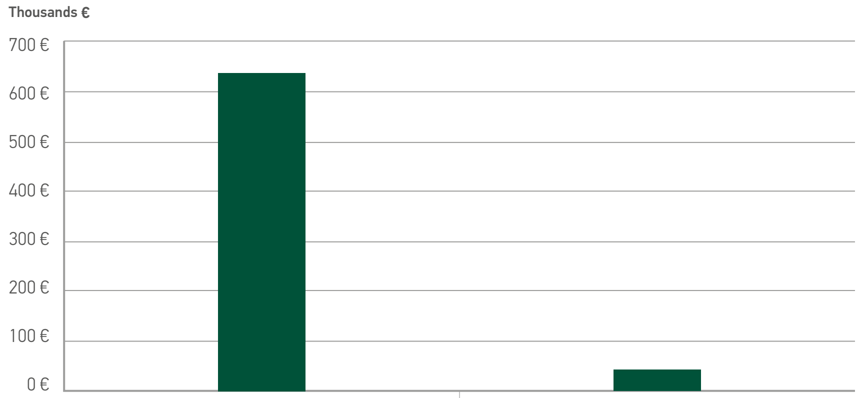
Gains and losses
Financial assets and liabilities evaluated at fair value through comprehensive income



	Gains +/- (Reserves)	Gains +/- (Income)	Interest
2016	851 865 €	2 783 775 €	1 263 016 €
2017	729 349 €	463 272 €	377 607 €
2018	576 839 €	1 289 876 €	633 340 €

Gains and losses

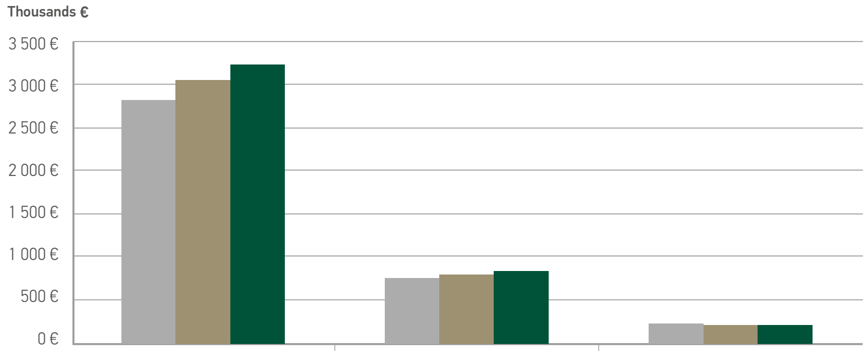
Income from non-negotiable financial assets mandatorily at fair value through profit or loss were reclassified in 2018, from the portfolio of assets and liabilities at fair value through comprehensive income, and the **income from financial assets at amortised cost** also reclassified in 2018 from the securities portfolio held to maturity.



	Income from non-tradeable finan. assets mandat. at fair val. through profit or loss	Income from financil assets at amortised cost
2018	628 752 €	42 200 €

Staff costs

In 2018, **Staff costs** grew moderately by 4.8% due to the need to hire 8 more staff to strengthen the Bank's teams, while the salary level remained stable. During the year, performance bonuses were not generally granted.

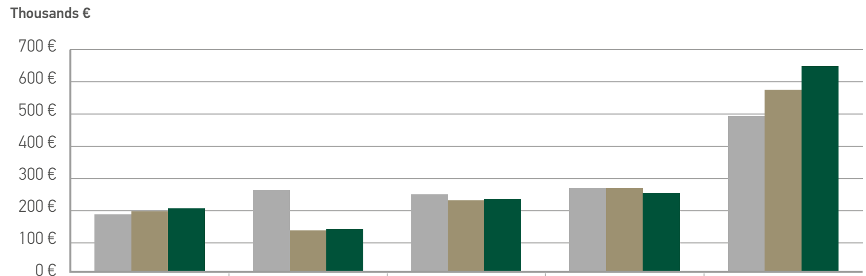


	Remunerations	Social contributions	Other costs
2016	2 819 594 €	779 075 €	244 095 €
2017	3 058 495 €	814 749 €	222 282 €
2018	3 223 179 €	845 926 €	222 366 €

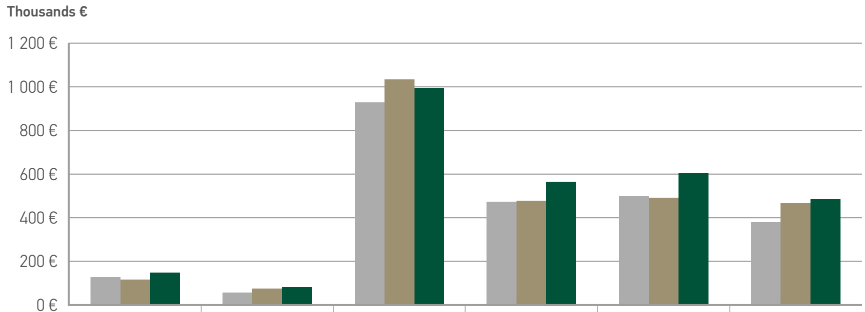
General administrative costs

General administrative costs recorded a 7.5% increase in 2018, corresponding to €306 k, justified by the increase in some headings, namely **Advertising**, with a 13% increase, equivalent to €78 k, due to the conclusion of an advertising contract that will be in force until 2021. The heading **Advisors and auditor** qincreased €109 k from 2017 to 2018, resulting from the need for external support, in particular legal support and expert consultants. The heading **information and database** increased significantly in 2018 to € 570 k, that is, 17.5% more compared to the previous year, justified mainly by the hiring of "Redistribution" service with Euronext, and by the costs incurred in accessing the implementation of the new European payment services directive PSD2[7].

[7] The PSD2- Second Payment Services Directive is a new European Payment Services directive which will allow for greater transparency and innovation at payment institutions.



	Water, electricity & fuel	Leases & rentals	Communications	Travel, hotel and entertainment expenses	Advertising
2016	182 335 €	267 688 €	253 062 €	272 321 €	506 166 €
2017	196 696 €	133 191 €	230 576 €	269 778 €	591 167 €
2018	204 702 €	139 188 €	235 999 €	257 088 €	668 791 €

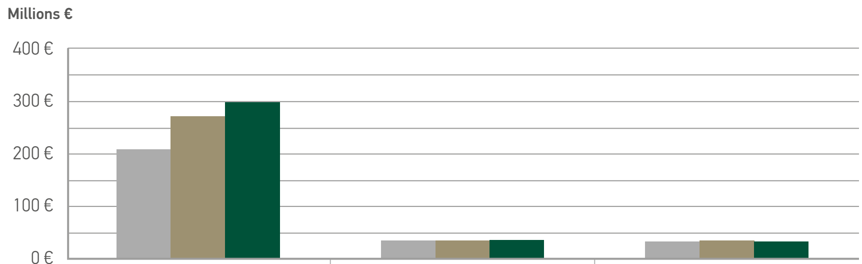


	Repair and maintenance	Retainers and fees	IT services	Information	Advisors and ext. auditors	Other general costs
2016	131 897 €	63 412 €	932 345 €	473 427 €	500 547 €	385 581 €
2017	121 369 €	78 207 €	1 033 674 €	485 363 €	495 849 €	468 318 €
2018	153 704 €	84 528 €	999 893 €	570 496 €	605 649 €	491 240 €

Balance sheet

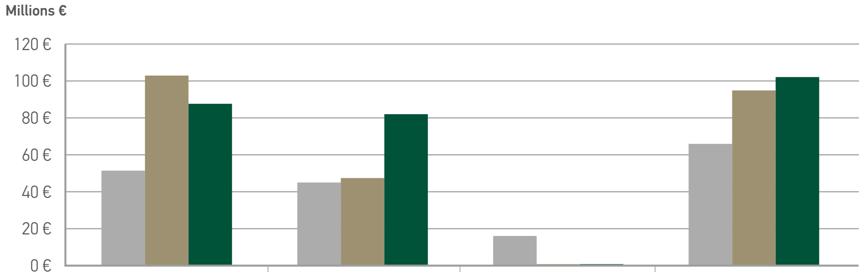
Compared to the previous year, **Net assets** increased 10.43%, in 2018 to **€303 M** as a result of an increase in the Bank's securities portfolio by 73%, coupled with loans to clients, which grew by 8%. On the other hand, investments in other assets decreased (10.3%), following the trend of the previous year. At the same time, **Equity capital** samounted to **€36.3 M**, as a result of a 43% increase in net profit for the year 43%. Regulatory **Own funds** (CET1) decreased slightly by 1.3% compared to 2017.

	2018	VAR %	2017	VAR %	2016
Total net assets	303 218 538 €	10,43%	274 589 280 €	29,83%	211 494 672 €
Equity capital	36 317 465 €	2,67%	35 371 327 €	2,35%	34 558 195 €
Own funds [CET1]	34 090 702 €	-1,34%	34 552 025 €	0,78%	34 284 389 €

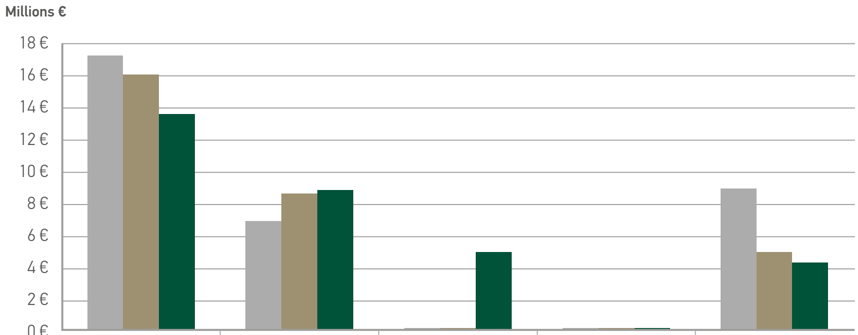


	Total net assets	Own equity	Own funds
2016	211 494 672 €	34 558 195 €	34 284 389 €
2017	274 589 280 €	35 371 327 €	34 552 025 €
2018	303 218 538 €	36 317 465 €	34 090 702 €

Composition of assets



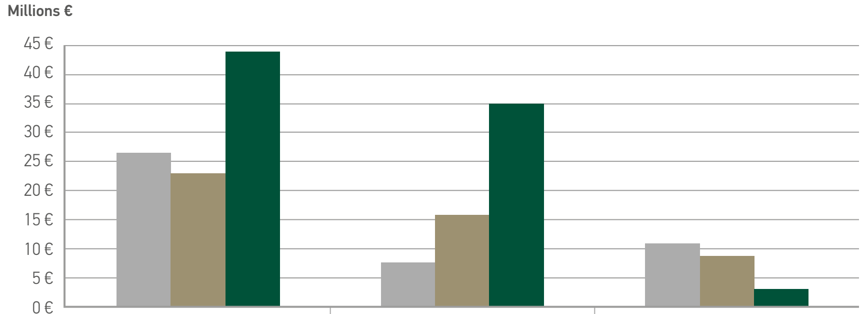
	Cash and liquid assets	Own portfolio	Own term deposits	Loans to clients
2016	51 375 380 €	44 965 949 €	16 000 000 €	66 075 669 €
2017	102 625 677 €	47 437 495 €	500 172 €	94 349 516 €
2018	87 123 442 €	82 047 032 €	500 000 €	101 901 308 €



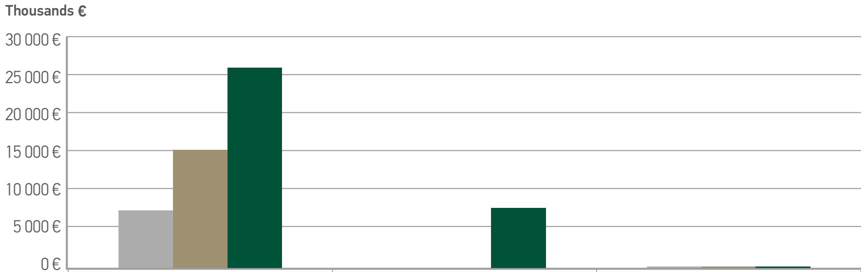
	Other assets at amortised cost	Fixed assets (AFT + AI)	Inv. subsidiaries and associates	Non-current assets and groups for disposal classif. as held for sale	Other assets
2016	17 331 749 €	6 825 393 €	25 000 €	85 680 €	8 809 852 €
2017	16 071 486 €	8 571 652 €	25 000 €	85 680 €	4 922 601 €
2018	13 556 916 €	8 850 230 €	4 920 536 €	85 680 €	4 233 391 €

Securities portfolio

At the end of 2018, the Bank's financial instruments portfolio accounted for 27.1% of net assets, compared to 17.3% at the end of 2017. In absolute terms, this aggregate amounted to about €82 M in 2018 and €48 M in 2017, excluding, in both cases, liabilities held for trading.



	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets at amortised cost held to maturity
2016	26 411 328 €	7 641 827 €	10 782 954 €
2017	22 903 194 €	15 839 281 €	8 641 541 €
2018	44 017 731 €	35 072 444 €	2 930 724 €



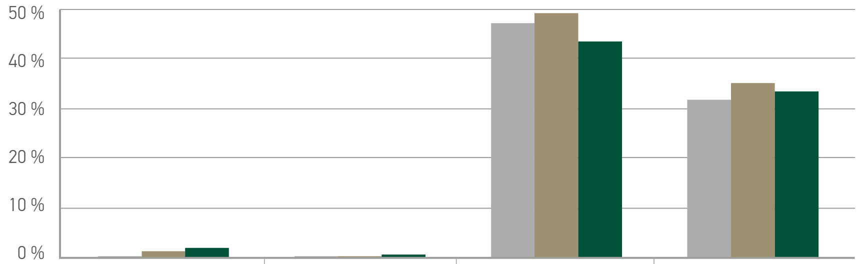
	Financial assets held for trading	Non-negotiable financial assets mandatorily at fair value through profit or loss	Other financial assets
2016	7 637 076 €	0 €	4 751 €
2017	15 830 080 €	0 €	9 201 €
2018	26 957 400 €	8 101 664 €	13 380 €

Loan portfolio

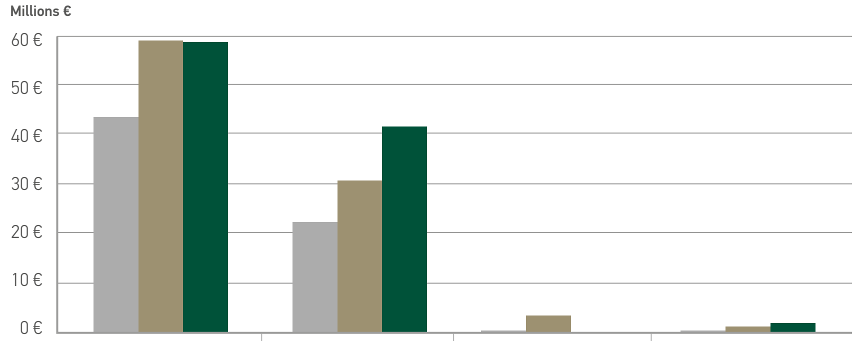
The loan portfolio (net of impairments) grew by about 8% in 2018, but fell short of the target set for the year. This situation does not adequately reflect the very favourable evolution in the first 8 months of the year, which, as already mentioned, would be reversed in the last quarter. We nevertheless note the growth of loans, which increased 35% this year. Another factor that caused the loan portfolio to grow was the increase in overdue loans, which rose to €2,045 k from 2017 to 2018, that is, a 33% increase.

Credit activity plays a relevant role in the Bank's operating income. A growth of close to 25% is projected for 2018 as a result of the stimulation of specialised granting of loans for the acquisition of financial instruments, including margin accounts, and the continuation of granting financing for liquidity assistance or investment, in particular in real estate.

This loan portfolio, of special characteristics and for specific purposes, chiefly due to the requirement of adequate collateral, represents the contracts validated by a notary, most of whom have to be registered in the land register. The Bank also holds, in most operations, personal guarantees from debtors or guarantors. The Bank does not grant consumer credit or housing credit.



	Overdue loans / Loans granted	Overdue loans / Net assets	Loans granted / Client deposits	Loans granted / Net assets
2016	0.41 %	0.13 %	47.08 %	31.72 %
2017	1.45 %	0.50 %	49.10 %	35.01 %
2018	2.01 %	0.67 %	43.37 %	33.61 %



	Current accounts	Loans	Authorised overdrafts	Overdue loans
2016	44 147 769 €	22 477 530 €	182 968 €	168 512 €
2017	59 788 736 €	31 089 488 €	3 565 332 €	1 372 715 €
2018	59 457 440 €	42 006 459 €	0 €	2 044 899 €

Note: Credit impairments are not included.

	31/12/2018		31/12/2017	
LOAN CONTRACTS	NO. OF CONTRACTS	LOANS	NO. OF CONTRACTS	LOANS
Loans	35	42 006 459 €	26	31 089 488 €
Acquisition of securities	1	1 100 000 €	1	1 150 000 €
Cash-flow support	21	24 026 501 €	20	22 001 189 €
Miscellaneous investments	13	16 879 958 €	5	7 938 299 €
Escrow accounts	58	59 411 499 €	47	59 788 736 €
Acquisition of securities	9	4 320 480 €	8	4 215 685 €
Cash-flow support	28	31 949 168 €	24	30 868 192 €
Miscellaneous investments	21	23 187 792 €	15	24 704 859 €
Authorised bank overdrafts	0	0€	3	182 968 €
TOTAL	93	101 463 898 €	76	94 443 556 €

Note: overdue loans and impairments are not included.

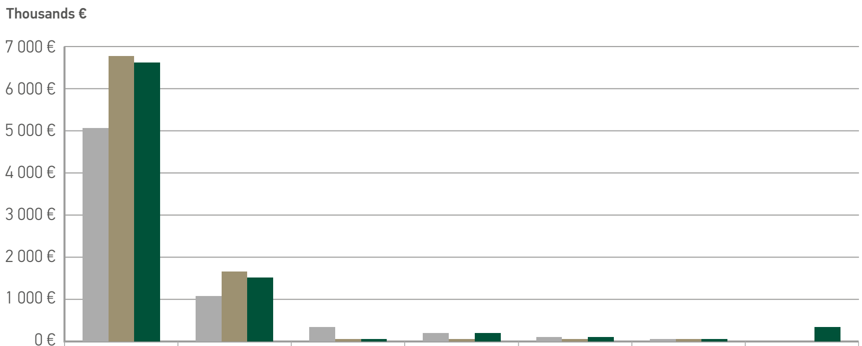
Real estate collateral is subject to initial assessment and then periodical reviews carried out by accredited and independent technical evaluators, based on prudential criteria that reflect the evolution of the real estate markets, the nature of the properties, their potential for use, and liquidity. Other guarantees consist of pledges of financial investment portfolios. New loans were mostly granted to clients with a risk profile lower than the portfolio average.

The Bank has not changed its loan granting policy, both in terms of type, purpose and associated guarantees. At year-end, overdue loans increased compared to 2017, amounting to €2 M.

Fixed assets (property, plant and equipment and intangible assets) – Net value

Net fixed assets recorded an annual growth rate of 3.25% in 2018, corresponding to a year-on-year growth of €279 k, especially due to the intangible assets components, which increased by €402 k, justified by the expansion of intangible assets in progress, arising from specific projects related to IT developments.

	2018	2017	2016
Fixed assets	8 850 229 €	8 571 652 €	6 825 391 €
Property, plant and equipment	8 137 229 €	8 401 360 €	6 444 404 €
Property, plant and equipment in progress	222 524 €	82 602 €	223 953 €
Subtotal	8 359 753 €	8 483 962 €	6 668 357 €
Intangible assets	125 460 €	87 690 €	157 034 €
Intangible assets in progress	365 017 €	0 €	0 €
Subtotal	490 477 €	87 690 €	157 034 €

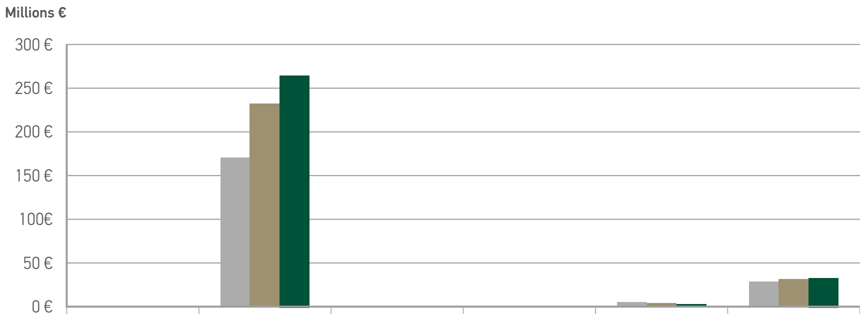


	Property, plant and equipment - Property	Property, plant and equipment - Equipment	Financial leasing assets	Property, plant and equipment in progress	Intangible assets - Software	Intangible assets - Other	Intangible assets - In progress
2016	5 019 730 €	1 092 040 €	332 634 €	223 953 €	105 900 €	51 134 €	0 €
2017	6 686 302 €	1 658 519 €	56 539 €	82 602 €	64 905 €	22 785 €	0 €
2018	6 576 299 €	1 505 346 €	55 583 €	222 524 €	116 398 €	9 062 €	365 017 €

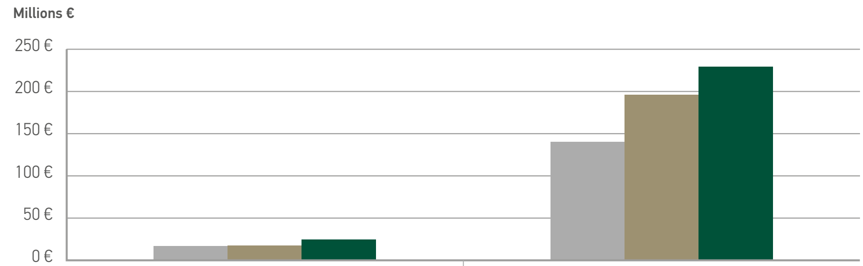
Composition of liabilities and equity

Liabilities have recorded an overall increase of 11.6% compared to the €239 M in 2017. We note that Deposits from central banks are nil, and Deposits from other credit institutions rose by 29.1%, and Client deposits by 19.5%. In 2018, other liabilities dropped 16.96%.

Regarding **Net worth**, equity showed a positive growth of €946 k, directly and essentially related to the net profit for the year.



	Fin. liabilities held for trading	Fin. liabilities measured at amortised cost	Provisions	Tax liabilities	Other liabilities	Equity
2016	39 256 €	170 445 615 €	10 046 €	547 650 €	5 893 910 €	34 558 195 €
2017	0 €	235 521 071 €	13 513 €	72 834 €	3 610 535 €	35 371 327 €
2018	9 798 €	263 749 736 €	6 081 €	137 390 €	2 998 066 €	36 317 465 €



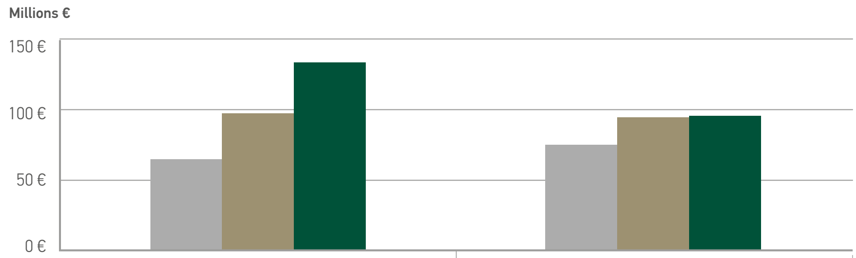
	Deposits from other credit institutions	Client deposits
2016	15 204 977 €	142 037 694 €
2017	16 137 527 €	195 376 530 €
2018	20 836 151 €	233 461 710 €

Client deposits and Other creditors

Overall, **Client deposits** grew by 19.5% as a result of the greater commercial effort made in the private areas.

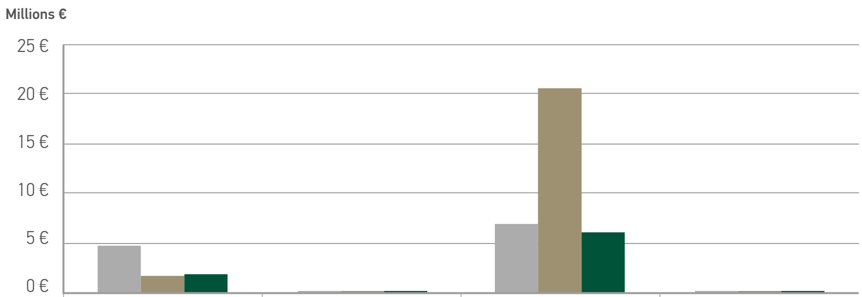
As regards **Other creditors**, there was a one-off increase of €13.3 M in management at the end of 2017. These credits were applied in a new model only in early 2018.

Client deposits



	Term deposits	Demand deposits
2016	65 871 122 €	76 202 572 €
2017	99 181 500 €	96 195 029 €
2018	136 183 554 €	97 278 156 €

Other creditors



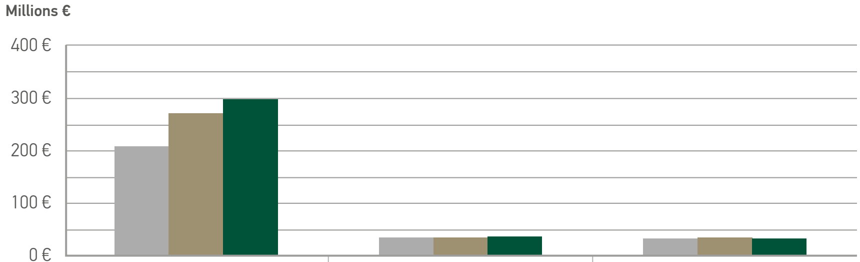
	Transactions in derivatives	GoBullingPro	Management documents	Sight deposit accounts
2016	4 631 817 €	91 871 €	6 835 496 €	176 592 €
2017	1 784 836 €	59 891 €	20 165 729 €	132 211 €
2018	1 941 254 €	32 435 €	6 088 121 €	104 202 €

Equity Management

Equity management policies and practices are defined according to the strategic business objectives and the level of risk appetite defined by the Board of Directors. To determine the adequate level of equity, both in quantity and quality, Banco Carregosa has implemented an equity management model based on the following principles:

- Ongoing monitoring of regulatory capital requirements;
- Annual review of risk appetite;
- Setting business objectives properly measured in capital planning.

In addition to the regulatory requirements, the Bank carries out, every year, an internal and prospective self-assessment of all material risks to which the institution is exposed (ICAAP exercise). As an integral part of the capital management process, the Bank has in place a Recovery Plan which establishes the decision-making protocol applicable to crisis management and, on the other hand, identifies the pre-defined actions and strategies to respond to events that may have an adverse impact on capital.



	Total net assets	Own equity	Own funds
2016	211 494 672 €	34 558 195 €	34 284 389 €
2017	274 589 280 €	35 371 327 €	34 552 025 €
2018	303 218 538 €	36 317 465 €	34 090 702 €

Financial strength remained high and the Solvency Ratio (Tier 1) reached 16.29%, well above the minimum level required by regulation.

The main performance indicators are shown in the table **"Summary of indicators"**, which summarises the Bank's growth in 2018.

15

Consolidated Accounts
ANALYSIS AND ANNEXES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018 AND 2017

EUROS

	NOTES	31/12/2018	31/12/2017
ASSETS			
Cash and liquid assets in central banks and other demand deposits	1	87 170 461	102 638 700
Financial assets at fair value through profit or loss	2	35 077 977	10 367 483
Available for sale financial assets	2.1	26 958 310	10 355 514
Non-negotiable financial assets mandatorily at fair value through profit or loss	2.2	8 101 664	0
Other financial assets	2.3	18 003	11 969
Financial assets at fair value through other comprehensive income	3	44 017 731	22 903 194
Financial assets at amortised cost	4	119 000 658	119 670 727
Of which:			
Loans to clients	4.1	101 901 308	94 349 516
Derivatives - Hedge accounting	5	26 133	53 480
Property, plant and equipment	6	8 416 542	8 535 068
Intangible assets	7	496 624	90 246
Tax assets	8	393 108	647 040
Other assets	9	7 310 259	4 336 692
Non-current assets and disposal groups classified as held for sale	10	85 680	85 680
Total Assets		301 995 173	269 328 309

The Certified Accountant

EUROS

	NOTES	31/12/2018	31/12/2017
LIABILITIES			
Financial liabilities held for trading	11	9 798	0
Financial liabilities measured at amortised cost	12	262 400 587	229 626 975
Provisions	13	6 081	13 513
Tax liabilities	14	135 249	72 834
Other liabilities	15	3 055 162	3 658 863
Total Liabilities		265 606 878	233 372 184
EQUITY	16		
Equity		20 000 000	20 000 000
Issue premiums		369 257	369 257
Other accumulated comprehensive income		-519 495	287 911
Retained earnings		1 408 711	58 701
Other reserves		13 912 451	13 912 451
Consolidated income for the year		1 151 725	774 119
Total own equity attributable to the Group		36 322 649	35 402 439
Minority interests	17	65 645	553 686
Total Own Equity		36 388 295	35 956 125
TOTAL LIABILITIES + EQUITY		301 995 173	269 328 309

The Board of Directors

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AS AT 31 DECEMBER 2018 and 2017

EUROS

	NOTAS	31/12/2018	31/12/2017
Interest and similar income		6 680 503	5 960 463
Interest and similar costs		(930 728)	(892 771)
Financial margin	18	5 749 775	5 067 692
Income from equity instruments	19	225 749	126 981
Income from services and commissions	20	5 384 603	6 471 597
Charges – services and commissions	20	(1 868 550)	(2 291 364)
Income from assets and liabilities evaluated at fair value through profit or loss (net)	21	214 440	1 131 212
Income from financial assets at fair value through other comprehensive income	22	1 289 876	463 272
Income from non-negotiable financial assets mandatorily at fair value through profit or loss (a)	23	628 752	0
Income from financial assets at amortised cost	24	42 200	0
Income from foreign currency revaluation (net)	25	(16 917)	(223 167)
Income from the disposal of other assets	26	49 776	17 117
Other operating income	27	(384 014)	(424 730)
Net operating revenue		11 315 690	10 338 608
Staff costs	28	(4 927 064)	(4 598 224)
General administrative costs	29	(3 722 234)	(3 635 822)
Depreciation and amortisations	30	(851 490)	(653 184)
Provisions net of reinstatements write-offs	31	(3 333)	(3 466)
Impairment of financial assets at amortised cost	32	(65 264)	(389 440)
Impairment of financial assets at fair value through other comprehensive income	33	(164 904)	3 448
Impairment of other assets net of reversals and recoveries	34	(155 740)	0
Pre-tax profit		1 425 660	1 061 920
Taxes			
Current	35	(191 777)	(240 592)
Deferred	35	(72 424)	(75 969)
Consolidated income for the year attributable to shareholders		1 161 458	745 358
Minority interests	36	(9 734)	28 761
Consolidated income for the year		1 151 725	774 119

The Certified Accountant

The Board of Directors

(a) In the context of the implementation of Notice 1/2019 of Banco de Portugal, in 2018, Earnings from portfolio funds are not recorded under "Income from non-negotiable financial assets mandatorily at fair value through profit or loss", as defined in Annex III of the Implementing Regulation (EU) 680/2014 of the Commission, of 16 April 2014 (FINREP).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUROS

	31/12/2018	31/12/2017
CONSOLIDATED NET INCOME FOR THE YEAR	1 151 725	774 119
Items that will not be restated into profit or loss:		
Property, plant and equipment	1 121	(479)
Actuarial gains or losses (-) with defined benefit pension plans	77 944	28 978
Items that may be restated into profit or loss:		
Cash flow hedging	688	(2 231)
Financial assets at fair value through other comprehensive income	(870 933)	333 454
Income tax related to items that may be restated into profit or loss	164 820	(347 243)
OTHER COMPREHENSIVE INCOME	(626 360)	12 478
OVERALL COMPREHENSIVE INCOME FOR THE YEAR	525 364	786 597
Attributable to minority interests (non-controlling interests)	(9 734)	28 761
Attributable to owners of parent-company	535 098	757 837

The Certified Accountant

The Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2018 and 2017

EUROS

	31/12/2018	31/12/2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and commissions received	12 097 084	12 298 572
Interest and commissions paid	(2 844 815)	(3 170 014)
Payments to employees and suppliers	(12 051 802)	(8 391 712)
Deposits from credit institutions	4 456 218	2 175 619
Other operating assets and liabilities	(21 559 515)	12 915 374
Other receipts from clients	28 985 977	18 593 640
Income taxes	215 997	(1 064 184)
Net cash from operating activities	9 299 142	33 357 294
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Dividends received		
Acquisition of financial assets at fair value through other comprehensive income, net of disposals	(29 674 278)	3 845 036
Acquisition of financial assets at amortised cost, net of disposals	5 717 096	2 141 413
Acquisitions of property, plant and equipment and intangible assets	(1 157 353)	(2 672 754)
Disposals of property, plant and equipment and intangible assets	61 750	303 963
Increase/Decrease in other asset accounts	0	0
Investments in subsidiaries and associated companies	(5 000)	0
Net cash from investment activities	(25 057 785)	3 617 659
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital increase	0	0
Other equity instruments	0	0
Dividends paid	0	0
Issue of securitised and subordinated debt	0	0
Remuneration paid on cash and other bonds	0	0
Remuneration paid on subordinated debt	0	0
Deposits from credit institutions (not associated with the main revenue-generating activities)	0	0
Net cash from financing activities	0	0

EUROS

	31/12/2018	31/12/2017
Net increase (decrease) of cash and cash equivalents	(15 758 643)	36 974 953
Exchange differences	0	0
Cash and cash equivalents at the start of the year	103 187 742	66 212 789
Cash and cash equivalents at the end of the year	87 429 099	103 187 742
Cash and cash equivalents (breakdown as at December 2017 and December 2018)		
Cash and liquid assets in central banks	39 953 903	57 345 371
Liquid assets in other credit institutions	47 216 559	45 293 328
Investments in other credit institutions	611 867	611 572
Overdrafts in other credit institutions	(353 230)	(62 529)
Cash and cash equivalents at the end of the financial year	87 429 099	103 187 742

The Certified Accountant

The Board of Directors

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2018 | (CONSOLIDATED ACTIVITY)

	CAPITAL	ISSUE PREMIUMS	OTHER ACCUMULATED COMPREHENSIVE INCOME	LEGAL RESERVES
OPENING BALANCES	20 000 000	369 257	275 433	2 242 959
Changes in fair value reserves			330 744	
Deferred tax			(347 243)	
Actuarial gains or losses (-) with pension plans			28 978	
Net result for 2017				
Comprehensive income for 2017				
Distribution of dividends				
Other changes in equity				
Minority interests				
BALANCES AS AT 31 DECEMBER 2017	20 000 000	369 257	287 911	2 242 959
Changes in fair value reserves			(869 124)	
Deferred tax			164 820	
Actuarial gains or losses (-) with pension plans			77 944	
Net result for 2018				
Comprehensive income for 2018				
Distribution of dividends				
Other changes in equity			(181 046)	
Minority interests				
Balances as at 31 December 2018	20 000 000	369 257	(519 494)	2 242 959

The Certified Accountant

EUROS

OTHER RESERVES	RETAINED EARNINGS	RESULT FOR THE YEAR	MINORITY INTERESTS	TOTAL OWN EQUITY
11 669 492	453 719	(395 018)	82 447	34 698 289
				330 744
				(347 243)
				28 978
		774 119	(28 761)	745 358
				757 837
				0
	(395 018)	395 018		0
			500 000	500 000
11 669 492	58 701	774 119	553 686	35 956 125
				(869 124)
				164 820
				77 944
		1 151 725	9 734	1 161 458
				535 098
				0
	1 350 010	(774 119)	(497 775)	(102 929)
				0
11 669 492	1 408 711	1 151 725	65 645	36 388 295

The Board of Directors

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(EXCEPT WHERE OTHERWISE STATED, AMOUNTS ARE EXPRESSED IN EURO)

Introduction

The 2018 financial year of Banco L. J. Carregosa, S.A. (hereinafter referred to as “Banco Carregosa”, “Company” or “Carregosa Group”, when on a consolidated basis) was the tenth full financial year of activity as a credit institution.

Following the changes in its corporate scope in 2008, Banco Carregosa began to operate in banking and in all other activities expressly authorised under the law, with activity commencing on 4 November of that year.

As regards the IT service company Coollink – Serviços Informáticos, Lda (hereinafter referred to as Coollink, Lda or simply Coollink), from 2015 on it is no longer considered as an ancillary services company, as reported to Banco de Portugal for the purpose of registration. In 2018, the Bank retained its 50% holding in this company, and is expected to reduce it to a percentage not exceeding 25% of its capital during the first half of 2019.

In 2018, more specifically on 11 April, the Bank acquired the share of Sociedade Circuitos e Traçados. Lda, and on 16 April increased te share capital from €1,000 to €50 000, the amount of €49 .000 being paid in cash, fully subscribed by the sole shareholder Banco L. J. Carregosa, S.A.. Also on 16 April 2018, the company was transformed into a public limited company, with the share capital of €50 000 being represented by 50,000 nominative shares each with a par value of €1.00. As a result of this transformation, the company Board and supervision was structured in accordance with Article 278(1)(a) of the Companies Code (C.S.C.), that is, one sole Director, a Sole Auditor and the Board of the General Meeting.

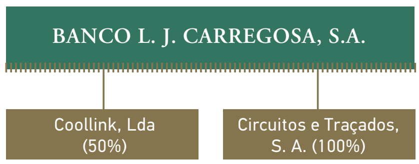
In the 2018 financial year, the Bank reduced its stake in the Real Estate Investment Fund “Arquimedes”, from 91.67%, in 2017, to 49.17%, in 2018. This fund was recorded at fair value under the heading “Non-negotiable financial assets mandatorily at fair value through profit or loss”, and therefore was no longer part of the scope of consolidation.

Companies included in the Group’s scope of consolidation as at 31/12/2018

ACTIVITY	HEAD-OFFICE	EQUITY	ASSETS	PROFIT/LOSS	EFFECTIVE HOLDING	CONSOLIDATION METHOD
BANKING						
Banco L. J. Carregosa, SA	Portugal	36 317 465	303 218 538	1 146 740	100%	Comprehensive
IR SERVICES COMPANY						
CoolLink, Lda	Portugal	131 290	502 181	19 467	50%	Comprehensive
REAL ESTATE COMPANY						
Circuitos e Traçados, SA	Portugal	4 854 891	5 018 968	(144 125)	100%	Comprehensive

Note: The figures refer to accounting balances before consolidation adjustments.

Scope of Consolidation as at 31/12/2018



As a result of this scope of consolidation, Banco Carregosa consolidates the accounts and has a central position in the Group, in as much as it carries out exclusive activities and for the relative volume of capital and risks.

In 2018 and as approved by Banco de Portugal, the Bank does not report the consolidated financial statements to this entity, as it did in 2016 and 2017.

The Group posted a net Profit of **€1 151 725** (positive), with equity standing at **€36 322 649**.

The financial statements as at 31 December 2018 were approved by the Board of Directors on **7 May 2019**.

The financial statements of the Bank as at 31 December 2018 are pending the approval of the General Meeting. However, the Board of Directors believes that these financial statements will be approved without significant alterations.

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1. BASIS OF PRESENTATION AND COMPARABILITY

The consolidated financial statements were prepared based on the accounting records of Banco Carregosa and of its subsidiaries, and were processed in conformity with the *International Accounting Standards* or International Financial Reporting Standards (IAS/IFRS) adopted in the European Union, as set out in Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July, transposed into national law through Banco de Portugal Notice no. 1/2005, of 21 February.

The IFRS include the accounting standards issued by the I*nternational Accounting Standards Board* (IASB) and the interpretations thereof issued by the *International Financial Reporting Interpretation Committee* (IFRIC), and by the respective former bodies. The Bank's financial statements presented herein report to the year ended 31 December 2018 and were prepared in accordance with the current IFRS as adopted in the European Union.

The financial statements are expressed in euro.

Consolidation of subsidiary and associate companies (IAS 28, IFRS 3 and IFRS 10)

Banco Carregosa has a share in Sociedade CoolLink, and the control or power to manage the financial and operational policies of this company, as also with the company Sociedade Circuitos e Traçados, SA, in which Banco participates in the company's share capital.

Consolidated Income is established based on the net income of the Bank and participated companies, after consolidation adjustments, in particular the elimination of gains and losses as a result of transactions made between these companies, and, as such, will be considered in the scope of consolidation thereof.

The Bank's financial statements were prepared based in a going concern basis based on the books and accounting records kept in accordance with the principles contained in IFRS – presentation of financial statements.

New standards and interpretations, revisions nd amendments adopted by the European Union

The following standards, interpretations, amendments and revisions adopted by the European Union were respected and implemented by the Bank in the year ended 31 December 2018.

New standards and amendments to the standards that came into effect on 1 January 2018

IFRS 9 – Financial instruments

This standard is included in the draft revision of IAS 39, establishing new requirements for the classification and measurement of financial assets and liabilities, for the impairment calculation method and for the implementation of the hedge accounting rules.

IFRS 9 – Financial Instruments was approved by the EU in November 2016 and came into effect for the periods beginning on or after 1 January 2018. IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement, and establishes new rules for recording financial instruments, with significant changes especially as regards impairment requirements. The requirements contained in IFRS 9 are generally applied retrospectively by adjusting the opening balance at the date on which it is first applied.

(EC) Regulation 2016/2067, of 22 November.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from contracts with customers

This standard provides the model for recognising revenue based on principles and on a model to be applied to all contracts entered into with customers, replacing standards IAS 18 – Revenue, IAS 11 – Construction contracts; IFRIC 13 – Customer loyalty programmes; IFRIC 15 – Agreements for the construction of real estate; IFRIC 18 – Transfers of assets from Customers, and SIC 31 – Revenue - Barter transactions involving advertising services.

There were no significant impacts on the application of this standard in the Bank's financial statements.

(EC) Regulation 2016/1905, of 22 September.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from contracts with customers – clarifications

These amendments introduce a number of clarifications to IFRS 15 and refer to additional indications to be followed in:

i) determining the obligation of contract performance;
ii) determining when a revenue from an intellectual property licence will be recognised;
iii) identifying the indicators for the classification of the main relation *versus* agent; and
iv) selecting the new transitional regimes foreseen for the adoption of IFRS 15.

There were no significant impacts on the application of this standard in the Bank's financial statements.

(EC) Regulation 2017/1987, of 31 October.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 4 – Insurance contracts (implementation of IFRS 4 with IFRS 9)

This amendment gives the entities trading in insurance contracts the choice to recognise in another comprehensive income, as opposed to recognising it in the profit and loss for the period, the volatility resulting from the implementation of IFRS 9, before IFRS 17 – "Insurance contracts" enters into effect.

Entities whose predominant activity concerns insurance may also benefit from a derogation from the implementation of IFRS 9 up to 2021, which is optional and applicable to a Group's financial statements, when the Group includes an insurance institution, as per the "*carve in*" proposal of the European Union.

(EC) Regulation 2017/1988, of 3 November.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 2 – Classification and measurement of share-based payment transactions

This amendment clarifies the basis for measuring cash-settled share-based payments, and accounts for the modifications to a share-based payment plan, that changes its classification as "cash-settled" to "equity-settled". An additional modification is the introduction of an exception to the IFRS 2 principles, which requires that a share-based payment plan be treated as if it were fully equity-settled when the employer is obligated to retain an amount of the plan value for the payment taxes to which the employee is subject, and to pay the amount to the tax authority.

(EC) Regulation 2018/289, of 26 February.
Effective for annual periods beginning on or after 1 January 2018.

IAS 40 – Transfer of investment properties

These amendments clarify that the change in the classification of or to an investment property should only be made when there is evidence of change in the use of the asset, with the change in the management intention not being sufficient to perform the transfer.

(EC) Regulation 2018/400, of 14 March.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 1 – First-time adoption of international financial reporting standards

Deletion of some short-term exemptions provided for in the transition to the IFRS, to IFRS 7 (disclosures relating to the comparative period and transfer of financial assets), IFRS 10 (transitional provisions relating to investment entities) and IAS 19 (comparative information on the sensitivity analysis of obligations of defined benefits), as these no longer apply under the respective standards.

(EC) Regulation 2018/182, of 7 February.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 12 – Disclosure of interests in other entities

This improvement clarifies that the scope of the IFRS 12 includes financial holdings in subsidiaries, associated companies and/or joint ventures part of the groups held for sale (under IFRS 5) and that the exemption from IFRS 12 concerns only the disclosure of the summarised financial information of these entities.

(EC) Regulation 2018/182, of 7 February.
Effective for annual periods beginning on or after 1 January 2018.

IAS 28 – Investments in associates and joint ventures

This improvement clarifies that the investments in associates or joint ventures held by a venture company may be measured at fair value in accordance with IFRS 9, in a separate manner. It further clarifies that a non-investment entity, but which nevertheless holds investments in associates and in joint venture that are investment entities may continue to measure the holding of those associate companies or joint ventures in their own subsidiaries at fair value, by applying the equity method.

(EC) Regulation 2018/182, of 7 February.
Effective for annual periods beginning on or after 1 January 2018.

New interpretations that came into effect on 1 January 2018

IFRIC 22 – Foreign currency transactions and advance consideration

IFRIC 22 is an interpretation of IAS 21 – "The effects of changes in foreign exchange rates", and refers how to account for the 'date of transaction' when an entity pays or receives an advance consideration from contracts denominated in foreign currency. Thus, the total value of a transaction denominated in foreign currency will be determined according to the exchange rate applicable at the date of the advance and at the effective date of the transaction, by obtaining the right or fulfilment of the associated obligation. This interpretation includes three transition models similar to those provided for IFRS 15.

(EC) Regulation 2018/519, of 28 March.
Effective for annual periods beginning on or after 1 January 2018.

New standards and amendments endorsed by the EU, but not yet in effect

IFRS 16 – Leases

IFRS 16 replaces IAS 17 – "Leases" and related interpretations, having a significant impact on the recognition by the lessee, who is required to recognise, for all lease contracts, a lease liability corresponding to the future payments of rents and a "right-of-use" asset".

Exemptions to this accounting treatment are provided for short-term leases (< 12 months) and for low value assets (< USD 5,000).

The definition of a lease contract has also been revised, based on the "right to control, the use of an identified asset".

With regard to the transition regime, IFRS 16 may be applied retrospectively, or a simplified retrospective approach may be followed.

EC) Regulation 2017/1986, of 31 October.
Effective for annual periods beginning on or after 1 January 2019, but earlier adoption is allowed.

IFRS 9 – Prepayment features with negative compensation

This change allows an entity to classify/measure financial assets at amortised cost even if they include conditions that provide for the early payment for a consideration less than nominal value ("negative compensation"), being an exemption from the requirements of IFRS 9 for classifying financial assets at amortised cost.

It also clarifies that when a change occurs in the conditions of a financial liability that does not give rise to derecognition, then the measurement difference must be immediately recorded in the income statement.

(EC) Regulation 2018/498, of 22 March.
Effective for annual periods beginning on or after 1 January 2019.

New interpretations endorsed by the EU, but not yet in effect

IFRIC 23 – Uncertainties over income tax treatments

IFRIC 23 is an interpretation of IAS 12 – "Income tax", referring to the measurement and recognition requirements that apply where there are uncertainties as to whether a specific tax treatment will be accepted by the Tax Authorities.

Where the opinion of the Tax Authorities on a specific transaction is uncertain, the entity shall give its best estimate and enter the income tax assets or liabilities as per IAS 12, and not IAS 37 – "Provisions, contingent liabilities and assets", based on the estimate of the expected amount or probable amount.

IFRIC 23 may apply retrospectively or retrospectively amended.

(EC) Regulation 2018/1595, of 23 October.
Effective for annual periods beginning on or after 1 January.

Amendments to the standards published by IASB, but not yet endorsed by the EU

IAS 19 – Amendment, curtailment or settlement of defined benefit plans

This amendment to IAS 19 requires an entity to:

i) Use up-to-date assumptions to determine the cost of the current service and the net interest for the remaining period after the amendment, curtailment or settlement of the plan; and
ii) Recognises through profit or loss as part of the past service cost, or as gain or loss on settlement, any curtailment in surplus hedge, even if the surplus hedge has not been recognised before due to the impact of "*asset ceiling*", which is always recorded in other comprehensive income, and may not be recycled through profit or loss.

Applies for annual periods beginning on or after 1 January 2019.

IAS 28 – Long-term investments in associates and joint ventures

This amendment outlines how to apply the equity method to long-term investments in associates and joint ventures (components of the investment of an entity in associates and joint ventures), that are not measured through the equity method. The aforementioned long-term investments are accounted for according to IFRS 9. This clarification determines that long-term investments in associates and joint ventures are subject to the impairment requires of IFRS 9 (model for the 3 phases of expected losses), before being added for the purpose of impairment test on the overall investment in an associate or joint venture, when impairment indicators exist.

Applies for annual periods beginning on or after 1 January 2019.

1.2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies hereunder apply to Banco Carregosa's financial statements.

1.2.1 TRANSACTIONS IN FOREIGN CURRENCY (IAS 21)

Transactions in foreign currency (other than the Bank's functional currency) are recorded at the exchange rates in effect on the date of transaction.

Financial assets and liabilities in foreign currency are recorded in their currency denomination (*multi-currency system*).

At each reporting date, the carrying amounts of monetary items denominated in foreign currency are restated at the exchange rate on that date. Favourable and unfavourable exchange differences arising from the differences between exchange rates in effect on the date of transactions and those in effect at the date of collection, payment or balance sheet date are recognised in profit or loss for the period.

1.2.2 CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement, cash and cash equivalents comprise the amounts recorded in the balance sheet with a maturity of less than three months as of their contract date, including cash and other liquid assets in other credit institutions.

1.2.3 INVESTMENTS IN DOMESTIC AND FOREIGN CREDIT INSTITUTIONS

These instruments are measured at fair value, which is normally the consideration paid, net of directly associated transaction costs.

1.2.4 FINANCIAL INSTRUMENTS

The Bank adopted IFRS 9 – Financial Instruments on 1 January 2018 in lieu of IAS 39 – Financial Instruments: Recognition and Measurement, which was effective until 31 December 2017.

The accounting classification is determined upon the acquisition of the asset, in accordance with IFRS 9 and in compliance with the rules of IFRS 13, as regards fair value measurement.

When assets are first recognised, they are classified according to one of the following categories:

i) Assets measured at amortised cost;
ii) Assets measured at fair value through another comprehensive income;
iii) Assets measured at fair value through profit or loss.

This classification is done based on the Bank's business model for managing the financial asset and also taking into consideration the characteristics of the contractual cash flows of the financial asset.

Adopted by Regulation (EU) 1255/2012, of the Commission, of 11 December 2012, the IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements.

IFRS 13 defines (cf. §9) fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The disclosures required by IFRS 13 are not required for the following (cf. §7):

i) Plan assets measured at fair value in accordance with IAS 19 – Employee Benefits;
ii) Retirement benefit plan investments measured at fair value in accordance with IAS 26 – Accounting and Reporting by Retirement Benefit Plans;
iii) Assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36 – Impairment of Assets.

According to paragraph 8, the fair value measurement framework described in IFRS 13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

As from 1 January 2018, there has been a specific balance sheet heading - **"non-negotiable financial assets mandatorily at fair value through profit or loss".**

This account is supported by references IFRS 7.8 (a) (ii) and IFRS 9.4.1.4, cf. Regulation (EU) 2016/2067 of the Commission, of 22 November 2016.

The following accounting classes are, therefore considered:

i) Financial assets at amortised cost – HTM;
ii) Financial assets at fair value through other comprehensive income – FVTOCI;
iii) Financial assets at fair value through profit or loss – FVTPL;
iv) Other assets not held for trading, mandatorily recorded at fair value (*Not Held for Trading*, PL).

Financial assets at amortised cost

An asset must be recorded at amortised cost if both the following conditions are met:

i) The asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
ii) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Initial recognition and subsequent measurement

Assets are initially recognised at fair value, including costs or gains associated to the transactions, and subsequently they are measured at amortised cost. Additionally, at their initial recognition they are subject to the calculation of expected impairment losses, which will reduce the book value of these financial assets by corresponding entry under the heading "impairment of financial losses at amortised cost".

Interest on financial assets at amortised cost is recorded under "interest and similar income".

Gains or losses generated at the time of their "derecognition" are recorded under "gains/losses" with the "derecognition" of financial assets and liabilities at amortised cost.

When mention is made of a "derecognition", the following are said to occur:

i) A disposal;
ii) Or an entity reclassifies an asset out of the amortised cost measurements category into the fair value through profit or loss measurement category (item 5.6.2 IRFS 9).

If an entity reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, any gain or loss arising from a difference between the previous amortised cost of the financial value and fair value is recognised in other comprehensive income (item 5.6.4 IFRS 9).

Financial assets at fair value through other comprehensive income

An asset must be recorded at fair value through other comprehensive income if both the following conditions are met:

i) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This classification must consider the asset portfolio recorded at fair value through other comprehensive income (FVTOCI), reasonably close to the so-designated prudential investment portfolio.

Additionally, in the initial recognition of an equity instrument that is not held for trading, or in the case of a contingent retribution recognised by a buyer in a business combination to which IFRS 3 applies, the Bank may irrevocably opt to classify it under "Financial assets at fair value through other comprehensive income".

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income are initially recognised at fair value, including costs and gains associated to the transactions, and are subsequently measured at fair value. Changes in the fair value of these assets are recorded by corresponding entry under other comprehensive income and, at the time of their disposal, their accumulated gains or losses in other comprehensive income are reclassified into a specific profit and loss heading designated Gains or losses with the "derecognition" of financial assets at fair value through comprehensive income".

Additionally, since their initial recognition these financial assets are subject to the calculation of impairment losses, which will not reduce the carrying amount of the financial asset in the balance sheet, therefore being recognised in profit or loss under "Impairment of assets at fair value through other comprehensive income" against other comprehensive income.

Interest on financial assets at fair value through other comprehensive income is recognised under item "interest and similar income (financial margin)" based on the interest rate of each issue.

Equity instruments at fair value through other comprehensive income are initially recognised at fair value, plus transaction costs, and are subsequently measured at fair value. Changes in the fair value of these financial assets are recorded against other comprehensive income. Dividends are recognised in profit or loss only when the entity's right to receive payment of the dividend is established.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income, but does not affect profit or loss (item 5.6.5 IFRS 9).

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

Financial assets at fair value through profit or loss

A financial asset must be recorded at fair value through profit or loss if the business model defined by the Bank for managing the financial assets, or the contractual cash flow characteristics, do not meet the conditions to be measured at amortised cost or at fair value through other comprehensive income.

However, the Bank may irrevocably designate a financial asset that meets the criteria of amortised cost measurement or fair value measurement through other comprehensive income as measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The following must be considered under this classification:

i) Assets valued at fair value through profit and loss (FVTPL), almost coincident with the designated prudential trading portfolio;
ii) Non-trading financial assets, mandatorily measured at fair value through profit or loss or, separately, other assets not held for trading, mandatorily recorded at fair value (*Not Held for Trading, PL*).

Initial recognition and subsequent measurement

Financial assets at fair value through profit or loss are initially recognised at fair value, and costs or income related to the transactions are recognised in profit or loss at the initial date, with subsequent changes also recognised in profit or loss.

The periodical calculation of interest is recognised under "interest and similar income" based on the interest rate of each issue (coupon rate).

1.2.5 RECLASSIFICATION

The reclassification of financial assets is only permitted in strict accordance with the regulatory and accounting standards in force[8].

The reclassification of a position in the trading book into a non-trading book position or, inversely, the reclassification of a non-trading book position into a trading book position may only occur in specific circumstances and must comply with the policies and procedures set out in the EBA guidelines, in particular where there is:

i) Final delisting;
ii) The loss of public company status;
iii) Default by the issuer.

[8] For this purpose, a correction of an error in classification is not considered as a reclassification.

The Bank reclassifies its portfolio based on assumptions in a way that the exceptional nature of the circumstances and consistency with the defined policy are made absolutely clear.

Where the competent authorities permit the reclassification:

i) The reclassification of that position cannot be changed;
ii) The Bank must disclose publically, on the first reporting date, the information that its position was reclassified;
iii) Under the regulations, where, at the first reporting date, the net change in the amount of the Bank's own funds requirements, arising from the reclassification of the position, results in a net reduction, the Bank will henceforth provide for additional own funds equal to the net change and will publically disclose the amount of such additional own funds;
iv) The additional own funds amount will remain constant until the maturity date of the position, unless the competent authorities allow the institution to gradually reduce that amount at an earlier date.

1.2.6 FINANCIAL DERIVATIVES (IFRS 9)

Financial derivatives are recorded at fair value at the date on which the Bank negotiates the contracts and are subsequently measured at fair value. Fair values are obtained through market prices in active markets, including recent market transactions, and valuation models, namely: discounted cash flow models and option valuation models. Derivatives are considered as assets when their fair value is positive and as liabilities when their fair value is negative.

Some derivatives embedded in other financial instruments, such as the indexation of the yield of debt instruments to share value or share indices, are split and treated as separate derivatives when their risk and economic characteristics are not clearly related to those of the underlying contract and the latter is not measured at fair value with changes recognised through profit or loss. These embedded derivatives are measured at fair value, with subsequent changes recognised in the statement of profit and loss.

1.2.7 HEDGE ACCOUNTING

As permitted by IFRS 9, the Bank opted to continue to apply the requirements for hedge accounting provided for in IAS 39.

Principle:
Derivatives and other financial instruments to hedge interest rate risk and exchange risk resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting will be recorded as trading derivatives.

Hedge derivatives are recorded at fair value and gains or losses resulting from the revaluation are recognised according to the hedge accounting model. A hedge relation exists when:

i) At the start date of the relation there is formal documentation of the hedge;
ii) The hedge is expected to be highly effective;
iii) Hedge effectiveness can be reliably measured;

iv) Hedge is evaluated on a continuous basis and effectively determined as being highly effective throughout the financial reporting year; and
v) In relation to the hedging of an expected transaction, this transaction is highly likely to occur and is exposed to cash flow variations that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge exchange fluctuations of monetary assets or liabilities, no hedging accounting model is applied. Any gain or loss associated to the derivative is recognised in profit or loss, as well as the exchange risk fluctuations of underlying monetary items.

i) Fair value hedging – Changes in the fair value of derivatives that are designated and qualify for fair value hedging instruments are recognised in profit or loss, together with changes in the fair value of the asset or liability or group of assets or liabilities that are attributable to the hedged risk.

If the hedging relation no longer complies with the hedging accounting requirements, the cumulative gains or losses from the changes in interest rate risk associated to the hedging item until the date when the hedging is discontinued are amortised through profit or loss for the remaining period of the hedged item.

ii) Cash flow hedging – Changes in fair value of derivatives that qualify for hedging cash flows that are considered as effective hedges are recognised in fair value reserves. The ineffective portion of the change in fair value is recognised through profit or loss.

Amounts recognised in equity are restated to profit or loss in the period in which the hedged item affects the results.

iii) Hedge effectiveness – For a hedging relationship to be considered as such, its effectiveness must be demonstrated. To this end, prospective tests must be carried out at the date when the hedging relation starts, where applicable, and retrospective tests to show the hedging effectiveness at each balance sheet date, showing that changes in the fair value of the instrument are hedged by changes in the hedged item with respect to the hedged risk. Any resulting ineffectiveness is recognised through profit or loss at the time it occurs.

1.2.8 LOANS TO CLIENTS AND OTHER RECEIVABLES (RECEIVABLES)

Valuation, initial and subsequent recognition

Loans to clients and receivables from other debtors are the financial assets corresponding to provisions of cash, goods or other services to a certain entity by the institution. This concept covers the typical activity of granting loans to clients, as well as the creditor positions arising from operations with third parties carried out as part of the Institution's activities.

Loans to clients and receivables from other debtors are valued as follows:

On the initial recognition date, credits and amounts receivable are recorded at fair value. In general, the fair value at the initial date corresponds to the transaction value and includes commissions, fees or other charges and incomes associated to loan transactions.

Subsequently, loans and accounts receivable are valued at amortised cost based on the effective interest rate and subject to impairment tests.

Where applicable, interest, commissions and other charges and income associated to loan transactions are accrued over the life of the transactions, in the case of transactions that produce residual flows over a period of more than one month, regardless of the moment when they are charged or paid. Loan commitment fees are recognised on a deferred and straight-line basis over the lifetime of the commitment.

For the purpose of constituting impairments, the total loans granted are to be considered, including other liabilities assumed with third parties, such as guarantees or other similar instruments.

Derecognition (IFRS 9)

Loans to clients are derecognised from the balance sheet when:

i) The contractual rights to the cash flows expires;
ii) The Bank transfers substantially all the risks and rewards of ownership;
iii) Despite having withdrawn part but not substantially all the risks and rewards of ownership, the control over assets was transferred; and
iv) Changes to the contractual terms of a financial asset give rise to a substantial change in the current value of cash flows, *i.e.*, the new contractual terms discounted at the interest rate of the initial contract give rise to a change of at least 10% of the current value of the remaining cash flows of the original financial asset.

Credit Impairment Loss (IFRS 9)

Identified impairment losses are recorded through profit or loss and are subsequently reversed through profit or loss if there is a reduction in the amount of the estimated loss at a later time.

IFRS 9 replaces the IAS 30 "incurred loss" model with a *forward-looking* model of Expected Credit Loss (ECL), which considers the expected credit losses in the lifetime of financial instruments. Thus, in determining the ECL macroeconomic factors and other *forward looking* information are taken into account, whose changes impact on the expected losses.

The current impairment model analyses all positions individually.

1.2.9 ASSETS ACQUIRED IN EXCHANGE FOR LOANS

Assets acquired in exchange for loans, which may relate to real estate, equipment and other assets received as payment, are classified under "non-current assets held for sale" and are initially recorded at the lower amount between their fair value minus costs to be incurred in the sale and the carrying amount of the balance of the loans granted subject to recovery.

1.2.10 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale whenever it is determined that their book value will be recovered through their sale and not through their continued use.

Assets recorded in this category are measured at the lower of the amount established by the applicable IFRS and the fair value, calculated based on the valuations of external independent internal or external experts, minus costs to be incurred in the sale, and are not subject to depreciation.

1.2.11 OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASES (IAS 16 AND IAS 17)

Other property, plant and equipment are stated at acquisition cost, minus depreciation and impairment losses, and are depreciated on a straight-line basis over their expected useful life. This period lies within the limits allowed by the Portuguese tax law as follows:

EQUIPMENT	YEARS
Vehicles	4 - 8
Furniture and material	8 - 16
IT equipment	3 - 8
Other property, plant and equipment	5 - 50

Land is not amortised.

The acquisition cost includes expenses directly attributable to asset acquisition. Maintenance and repair costs are recognised as a cost for the year under "General administrative costs".

According to IAS 16, whenever there is an indication that the carrying amount exceeds their recoverable value, these assets are subject to impairment tests. The difference, if any, is recognised through profit or loss. The recoverable amount is the highest between the two values, asset market value minus costs and its value in use. Impairment loss of Property, plant and equipment are recognised in the income statement.

As per IAS 17, the Bank classifies leases as financial leases. Financial leases are all operations in which the risks and rewards of ownership are substantially transferred to the lessee.

As a lessee, the Bank records contracts classified as financial leases as follows:

i) Leased assets are recorded initially as assets under "Other Property, plant and equipment" and as liabilities under "Other liabilities" for their fair value which is equivalent to their acquisition cost;
ii) Subsequently, when leases are settled, the part relating to the financial charge (interest) is recorded under profit or loss in "Interest and similar costs", while that of the financial amortisation of principal is deducted from the debt recorded in liabilities.

1.2.12 INTANGIBLE ASSETS (IAS 38)

The Bank record under this heading the costs with development of projects implemented and to be implemented, as well as the cost of software purchased, in either case when the expected impact extends beyond the period in which they are incurred.

Costs directly related to the development of IT applications, whose use can be expected to generate future economic flows beyond one financial year, are recognised and recorded as intangible assets.

All other expenses related to IT services are recognised as costs when they are incurred.

Intangible assets are recorded at acquisition cost, minus the impairment losses and depreciations using the straight-line method and by twelfths over their estimated useful life, which is, in general, three years.

1.2.13 INVESTMENTS IN ASSOCIATES (IAS 28)

Investments in associates (companies in which the Bank has a significant influence by participating in financial and operating decisions of the company – usually investments representing between 20% and 50% of the share capital) are recorded through the equity method.

Under this method, on initial recognition financial investments in associates is recognised at cost, plus or minus the amount corresponding to the proportion of the companies' equity capital, reported at acquisition date or when the equity method is first applied. Financial investments are then adjusted every year by the amount corresponding to the participation in the net results of the associates through profit or loss for the year. Additionally, the dividends of these companies are recorded as a reduction in investment value and the proportional part in equity capital changes is recorded as a change in equity of the Group.

The differences between the cost of the investment and associate's share of the fair value of the identifiable assets or liabilities, if positive, are recognised as goodwill, included in the carrying amount of the investment. If these differences are negative, after the fair value is reconfirmed, then they are recorded as gains in the period.

When there is an indication that an asset may be impaired, investments in associates are evaluated and the impairment losses, if any, are recorded as a cost, and reversed when this is no longer justified.

When the proportion of the accumulated losses of the associate exceeds the value by which the investment is recorded, the investment is reported with a null amount, except when the entity has assumed commitments with the associate, in which case a provision is recorded to meet these obligations.

1.2.14 OTHER FINANCIAL LIABILITIES - DEPOSITS FROM OTHER CREDIT INSTITUTIONS, CLIENT DEPOSITS, OTHER LOANS AND OTHERS (IFRS 9)

Other financial liabilities, which essentially include deposits from clients and deposits from central banks, are valued at amortised cost.

Financial liabilities held for trading, in particular those resulting from short selling, and the adjustments thereof are recognised through profit or loss.

According to the fair value option, financial liabilities included under liabilities represented by securities and subordinated liabilities are classified as financial liabilities at fair value, through profit or loss, whenever they meet the classification requirements of this category, in particular due to the fact that they contain one or more embedded derivatives. These liabilities are initially measured at fair value, subsequent changes in fair value being recorded in profit or loss.

1.2.15 PROVISIONS AND CONTINGENT LIABILITIES (IAS 37)

A provision is constituted when (i) the Bank has a present obligation (legal or constructive), (ii) it is probable that the settlement thereof will be required in the future, and (iii) the amount of the obligation can be reliably estimated. In cases where the discount effect is significant, the provision corresponds to the current amount of expected future payments, discounted at a rate that reflects the risk associated to the obligation. If the future expenditure on resources is not likely to occur, then this is a contingent liability.

Contingent liabilities are only the object of disclosure, save if the possibility of their realisation is remote. A provision for onerous contracts is recognised when the benefits expected to be received from a formal contract are less than the costs that the Bank will inevitably incur in order to meet the obligations arising therefrom. This provision is measured based on the current value of the lower of the costs for terminating the contract or estimated net costs resulting from its continuation.

1.2.16 TAX ON PROFITS (IAS 12)

Banco Carregosa and its subsidiary with head-office in Portugal are subject to the tax regime in the Corporate Income Tax Regime and to the Tax Benefit Charter (Estatuto dos Benefícios Fiscais (EBF).

Income tax corresponds to the sum of current taxes and deferred taxes. These are both recorded through profit or loss, except when they relate to items directly posted in equity. In these cases, deferred taxes are also recorded in equity.

Current tax payable is based on the taxable profit for the period, calculated in accordance with the tax criteria in force at the date of financial reporting. Taxable profit differs from accounting result, in that it excludes various charges and incomes that will only be deductible or taxable in other financial periods. Taxable profit excludes charges and income that will never be deductible or taxable.

Deferred taxes refer to the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences. However, they are recognised only to the extent that it is probable that future tax profits will be available to use these deferred tax assets, or when there are deferred tax liabilities whose reversal is expected to occur during the same period in which the deferred tax assets may be used. These deferred tax assets are reviewed at each reporting date, and adjusted based on expectations of future use.

1.2.17 RECOGNITION OF REVENUE AND COSTS

Revenue and costs are recognised over the life of the transactions and according to the accrual accounting principle, in other words, they are recorded as they are generated. Revenues are recognised to the extent that it is likely that economic benefits flow to the company and the amount of the revenue can be measured. Interest accrued and not collected is reversed in the balance sheet after three months of maturity and are only recognised as revenue when they are actually received.

1.2.18 RECOGNITION OF INCOME FROM SERVICES AND COMMISSIONS (IFRS 15)

IFRS 15 redefines the principles for recognising revenue and applies to all contracts with clients not contracted under other standards (for example, taxes in respect of instruments which would fall under IFRS 9 and the lease income).

IFRS 15 establishes a five-step model framework for recognising revenue from contracts with clients, which must be recognised in the consideration to which the entity is entitled to in exchange for the services provided to the client.

The Bank applies IFRS 15 to the income arising from services and commissions recognised according to the following criteria:

i) When received as the services are provided, they are recognised in profit or loss in the period to which they refer;
ii) When resulting from service provision, they are recognised when the said service is concluded; and
iii) When wholly part of the effective interest rate, they are recognised under financial margin.

Many of the Bank's revenue sources (for example, interest income, gains and losses in financial instruments) fall outside the scope of IFRS 15, therefore accounting for these flows has not changed with the adoption of IFRS 15.

1.2.19 RECOGNITION OF INTEREST

Results relating to interest on financial instruments measured at amortised cost and on available for sale financial assets are recognised under interest and similar income or interest and similar costs. Interest on financial assets and liabilities at fair value through profit or loss are also included in the heading interest and similar income or interest and similar costs, respectively. The effective interest rate is the rate that exactly discounts estimated future cash payments or estimated future receipts over the expected lifetime of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Effective interest rate is determined at initial recognition of financial assets and liabilities and is not revised subsequently.

1.2.20 COMMISSIONS FOR SERVICES PROVIDED

Banco Carregosa charges commissions to its clients for a broad range of services provided. Commissions are immediately recognised as revenue, as they relate to specific or one-off services and are not associated to service provisions that are continued over time.

1.2.21 GUARANTEES PROVIDED AND IRREVOCABLE COMMITMENTS

Liabilities for guarantees provided and irrevocable commitments are disclosed off-balance sheet items at their risk value, with interest, commissions or other income flows recorded in profit or loss over the lifetime of the transactions.

1.2.22 EMPLOYEE BENEFITS (IAS 19)

Employee benefits are recognised in accordance with IAS 19 – Employee benefits and include retirement pensions, health costs, others, and long-term and short-term benefits.

1.2.23 RETIREMENT AND SURVIVAL PENSIONS

Based on the Collective Labour Agreement for the Banking Sector (*Acordo Coletivo de Trabalho Vertical para o Setor Bancário* – ACTV) as the reference for labour practices, Banco Carregosa made a commitment, exclusively for its employees not integrated in the National Pension System, to grant them or their families cash payments for old-age retirement, early retirement or disability or survivors' pension, by constituting a *Defined Benefit Pension Plan*. This Plan is in line with the ACTV and is subject to the requirements set by Banco de Portugal, in particular its Notice no. 12/2001 and any updates thereto.

To finance these liabilities, Banco Carregosa joined the Pension fund Horizonte – Valorização da Pensõesgere in 2004. In 2010, responding to the evolution of its obligations and according to a policy of rigour and good coverage of the liabilities undertaken, the Bank decided to change the pension fund over to another managing entity, "REAL VIDA PENSÕES – Sociedade Gestora de Fundos de Pensões SA", subscribing three funds: the Aberto Optimize Capital Pensões Ações pension fund (30 %), the Aberto Optimize Capital Equilibrado pension fund (30 %) and the Aberto Optimize Capital Moderado pension fund (40 %). Disability and survivors' pension benefits are covered by a life insurance policy.

Liabilities for services provided in the past by eligible employees are determined every year based on the date of admission at Banco Carregosa and not on the date on which the employee entered the banking sector. Consequently, the share of responsibilities relating to the period between the date of admission in the banking sector and the date of admission in the company will be chargeable to past employers, except if the latter have transferred the amount of their share of responsibility.

The recognised liabilities correspond to the difference between the current value of pension liabilities and the fair value of pension fund assets, taking into account adjustments relating to deferred actuarial gains and losses. The value of liabilities is determined on an annual basis by independent actuaries, using the "*Projected Unit Credit*" method, and actuarial assumptions regarded as appropriate. Liabilities are reviewed on the basis of a discount rate that reflects the market medium and long term interest rate for bonds listed in the Eurozone by companies rated as being of low risk.

In addition to pensions, as part of the fund's liabilities and for that group of employees, the Bank has also assumed a death grant in the event of death.

Following an analysis of the current responsibilities and charges with medical assistance, in 2010 the Bank decided to outsource this benefit to Multicare, changing it to Advancecare in 2017, for all employees, at the same cost.

1.2.24 VARIABLE REMUNERATIONS PAID TO EMPLOYEES (IAS 19)

In accordance with IAS 19 – Benefits to employees, variable remunerations (profit sharing, premiums and others paid to employees and, eventually, to the executive members of the management bodies) are recognised through profit or loss in the period to which they relate.

1.2.25 ADOPTION OF IFRS 9 - FINANCIAL INSTRUMENTS

This standard if part of the IAS 30 draft review project and establishes new requirements for the classification and measurement of financial assets and liabilities, for the calculation method of impairments, and for the application of hedge accounting requirements.

IFRS 9 – Financial instruments was approved by the EU in November 2016 came to the fore for the periods beginning on or after 1 January 2018. IFRS 9 replaced IAS 39 – Financial Instruments: Recognition and Measurement and establishes new rules for recognising financial instruments, with significant changes especially as regards impairment requirements. The standard has been subject to a detailed and complex process of implementation involving all key stakeholders, in order to understand the implications of impacts and changes in processes, governance and business strategy.

The requirements contained in IFRS 9 are generally applied retrospectively by adjusting the opening balance at the date of initial application.

Financial instruments

In July 2014, IASB issued the final version of the IFRS 9 – Financial Instruments. IFRS 9 is effective for periods beginning on or after 1 January 2018, with early application permitted, and replaces IAS 39 – Financial Instruments: Recognition and Measurement.

In October 2017, IASB issued the document "Prepayment Features with Negative Compensation" (amendments to IFRS 9). Amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

The Bank applied IFRS 9, as issued in July 2014 with the early application of amendments made to IFRS 9 in the period beginning on 1 January 2018.

The standard had an impact on the classification and measurement of financial assets held on 1 January 2018 as follows:

i) Loans to clients and Investments in Financial institutions measured at amortised cost under IAS 39 were measured at amortised cost under IFRS 9;
ii) Investments in held-to-maturity securities, measured at amortised cost under IAS 39, are generally measured at amortised cost under IFRS 9;
iii) Investimentos in debt securities classified as held for sale under IAS 39 were measured at amortised cost, FVOCI or FVTPL under IFRS 9, depending on certain circumstances;
iv) Equity instruments classified as held for sale under IAS 39 are measured at FVTPL under IFRS 9.

Impact of the application of IFRS 9 – Financial instruments

Banco de Portugal has issued guidelines on the requirements for the transition in the scope of IFRS 9 implementation. These guidelines allowed entities to choose between the two approaches for the recognition of the impact of the application of the standard in the regulatory capital:

i) Transition period of the total impact over a 5-year period, based on the following percentages for some components: 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021, and 75% in 2022;
ii) Recognition of the full impact on the date of adoption.

The Bank decided to adopt approach (ii), therefore the impact of the adoption of IFRS 9 on its equity was fully recognised on the adoption date of the standard on 1 January 2018.

IMPAIRMENT ON FINANCIAL ASSETS	ACCUMULATED 31/12/2017	TRANSITION ADJUSTMENT	ACCUMULATED 1/1/2018
Financial assets at fair value through other comprehensive income	6 577 924	(5 461 641)	1 116 283
Investments held to maturity	0	(118 988)	(118 988)
Loans to clients	1 467 082	413 296	1 880 378
Impairment on guarantees identified in liabilities	0	10 764	10 764
Total	8 045 006	(5 156 569)	2 888 437

Impact on other comprehensive income related to the transfer of securities classified under assets at fair value through other comprehensive income for Available for sale financial assets.

	TRANSITION ADJUSTMENT
Financial assets at fair value through other comprehensive income reclassified as Available for sale financial assets	435 255

Note: transition adjustments were recognised in Retained earnings.

Based on this analysis and the strategy defined, there were no material changes in the measurement criteria associated with the Bank's financial assets (financial assets measured at amortised cost *versus* financial assets measured at fair value) with an impact on the transition to IFRS 9.

Most available for sale financial assets were reclassified into the financial asset portfolio at fair value through other comprehensive income (FVOCI). Financial assets not considered valid in the SPPI tests (*Solely Payments of Principal and Interest*) were reclassified into the financial asset category mandatorily recorded at fair value through profit or loss (FVTPL).

As regards Investments held to maturity, since it fully maintained its approach, they were reclassified to the other financial asset portfolio at amortised cost.

The tax impact will be based on the tax rules currently in force, as the Tax Authority has not yet decided on any specific tax framework for the impacts arising from the said transition. Regulatory Decree 13/2018 published on 18 December.

The Bank has applied the exception that permits non-restatement of prior comparative information from earlier periods regarding changes in the classification and measurement (including impairment). Differences in the carrying amount of financial assets and liabilities arising from the adoption of IFRS 9 are recognised in Reserves and retained earnings on 1 January 2018.

1.3 1.3. CRITICAL ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

The IFRS establish a series of accounting treatments according to which the Board of Directors must make the necessary calls and estimates to decide which accounting treatment is most appropriate.

Considering that in many cases alternatives for the accounting treatment adopted by the Board of Directors exist, the results reported by the Bank could have been different had a different treatment been used. The Board of Directors believes that the choices made are appropriate and that the financial statements present fairly the Bank's financial position and the results of its operations on all materially relevant aspects.

1.3.1 IMPAIRMENTS ON LOANS TO CLIENTS

The Bank reviews its loan portfolios on a regular basis to determine potential expected losses.

The loan portfolio review to determine if an impairment loss should be recognised is subject to various estimates and decisions, including on the existence of impairment indicators, the probability of default, credit ratings, estimated recoveries and valuation of existing collateral.

1.3.2 TAXES ON INCOME

Determining the overall amount of taxes on income calls for certain interpretations and estimations. There are various transactions and calculations for which it is not possible to accurately determine the final tax amount to be paid during the normal business cycle.

Different interpretations and estimates could result in a different level of taxes on income, current and deferred, recognised in the period.

Moreover, the Banco records deferred taxes in accordance with the specific policy, with deferred tax assets being recorded only to the extent that it is probable that future taxable profits will be available to absorb deductible temporary differences and reportable tax losses.

The Bank assessed whether deferred tax assets can be recovered (including the rate thereof) based on projections of its future taxable profits established from a business plan.

The Tax Authorities are responsible for reviewing the calculation of the taxable amount for a period of four or six years, if tax losses are reported. It may be, therefore, that corrections will be made to the taxable amount, resulting mostly from differences in the interpretation of the tax law. However, the Board of Directors believes that there will be no major corrections to taxes on income recorded in the financial statements.

1.3.3 PENSIONS AND OTHER EMPLOYEE BENEFITS

Determining retirement pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, discount rate of liabilities and other factors that may impact on costs and liabilities of the pension plan.

Changes in these assumptions could materially affect these amounts.

2. RISK MANAGEMENT

2.1 RISK MANAGEMENT FUNCTION

Risk management consists of the identification, evaluation, measurement, monitoring and control of all materially relevant risks to which the Group is exposed, in order to bring the exposure levels in line with the limits established in the RAS - *Risk Appetite Statement*.

The purpose of this is that the Bank operates within its limits without incurring in losses that materially affect its financial position. Thus, the risk management policy aims to maintain a balance between:

i) Adequate level of capital (principle of solvency);
ii) Remuneration of risks assumed (principle of profitability);
iii) Maintaining a financially stable structure.

2.2 ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

Notwithstanding the ample management powers vested in the Executive Committee by the Board of Directors, including risk monitoring and management and capital allocation, the Board of Directors closely monitors the Bank's risks. It is responsible for analysing and approving, on a yearly basis, the strategy to be followed and the policies to be adopted by the Bank regarding the risks involved in its business, as generally provided for in Notices and Regulations issued by Banco de Portugal, in particular in connection with operating, reputational, legal, compliance and credit risks, and for defining the procedures to be implemented to assess, monitor and mitigate such risks. In this respect, it is for the Board of Directors to approve the main regulatory documents on risk measurement and mitigation matters, in particular the Internal Capital Adequacy Assessment Process (*ICAAP* for short) and the Recovery Plan.

Given the importance of risk, the Executive Committee is particularly concerned with promoting a culture of careful risk evaluation among all departments and employees. However, the Bank also has a structure with specific functions in risk management.

This control and monitoring function of financial risks is assisted by the Asset and Liability Committee (ALCO). The committee meets at least once a month and is formed by the following members: Executive Committee, the Directors of Private Banking, Financial, Risk, Sourcing and Management departments, and by the persons in charge of Credit and Portfolio Management services. Recommendations are issued at these meetings on the collection and use of funds, through risk-return balance.

The Compliance, Risk and Internal Audit departments, who are part of the Internal Control Group, are in charge of risk monitoring, on a day-to-day basis, providing and compiling information for the Executive Committee and other bodies with relevant functions in the matters involved.

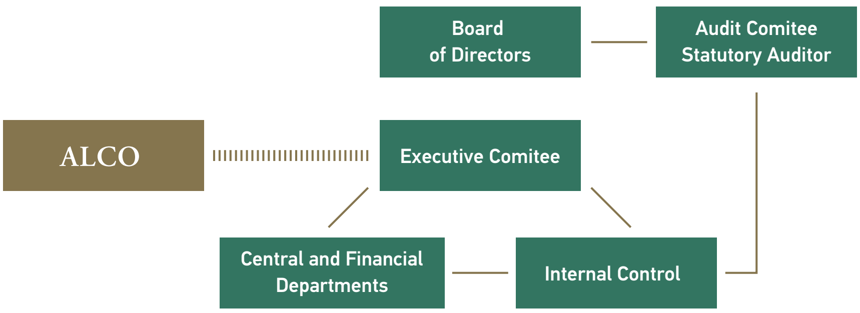
The functions of the Supervisory Committee and the Statutory Audit Firm are similar to those of Internal Control, but with a more general scope.

The Credit Committee was created in 2015. It is currently formed by the head of the Credit Department, a Central Manager and Risk and Financial managers. This committee is responsible for the analysis and monitoring of loans to clients, reporting their comments to the Executive Committee.

As part of the Bank's Recovery Plan, the Recovery Team meets at least once every quarter, or when necessary. It is responsible for managing potential or actual serious risk situations, and is formed by the Chairman of the Executive Committee, in charge of team coordination, by the Executive Committee members in charge of Risk and Financial, by the Central Managers and those responsible for the Financial, Risk, Compliance and Communication departments, in addition to other members invited to take part in functions.

Note also the Department of Accounting and Management Information, responsible for providing vital information to internal governance.

Internal control is in charge of carrying out projections and scenario analyses/stress tests, the determination of which results from the interactive work between the Executive Committee and the Risk Department, with the contributions of the remaining relevant bodies with broader risk management, control and monitoring functions. Similarly, the ICAAP has material significance on internal governance as it measures the adequacy of economic capital.



It is complemented by current information, characterised by easier computing, and shows greater granularity by risk type. The models used follow the theroretical bases generally accepted in the banking industry, strengthened by the good practices recommended by national and international regulators.

2.3 MATERIAL RISKS

The following are the risks considered as material, in particular the Credit Risk, Market Risk, Operating risk, and Liquidity Risk.

2.4 CREDIT RISK

Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the Bank, including any restrictions on the transfer of payments from abroad. Credit risk is found mainly in credit exposures, credit lines, guarantees, derivatives and the Bank's deposits in other credit institutions. Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments. The determination of impairments leads to the decrease in value of a particular asset, thus anticipating a potential or effective loss. The posting of impairments can be regarded as a credit risk mitigation technique, enabling the adequacy of capital to meet the credit risk requirements and the actual financing requirement.

Maximum exposure

Banco Carregosa's maximum exposure to credit risk is as follows:

FINANCIAL ASSETS	31/12/2018	31/12/2017
Cash and liquid assets in central banks and other demand deposits	87 170 461	102 638 700
Financial assets at fair value through profit or loss:		
Available for sale financial assets	26 958 310	10 355 514
Non-negotiable financial assets mandatorily at fair value through profit or loss	8 101 664	0
Other financial assets at fair value through profit or loss	18 003	11 969
Financial assets at fair value through other comprehensive income	44 017 731	22 903 194
Financial assets at amortised cost	118 844 917	119 670 727
Derivatives - Hedge accounting	26 133	53 480
Other assets	7 466 000	4 336 892
Total	292 603 219	259 970 476

OTHER COMMITMENTS	31/12/2018	31/12/2017
Personal/institutional guarantees		
Guarantees and commitments	7 498 436	6 886 982
Other personal guarantees provided and other contingent liabilities	2 841 227	3 329 013
Collateral (assets offered as collateral)	12 515 000	5 586 000
Irrevocable commitments	598 778	442 626
Revocable commitments	9 960 726	12 184 867
Total	33 414 166	28 429 487
Maximum Exposure	326 017 385	288 399 963

Client creditworthiness

The disclosures required by Circular Letter CC/2018/00000062 of Banco de Portugal, of November, are presented hereunder:

2.4.1 CREDIT RISK MANAGEMENT POLICY

The Bank grants credit exclusively to corporate entities and investors, according to the following set of standard operations, which it adapts to the needs of each client and transaction:

i) Mutual funds;
ii) Escrow accounts (CCC);
iii) Authorised bank overdrafts;
iv) Unauthorised bank overdrafts:
v) Technical overdrafts, arising exclusively from differences in dates-values of debit and credit transactions in the client's account;
vi) Bank guarantees, as an off-balance sheet form of potential loan;
vii) Credit cards, under the partnership with UNICRE;
viii) Purchasing of credits;
ix) Other types of credits, exceptionally and on a case by case basis, subject to a specific analysis for an appropriate cost-benefit analysis.

Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments.

2.4.2 GRANTING OF LOANS

The lending process is the initial phase of the analysis of the client's risk profile and the operation.

At the express request of the client, the necessary documents may be obtained to prepare the risk analysis. Before this information is sent to the Risk Department, the Director of the department in question together with the Commercial Department assesses the feasibility of the loan.

As regards the private segment, the credit risk assessment is based on an internal risk assessment model (rating model) consisting of qualitative and quantitative information.

As regards the corporate segment, credit rating is obtained directly from Ignios, to establish the counterparty risk level.

Cumulatively, the analysis also includes the client's management capacity, the value of the client's assets, loan guarantees, the sector framework and the integration of the operation/client in the loan portfolio (determination of the concentration risk).

Thus it is possible to calculate the impact of the operation on impairments, own funds and their requirements, and major risks.

2.4.3 NATURE OF PRINCIPLES, ESTIMATES AND HYPOTHESES USED IN MEASURING IMPAIRMENT

IFRS 9 introduces a new concept of impairment designated as Expected Credit Loss (ECL) which focuses on the assumption of expected loss, unlike IAS 39 whose underlying concept was that of incurred loss.

The scope of this new model applies to debt instruments recorded at amortised cost of fair value through comprehensive income, to most loan commitments, to financial guarantee contracts and contractual assets under IFRS 15.

The measurement of expected credit losses (ECL) now reflects:

i) An objective amount calculated through the valuation of a set of possible results weighted by their probabilities;
ii) The time value of money; and
iii) Reasonable and supportable information that is available without undue cost or effort at the reporting date on past events, current conditions and projections of future economic conditions.

To estimate the ECL, the Bank considers:

i) Borrower's sources of recurring revenues available to meet the scheduled payments;
ii) The capacity of a borrower to generate sufficient cash flows over the term of the financial instrument;
iii) The general leverage level of the borrower and expected changes to leverage;
iv) Borrowers' incentives to meet their obligations;
v) Unencumbered assets;
vi) Reasonably possible one-off events and recurring behaviours likely to affect the borrower's capacity to meet its contractual obligations;
vii) Macroeconomic scenarios and other assumptions that provide the framework of the ECL;
viii) Timely assessments of the collateral value and analysis of factors likely to impact the future value of the collateral, taking into account that collateral value directly affect the *Loss Given Default* (LGD) estimates.

ECL is recognised at 12 months or the entire lifetime of the operation, depending on whether there was a significant increase in credit risk since initial recognition.

The measurement of the ECL reflects the probability of default by the debtor, considering its temporary effect and the probability given the default (designated as *Loss Given Default* – LGD). Additionally, this calculation must be based on reasonable and supportable information that is available without undue cost or excessive effort.

Note that the change in International Financial Reporting Standards, through the introduction of IFRS 9, implies, as aforementioned regarding the determination of impairments, the measurement of expected losses.

Macroeconomic models are integrated when estimating expected losses, by the weighting of prospective scenarios in relation to key indicators.

Finally, it should be noted that the approach adopted in the calculation of the ECL is at an individual level, as each position is analysed separately.

2.4.4 DETERMINATION OF EXPOSURES WITH LOW CREDIT RISK

In line with BdP's Circular Letter 2018/00000062, the credit risk of a financial instrument is said to have not increased significantly since initial recognition when (which is expected to be limited in number) it is determined that the financial instrument has a low credit risk at the reporting date.

Moreover, the credit risk evolution of these financial instruments must be continuously monitored when they are classified as having a low credit risk, so as to identify whether there have been significant increases in risk and ensure that they maintain the same low credit risk assumptions in each reporting period.

Taking into account the requirements set out in IFRS 9 for the application of the low credit risk assumption, it is reasonable to consider that this assumption can be undertaken in contractual exposures with the following counterparts, notwithstanding the provisions in the preceding paragraph:

i) Central Administrations or Central Banks of State Members and of other EEA countries;
ii) Multilateral development banks;
iii) International organisations.

The calculation of null expected credit losses for these exposures must be properly justified by applying the principle of materiality.

2.4.5 INDICATION OF SIGNS OF IMPAIRMENT BY CREDIT SEGMENTS

Unlikely to pay

Unlikely to pay credit is said to exist when principal and interest instalments are less than 90 days past due, but regarding which there is evidence that justify their classification as problem debt, in particular bankruptcy, the debtor is in liquidation, among others, in accordance with BdP's Circular Letter 2018/00000062.

It is also considered that the entire debtor's exposure is classified as non-performing whenever the exposures more than 90 days past due exceed 20% of the debtor's total exposure. This situation shows an exposure contagion that can spread to a group of connected clients.

Significant increase of credit risk

The transition from the first to the second level, in accordance with IFRS 9, is dictated by the significant increase of credit risk since initial recognition. In this scope, all reasonable and supportable information that is available without undue cost or effort that may determine the existence of a significant increase of credit risk must be considered, in particular in the case of any of the following:

i) Change in internal or external ratings;
ii) Change in external credit risk indicators;
iii) Change (actual or expected) in the risk of non-performing exposure in another instrument of the same debtor;
iv) Change in interest rates applied due to the increase of credit risk;
v) Non-payment.

Without prejudice to using additional indicators, the following indicators are said to translate situations of significant increase of credit risk of a financial instrument, except if there is objective evidence to the contrary:

i) Credit with more than 30 days late payment of principal, interest, commissions or other expenses or a situation similar to an unlikely to pay credit;
ii) Deferred exposures;
iii) Credit whose debtor meets at least two of the following criteria, occurring after the initial recognition of the operation:
   - Having at least one record of a default with the Central Credit Register;
   - Having its name in lists of cheque users who represent a risk or who have rebutted / not been collected;
   - Debts to the Tax Authority, Social Security or to employees, in a default situation or pledge enforced by the State;
   - Other signs that trigger the activation of internal alert levels.

Deferred exposures can be considered as not being impaired due to agreements between the debtor and its creditors to ensure the sustainability of the debt and feasibility of the debtor, if the said agreements are base on an operational and financial feasibility plan of the company which includes at least one of the following:

i) Demonstration of the company's debt sustainability, considering the amounts that, according to the plan, are recoverable under the new conditions agreed, assuming an adequate conservative margin to absorb any deviations in the estimates made;
ii) Analysis of the company's management quality and, where necessary, the measures adopted to mitigate the problems identified;
iii) Analysis of possible unsustainable business areas and, if any, the plans for a company restructuring process in which only the feasible business areas will be maintained;
iv) Analysis of the fact that there is no other factor reasonably likely to weaken the conclusion that the restructured company, under the previously identified conditions, is able to meet its obligations under the new agreed conditions.

In the case of the aforementioned debt restructuring agreements, a probational period of 24 months is considered, reckoned from the date on which the agreement is formalised, for financial instruments over which the criteria materialising a significant increase of credit risk are no longer observed.

During this probational period, the debt sustainability resulting from the new agreement must be made clear by means of an analysis to check the objective criteria demonstrating the return to a credit risk profile close to that of the financial instrument at initial recognition.

An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date, the operation therefore being classified in the first level.

2.4.6 OBJECTIVE EVIDENCE OF IMPAIRMENT

The existence of objective evidence of impairment determines the classification of the operation on the third level.

In accordance with IFRS 9, on the third level, in addition to considering the whole life of the exposure, the entity needs to take into account that interest income may be based on the net amount, using an adjusted effective interest rate, recognising an allowance for losses according to the whole life of the instrument.

Without prejudice to the companies being able to use other indicators, the following indicators represent impairments of a financial instrument, unless there is objective evidence to the contrary:

i) Credit more than 90 days past due of principal, interest, commissions or other expenses, that is, non-performing credits;
ii) Reduced probability of the debtor fully meeting its credit obligations, the recovery of the debt depending on the activation of any guarantees received, that is, unlikely to pay credit. For example:

- The institution has activated guarantees and collateral;
- The institution has initiated legal proceedings to collect the debt;
- The debtor's sources of recurrent income are no longer available for payment of reimbursement instalments (e.g. loss of a client or important lessee, continued losses or a significant drop in turnover / operating cash flows);
- The debtor's financial structure is significantly inadequate, or the debtor is unable to obtain additional financing;
- The Bank ceases to charge interest (even if partially or on condition);
- The Bank directly cancels the debtor's entire debt or part thereof (asset write-off /debt forgiveness), outside the scope of a restructuring operation;
- The Bank or institution leading the group of creditors, as applicable, initiates bankruptcy/insolvency procedures against the debtor;
- Existence of out-of-court negotiations for the settlement or reimbursement of the debt (e.g., suspension agreements);
- The debtor filed for bankruptcy or insolvency;
- A third party has filed for the bankruptcy or insolvency of the Bank's debtor;
- Debts to the Tax Authority, Social Security or employees, in a situation of litigation or pledge enforced by the State.

iii) Deferred exposures may occur when:

- The restructuring is supported by an inadequate payment plan. Among others, an inadequate payment plan is said to exist when it is successively breached, the operation has been restructured to avoid default, or it is based on expectations not supported by macroeconomic forecasts;
- Restructured credits include contractual clauses that extend the repayment operation, in particular with the introduction of a grace period of more than two years for the payment of principal;
- Restructured credits due to financial difficulties that are in a cure period are again restructured due to financial difficulties, or that present overdue principal or interest of more than 30 days during that period;
- Credits included in debt agreement that are not in accordance with the provisions in item 2.2. of the Impairment Manual.

A cure period is considered for financial instruments in which the criteria that resulted in the impairment situation are no longer observed. In particular, a 12-month cure period is applied for instruments in impairment that have been subject to restructuring measures due to the debtor's financial difficulties.

2.4.7 INDICATION OF THE THRESHOLDS DEFINED FOR SEPARATE ANALYSIS

Separate analysis applies to all the credit operations:

i) Of a group of clients whose current exposure is more than 5 % of own funds;
ii) Of a group of clients whose default credit exceeds €50 000.

2.4.8 POLICY ON INTERNAL RISK RATINGS, SPECIFYING THE TREATMENT GIVEN TO A BORROWER CLASSIFIED AS IN DEFAULT

Clients found to be in default are analysed by the Credit Committee. A solution that is more adequate to the client's interests is applied taking into consideration its financial capacity.

2.4.9 GENERAL DESCRIPTION OF THE CALCULATION OF THE CURRENT VALUE OF FUTURE CASH FLOWS IN THE DETERMINATION OF IMPAIRMENT LOSSES EVALUATED SEPARATELY AND COLLECTIVELY

The following are taken into consideration in the calculation of specific impairment:

i) Exposure;
ii) Estimated business cash flows or other client's cash flows;
iii) Cash flows of real estate projects;
iv) Expected cash flows related to the execution/pledge of collateral;
v) Estimated cash flows arising from calls on private guarantees;
vi) Cash flows generated by the execution of the financial assets of the debtor with the Bank to settle one-off authorised overdrafts and up to no more than 30 days and overdue loans, originated from contracted loans or otherwise.

As per Circular Letter CC/2018/00000062 of Banco de Portugal, haircuts are applied in the determination of cash flows generated by guarantees and any costs of forced sale are excluded. When the Bank considers that the adjusted market value does not safely reflect the asset's realisable value, additional haircuts are applied. To that end, the haircuts applied previously are used as a guide:

i) Regulatory volatility adjustments using the financial collateral comprehensive method as described in Regulation (EU) 575/2013 for eligible securities;
ii) 30% for other securities;
iii) 35% for other pledges.

This percentage is restated at the contract discount rate plus any maintenance costs of the underlying asset.

When the transaction does not fulfil the conditions that require a specific calculation, or when this originates a null impairment, a general calculation is used. In this case, cor the corporate segment credit ratings provided by specialised companies are used, between 1 and 10, with associated one-year probabilities of default. Risk level 10 stands for the highest probability of default (PD), of 25%, and 1 to the lowest, of 0%. The Bank added a level 0 to the above levels, with a PD of 100 % for credit default.

As regards the private segment, the Bank has in place an internal model based on the knowledge of the client and its solvency situation, as well as on the maturity of the operation. For the sake of prudence, the upper threshold of the results produced by this model is risk level 5 (a PD of 0.4%).

Description of the rescue period used for the various segments and reasons for its suitability

The rescue period is the time elapsed since the loss event occurs until it is noticed, which can be divided into 2 moments:

i) First moment when the information emerges;
ii) Second moment, at a later date, when indicators are obtained that prove the existence of objective impairment evidence.

Banco Carregosa uses indicators that show a potential impairment loss, enabling it to quickly anticipate any deterioration in their clients' solvency standing, such as abnormal balances, difficulty in fulfilling the debt, changes in PDs, etc.

2.4.10 MONITORING OF THE LOAN PORTFOLIO

The monitoring of the loan portfolio is essential to anticipate pre-default situations, allowing the Bank to:

i) Identify the factors that prove the deterioration of the client's creditworthiness;
ii) Define solutions to renegotiate the debt.

2.4.11 CREDIT RECOVERY

If a credit default situation is found, measures are taken to recover such credit. In the case of private loans, the special schemes PARI/PERSI are activated, in accordance with Decree-law 227/2012.

2.4.12 CONCENTRATION OF RISK MANAGEMENT

The Risk Department is responsible for the concentration risk management, identifying, measuring and monitoring the exposures to which the loan portfolio is subject.

All operations are analysed by the Risk Committee, who makes a recommendation as regards the operation. This recommendation is analysed by the Executive Committee, which bases its decision on the recommendation of the Credit Committee.

2.4.13 POLICY ON THE WRITE-OFF OF LOANS (ASSET WRITE-OFF)

In accordance with EBA/GL/2017/06, there is a write-off of a credit when all the conditions below are met:

i) Bad debt in arrears for more than 24 months;
ii) Credit with impairment loss recognised in full.

When the conditions for the write-off are met, the Commercial Department having been heard, the operation is taken to the Credit Committee by the Credit Department, proposing and justifying the write-off. If there are no tax consequences, bad debts in arrears for more than 24 months and for which and impairment loss in the same amount of the loan is recognised (and accepted for tax purposes) must be removed from the balance sheet.

2.4.14 IMPAIRMENT REVERSAL POLICY

Impairment is reversed whenever there is:

i) A significant improvement in the capacity of the client to honour the payment, with a positive impact on the client's credit rating;
ii) Increase in collateral.

Under these conditions a new impairment is calculated, directly reversing the previous impairment.

2.4.15 DESCRIPTION OF THE RESTRUCTURING MEASURES APPLIED AND THEIR ASSOCIATED RISKS, AS WELL AS THE CONTROL AND MONITORING MECHANISMS THEREOF

The restructuring of a loan takes place whenever there are changes to the terms and conditions of the contract. For that purpose a note must be added indicating "restructured loan due to the client's financial difficulties".

Loans must be marked in the Bank's computer system as "restructured due to the client's financial difficulties".

Solutions for the recovery of the loan must take into consideration the client's current situation and in the best interest of Banco Carregosa.

2.4.16 DESCRIPTION OF THE EVALUATION PROCESS AND COLLATERAL MANAGEMENT

Mortgage guarantees

Evaluation
Mortgage guarantees are evaluated by an expert evaluator registered with the CMVM, who will be responsible for drafting a report on the property, in accordance with the CNVN regulations on evaluation criteria and expert evaluators.

Revaluation and review
Mortgage guarantees are revaluated by an expert evaluator on a two-year basis, except in situations where a more regular revaluation is necessary.

2.4.17 OTHER GUARANTEES

i) Listed securities are evaluated mark-to-market at the reporting date;
ii) Non-listed securities are evaluated every year based on the last audited accounts, whenever the area fulfils the necessary conditions, according to the asset's specificities;
iii) Exceptionally, in special situations, the Bank may use evaluators suited to the nature of the collateral;
iv) Guarantees without evaluation which potentially may not be called on are regarded as equal to zero.

Within the scope of IFRS 9, the recalculation of the ECL amount and disregarding the underlying collateral, the amount totals €4,788,931, as at December 2018.

Quantitative disclosures
The information on the client loans portfolio as at 31 December 2018 and 2017 is presented below.

a) Breakdown of exposures and related impairment

a1)

EXPOSURE AS AT 31.12.2018

SEGMENT	TOTAL EXPOSURE	COMPLIANT LOANS	OF WHICH SETTLED	OF WHICH RESTRUCTURED	DEFAULTING LOANS	OF WHICH RESTRUCTURED
Construction & CRE	68 646 086	68 646 086		11 566 666		
Corporate	16 803 952	16 803 952		2 580 112		
Guarantees	7 491 436	7 491 436		49 017		
Individual	16 013 860	16 013 860		200 000		
Non-contracted					2 191 720	1 593 641
Total	108 955 334	108 955 334		14 395 795	2 191 720	1 593 641

IMPAIRMENT AS AT 31.12.2018

SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS	DEFAULTING LOANS
Construction & CRE	305 088	299 524	5 565
Corporate	862 200	75 942	786 258
Guarantees	6 081	6 081	
Individual	128 471	69 469	59 002
Non-contracted	273 858		273 858
Total	1 575 698	451 015	1 124 682

There is a difference between the book values and the figures shown in the table, in that the amortised cost amounts are not included. For the sake of prudence, this value is not included in the impairment calculation method.

a1)

EXPOSURE AS AT 31.12.2017

SEGMENT	TOTAL EXPOSURE	COMPLIANT LOANS	OF WHICH SETTLED	OF WHICH RESTRUCTURED	DEFAULTING LOANS	OF WHICH RESTRUCTURED
Construction & CRE	46 142 203	46 142 203		10 699 017	38 917	15 690
Corporate	23 260 010	23 260 010		4 788 465	8 755	8 677
Guarantees	6 659 965	6 659 965		3 000	306	
Individual	17 909 653	17 909 653		780 257	4 520 979	4 509 652
Non-contracted					154 086	
Transferable Securities	3 880 993	3 880 993			43	
Total	97 852 824	97 852 824		16 270 739	4 723 042	4 534 018

IMPAIRMENT AS AT 31.12.2017

SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS	DEFAULTING LOANS
Construction & CRE	296 928	288 707	8 221
Corporate	277 108	276 162	946
Guarantees	11 612	11 582	31
Individual	635 943	173 963	461 980
Non-contracted	177 415		177 415
Transferable Securities	3 638	3 634	4
Total	1 402 644	754 047	648 596

a2)

TOTAL EXPOSURE AS AT 31.12.2018

	COMPLIANT LOANS				DEFAULTING LOANS	
	DAYS IN ARREARS < 30					
SEGMENT	TOTAL EXPOSURE 31.12.2018	NO EVIDENCE	WITH EVIDENCE	SUB-TOTAL	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	68 646 086	119 924	11 566 666	11 686 590	124 155	113 962
Corporate	16 803 952	2 508	2 580 112	2 582 620	2 508	
Guarantees	7 491 436	320	49 017	49 337	320	
Individual	16 013 860	8 044	200 000	208 044	8 044	11 873
Non-contracted					28 769	1 903 666
Total	108 955 334	130 795	14 395 795	14 526 590	163 796	2 029 502

TOTAL IMPAIRMENT AS AT 31.12.2018

	COMPLIANT LOANS			DEFAULTING LOANS	
SEGMENT	TOTAL IMPAIRMENT	DAYS IN ARREARS < 30	DAYS IN ARREARS BETWEEN 30-90	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	305 088	119 924	4 232	124 155	113 962
Corporate	862 200	2 508		2 508	
Guarantees	6 081	320		320	
Individual	128 471	8 044		8 044	11 873
Non-contracted	273 858	16 033	12 736	28 769	1 902 089
Total	1 575 698	146 828	16 968	163 796	2 027 925

a2)

TOTAL EXPOSURE AS AT 31.12.2017

	COMPLIANT LOANS				DEFAULTING LOANS	
	DAYS IN ARREARS < 30					
SEGMENT	TOTAL EXPOSURE 31.12.2017	NO EVIDENCE	WITH EVIDENCE	SUB-TOTAL	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	46 142 203	12 250 000	10 699 017	22 949 017	128 911	670
Corporate	23 260 010		4 788 465	4 788 465	8 677	78
Guarantees	6 659 965	2 440 000	3 000	2 443 000	308	
Individual	17 909 653	1 075 000	780 257	1 855 257		4 520 979
Non-contracted					27 815	153 548
Transferable Securities	3 880 993				43	
Total	97 852 824	15 765 000	16 270 739	32 035 739	165 754	4 675 275

TOTAL IMPAIRMENT AS AT 31.12.2017

	COMPLIANT LOANS			DEFAULTING LOANS	
SEGMENT	TOTAL IMPAIRMENT	DAYS IN ARREARS < 30	DAYS IN ARREARS BETWEEN 30-90	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	296 928	53 953	74 958	128 911	670
Corporate	277 108			8 677	78
Guarantees	11 612	2		308	
Individual	635 943				4 520 979
Non-contracted	177 415	26 822	458	27 815	
Transferable Securities	3 638			43	
Total	1 402 644	80 777	75 416	165 754	4 521 728

* Loan with instalments of principal or accrued interest for less than 90 days, but about which there is evidence justifying its classification as credit risk, including bankruptcy, liquidation of debtor, among others.

b) Breakdown of loan portfolio by segment and by year of production (31/12/2018)

	CORPORATE			CONSTRUCTION & CRE		
YEAR OF PRODUCTION	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT
2004 and prior years						
2005						
2006						
2007						
2008						
2009						
2010						
2011						
2012						
2013				2	1 149 017	4 593
2014	2	847 833	2 143	1	3 500 000	60 937
2015	4	786 925	616 464	5	4 729 770	12 299
2016	7	11 134 016	35 551	8	15 308 898	106 558
2017	7	4 121 519	130 356	9	20 337 570	12 472
2018	5	3 899 499	7 916	21	26 934 848	112 205
Total	25	20 789 792	792 430	46	71 960 103	309 063

Includes Guarantees in the segment "Corporate" and "Construction & CRE".

b) Breakdown of loan portfolio by segment and by year of production (31/12/2017)

	CORPORATE			CONSTRUCTION & CRE		
YEAR OF PRODUCTION	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT
2004 and prior years						
2005						
2006						
2007						
2008						
2009						
2010						
2011	1	230 000	1 150			
2012						
2013	2	1 150 000	3 821	2	1 649 017	4 037
2014	2	792 545	5 014	1	3 550 000	88 817
2015	7	6 658 243	159 438	3	386 777	3 540
2016	8	7 801 353	70 705	8	19 849 576	138 454
2017	6	6 627 869	36 980	10	20 706 834	62 080
Total	26	23 260 010	277 108	24	46 142 203	296 928

c) Breakdown of gross loan exposure and impairment evaluated specifically and in general[10], by segment and geographical spread

c.1) By segment:

	CONSTRUCTION & CRE		CORPORATE		GUARANTEES	
31.12.2018	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	68 646 086	305 088	16 803 952	862 200	7 491 436	6 081
Total	68 646 086	305 088	16 803 952	862 200	7 491 436	6 081

	INDIVIDUAL		NON-CONTRACTED		TOTAL	
31.12.2018	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	16 013 860	128 471	2 191 720	273 858	111 147 055	1 575 698
Total	16 013 860	128 471	2 191 720	273 858	111 147 055	1 575 698

	CONSTRUCTION & CRE		CORPORATE		GUARANTEES	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	46 142 203	296 928	23 260 010	277 108	6 659 965	11 612
Total	46 142 203	296 928	23 260 010	277 108	6 659 965	11 612

	INDIVIDUAL		NON-CONTRACTED		TRANSFERABLE SECURITIES		TOTAL	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	17 909 653	635 943		177 415	3 880 993	3 638	97 852 824	1 402 644
Total	17 909 653	635 943		177 415	3 880 993	3 638	97 852 824	1 402 644

[10] In order to provide more disaggregated information, taking advantage of the structure defined by Circular Letter 2/2014, of BdP, it is assumed that although all loan operations are subject to individual impairment calculation, the tables below have adopted the parallelism between the terms individual > specific and collective > general, which was already adopted in previous years, but lacked this clarification.

c.2) By sector of activity:

31.12.2018	REAL ESTATE ACTIVITIES EXPOSURE	REAL ESTATE ACTIVITIES IMPAIRMENT	PRIVATE EXPOSURE	PRIVATE IMPAIRMENT	PROPERTY DEVELOPMENT EXPOSURE	PROPERTY DEVELOPMENT IMPAIRMENT	ACCOMODATION EXPOSURE	ACCOMODATION IMPAIRMENT
EVALUATION								
Individual	71 960 103	309 063	15 143 230	619 584	4 341 276	3 445	2 400 000	6 000
Total	71 960 103	309 063	15 143 230	619 584	4 341 276	3 445	2 400 000	6 000

31.12.2018	ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR EXPOSURE	ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR IMPAIRMENT	ACCOMODATION EXPOSURE	ACCOMODATION IMPAIRMENT	OTHERS EXPOSURE	OTHERS IMPAIRMENT	TOTAL EXPOSURE	TOTAL IMPAIRMENT
EVALUATION								
Individual	3 985 840	2 004	3 496 758	30 617	9 819 847	635 601	111 147 055	1 575 698
Total	3 985 840	2 004	3 496 758	30 617	9 819 847	635 601	111 147 055	1 575 698

31.12.2017	REAL ESTATE ACTIVITIES EXPOSURE	REAL ESTATE ACTIVITIES IMPAIRMENT	PRIVATE EXPOSURE	PRIVATE IMPAIRMENT	FINANCIAL INTERMEDIATION, EXCEPT INCURANCE AND PENSION FUNDS EXPOSURE	FINANCIAL INTERMEDIATION, EXCEPT INCURANCE AND PENSION FUNDS IMPAIRMENT	ACCOMODATION EXPOSURE	ACCOMODATION IMPAIRMENT
EVALUATION								
Individual	46 302 203	297 703	18 457 368	675 636	11 823 938	297 996	6 257 500	11 095
Total	46 302 203	297 703	18 457 368	675 636	11 823 938	297 996	6 257 500	11 095

31.12.2017	PROPERTY DEVELOPMENT (BUILDING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION EXPOSURE	PROPERTY DEVELOPMENT (BUILDING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION IMPAIRMENT	ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR EXPOSURE	ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR IMPAIRMENT	RETAIL TRADE, EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES EXPOSURE	RETAIL TRADE, EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES IMPAIRMENT	WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES EXPOSURE	WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES IMPAIRMENT
EVALUATION								
Individual	4 686 851	38 173	3 985 840	27 219	3 175 094	40 170	1 220 000	3 050
Total	4 686 851	38 173	3 985 840	27 219	3 175 094	40 170	1 220 000	3 050

31.12.2017	MANUFACTURE OF ELECTRICAL EQUIPMENT EXPOSURE	MANUFACTURE OF ELECTRICAL EQUIPMENT IMPAIRMENT	ARCHITECTURE, ENGINEERING AND RELATED ACTIVITIES; TESTS AND TECHNICAL ANALYSIS EXPOSURE	ARCHITECTURE, ENGINEERING AND RELATED ACTIVITIES; TESTS AND TECHNICAL ANALYSIS IMPAIRMENT	EDUCATION EXPOSURE	EDUCATION IMPAIRMENT	CROPS, ANIMAL PRODUCTION, HUNTING, FORESTRY AND FISHING EXPOSURE	CROPS, ANIMAL PRODUCTION, HUNTING, FORESTRY AND FISHING IMPAIRMENT
EVALUATION								
Individual	681 683	1 023	450 000	4 500	342 545	514	225 017	1 949
Total	681 683	1 023	450 000	4 500	342 545	514	225 017	1 949

31.12.2017	CONSULTANCY AND IT SERVICE ACTIVITIES EXPOSURE	IMP.*	ACTIVITIES OF THE SOCIAL HEADQUARTERS AND MANAGEMENT CONSULTING EXP.*	IMP.*	SPECIALIZED CONSTRUCTION ACTIVITIES EXP.*	IMP.*	CONSULTANCY AND IT SERVICE ACTIVITIES EXP.*	IMP.*	TOTAL EXP.*	IMP.*
EVALUATION										
Individual	200 584	2 966	29 000	382	15 201	190		78	97 852 824	1 402 644
Total	200 584	2 966	29 000	382	15 201	190		78	97 852 824	1 402 644

c.3) By geographical spread:

31.12.2018	PORTUGAL EXPOSURE	IMPAIRMENT	FRANCE EXPOSURE	IMPAIRMENT	SPAIN EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	106 403 945	907 468	1 096 758	28 248	617 248	616 444
Total	106 403 945	907 468	1 096 758	28 248	617 248	616 444

31.12.2017	PORTUGAL EXPOSURE	IMPAIRMENT	FRANCE EXPOSURE	IMPAIRMENT	SPAIN EXPOSURE	IMPAIRMENT	S. TOMÉ E PRÍNCIPE EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	73 736 264	845 395						
Collective	21 839 098	372 563	1 175 799	29 395	603 810	144 462	443 113	665
Total	95 575 361	1 217 958	1 175 799	29 395	603 810	144 462	443 113	665

31.12.2018	S. TOMÉ E PRÍNCIPE EXPOSURE	IMPAIRMENT	OTHERS EXPOSURE	IMPAIRMENT	TOTAL EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	498 150	69	2 530 953	23 470	111 147 055	1 575 698
Total	498 150	69	2 530 953	23 470	111 147 055	1 575 698

31.12.2017	PORTUGAL EXPOSURE	IMPAIRMENT	FRANCE EXPOSURE	IMPAIRMENT	SPAIN EXPOSURE	IMPAIRMENT	S. TOMÉ E PRÍNCIPE EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	95 575 361	1 217 958	1 175 799	29 395	603 810	144 462	443 113	665
Total	95 575 361	1 217 958	1 175 799	29 395	603 810	144 462	443 113	665

31.12.2017	UNITED STATES OF AMERICA EXP.*	IMP.*	LUXEMBOURG EXP.*	IMP.*	UNITED KINGDOM EXP.*	IMP.*	DENMARK EXP.*	IMP.*	TOTAL EXP.*	IMP.*
EVALUATION										
Individual	52 699	21	2 042	18		9 973		152	97 852 824	1 402 644
Total	52 699	21	2 042	18		9 973		152	97 852 824	1 402 644

* EXP. = Exposure | IMP. = Impairment

d) Detail of the gross exposure value of credit and impairment by segment, sector and geography

2018	COMPLIANT LOANS			DEFAULTING LOANS		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	13	14 395 795	174 101	2	1 593 641	31 571
Grace Period						
Reduction of Rate						

2018	TOTAL		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	15	15 989 436	205 672
Grace Period			
Reduction of Rate			

2017	COMPLIANT LOANS			DEFAULTING LOANS		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	15	16 270 739	672 850	5	4 557 714	453 402
Grace Period						
Reduction of Rate						

2017	TOTAL		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	15	16 270 739	672 850
Grace Period			
Reduction of Rate			

e) Inward and outward flows in the restructured loan portfolio:

	31.12.2018
Opening balance of the restructured loan portfolio (gross of impairment)	16 286 429
Restructured loans in the period	
Interest accrued on restructured portfolio	
Payment of restructured loans (partial or total)	
Loans reclassified from «restructured» to «normal»	
Others	(296 993)
Closing balance of the restructured loan portfolio (gross of impairment)	15 989 436

	31.12.2017
Opening balance of the restructured loan portfolio (gross of impairment)	16 270 739
Restructured loans in the period	
Interest accrued on restructured portfolio	15 690
Payment of restructured loans (partial or total)	
Loans reclassified from «restructured» to «normal»	
Others	
Closing balance of the restructured loan portfolio (gross of impairment)	16 286 429

f) Breakdown of the fair value of collateral underlying the loan portfolio of the Corporate, Construction & CRE and Housing segments

31.12.2018 — CONSTRUCTION & CRE

	BUILDINGS		OTHER REAL COLLATERAL*	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	34	8 493 200	15	29 120 794
>=0,5M€ and <1M€	7	5 611 000	3	650 452
>= 1M€ and <5M€	4	8 393 000	1	199 190
>=5M and <10M€	4	27 416 000	4	1 018 350
>=10M and <20M€				
>=20M and <50M€				
>=50M				
Total	49	49 913 200	23	30 988 787

31.12.2018 — CORPORATE

	BUILDINGS		OTHER REAL COLLATERAL	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	48	10 609 300	14	7 540 684
>=0,5M€ and <1M€	19	11 855 000	5	202 994
>= 1M€ and <5M€	11	17 341 000	8	737 653
>=5M and <10M€	1	5 217 000		
>=10M and <20M€				
>=20M and <50M€				
>=50M				
Total	79	45 022 300	27	8 481 331

31.12.2017 — CONSTRUCTION & CRE

	BUILDINGS		OTHER REAL COLLATERAL*	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	10	2 687 400	26	704 271
>=0,5M€ and <1M€	3	2 472 000	2	1 565 793
>= 1M€ and <5M€	3	8 776 000	4	12 708 959
>=5M and <10M€	3	21 103 000	1	5 605 313
>=10M and <20M€	1	10 507 611		
>=20M and <50M€				
>=50M				
Total	20	45 546 011	33	20 584 335

31.12.2018 — CORPORATE

	BUILDINGS		OTHER REAL COLLATERAL	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	3	517 029	25	826 953
>=0,5M€ and <1M€	5	3 368 625	2	1 148 200
>= 1M€ and <5M€	7	13 959 800	2	5 250 000
>=5M and <10M€	2	11 339 000	1	7 353 473
>=10M and <20M€				
>=20M and <50M€				
>=50M	1	89 481 597		
Total	18	118 666 051	30	14 578 625

*Example: Shares, bonds, deposits, material assets

g) LTV ratio of segments

2018

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral	292 548	1 180	8 516
<60%	12 469 513		20 435
>=60% and <80%	2 195 463		83 167
>=80% and <100%	710 678		5 706
>=100%	345 658	10 694	82 422
Construction & CRE			
With no associated collateral	7 130 956		72 069
<60%	45 572 553	113 962	142 862
>=60% and <80%	10 250 000		86 678
>=80% and <100%	692 577		2 065
>=100%	5 000 000		1 414
Corporate			
With no associated collateral	535 595		20 016
<60%	10 903 383		18 966
>=60% and <80%	3 719 150		31 722
>=80% and <100%			
>=100%	1 645 824		719 722
Non-contractualised		2 065 885	273 858
With no associated collateral			
<60%			
>=60% and <80%			
>=80% and <100%			
>=100%			
Guarantees			
With no associated collateral	34 678		76
<60%	2 504 585		877
>=60% and <80%	891 333		2 958
>=80% and <100%			
>=100%	4 060 840		2 170
Total	108 955 334	2 191 721	1 575 698

2017

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral	2 038 004	7 683	43 337
<60%	14 868 175		17 610
>=60% and <80%	169 393	4 509 652	456 079
>=80% and <100%	455 240		5 440
>=100%	378 841	3 644	113 478
Transferable Securities			
With no associated collateral			
<60%	3 855 223		3 428
>=60% and <80%			
>=80% and <100%			
>=100%	25 770	43	210
Construction & CRE			
With no associated collateral			
<60%	18 697 835	23 897	133 347
>=60% and <80%	11 263 248		118 744
>=80% and <100%	6 800 000		14 743
>=100%	9 381 120	15 020	30 094
Corporate			
With no associated collateral			
<60%	17 181 769	8 755	96 428
>=60% and <80%	4 795 860		2 289
>=80% and <100%			
>=100%	1 282 382		178 391
Non-contractualised			
With no associated collateral		145 447	172 450
<60%		3 529	353
>=60% and <80%			
>=80% and <100%			
>=100%		5 110	4 612
Guarantees			
With no associated collateral			
<60%	2 479 913		5 965
>=60% and <80%			
>=80% and <100%			
>=100%	4 180 052	306	5 647
Total	97 852 824	4 723 085	1 402 643

h) Breakdown of the fair value and net book value of property received as payment in kind, by type of asset and seniority

ASSET 31.12.2018	NO. OF PROPERTIES	ASSET FAIR VALUE	BOOK VALUE
Land			
Urban	1	112 000	85 000
Total	1	112 000	85 000

ASSET 31.12.2017	NO. OF PROPERTIES	ASSET FAIR VALUE	BOOK VALUE
Land			
Urban	1	112 000	85 000
Total	1	112 000	85 000

i) Breakdown of the loan portfolio by internal risk degree

2018		LOW DEGREE	
SEGMENT	9	8	7
Construction & CRE	13 586 212	2 306 924	4 670 000
Corporate	1 968 884	2 580 112	5 545 240
Individual	1 104 491		
Guarantees	141 333	750 000	
Total	16 800 920	5 637 036	10 215 240

2018		MEDIUM DEGREE	
SEGMENT	6	5	4
Construction & CRE	4 284 590	20 061 343	17 837 019
Corporate	4 889 869	297 833	432 500
Individual	150 000	3 553 603	8 515 191
Guarantees	2 515 000	4 034 857	50 245
Total	11 839 458	27 947 637	26 834 955

2018		HIGH DEGREE		TOTAL
SEGMENT	3	2	1	
Construction & CRE	5 750 000		150 000	68 646 086
Corporate	60 938	850 000	178 576	16 803 952
Individual	2 642 075		48 500	16 013 860
Guarantees				7 491 436
Total	8 453 012	850 000	377 076	108 955 334

Doesn't include the category "Non-contractualised".

2017	LOW DEGREE		MEDIUM DEGREE	
SEGMENT	7	6	5	4
Construction & CRE	2 596 078	3 711 025	12 849 017	22 145 452
Corporate	4 766 860	2 121 019	4 040 287	9 031 814
Guarantees		2 477 678	3 985 840	
Individual	1 890 553	5 036 341	6 599 494	1 197 974
Non-contractualised				
Transferable Securities		3 880 993		
Total	9 253 490	17 227 055	27 474 638	32 375 240

2017		HIGH DEGREE		TOTAL
SEGMENT	3	2	1	
Construction & CRE	265 632	575 000	4 000 000	46 142 203
Corporate	908 572	450 000	1 941 459	23 260 010
Guarantees			196 447	6 659 965
Individual			3 185 291	17 909 653
Non-contractualised				
Transferable Securities				3 880 993
Total	1 174 204	1 025 000	9 323 197	97 852 824

j) Disclosure of risk parameters associated with the impairment model by segment

2018

	IMPAIRMENT			
	PD (%)			
SEGMENT	< 30 DAYS WITH NO EVIDENCE	< 30 DAYS WITH EVIDENCE	BETWEEN 30-90 DAYS	LGD (%)
Construction & CRE	8%	0%	0%	7%
Corporate	0%	0%	0%	0%
Guarantees	0%	0%	0%	0%
Individual	1%	0%	0%	1%
Non-contractualised	1%	1%	1%	121%

2017

	IMPAIRMENT			
	PD (%)			
SEGMENT	< 30 DAYS WITH NO EVIDENCE	< 30 DAYS WITH EVIDENCE	BETWEEN 30-90 DAYS	LGD (%)
Construction & CRE	4%	5%	5%	0%
Corporate	0%	0%	0%	0%
Guarantees	0%	0%	0%	0%
Individual	0%	0%	0%	322%
Non-contractualised	2%	0%	0%	0%

2.5 MARKET RISK

Market risk is the likelihood of negative impacts affecting the results or capital due to unfavourable changes in the market price of banking and trading portfolio instruments, including fluctuations in interest rates, foreign exchange rates, stock quotes and price of goods.

This risk is primarily associated to the trading portfolio, consisting of short-term positions held by the Bank, in a speculative logic, although it affect other own portfolios of the Bank.

Indirectly, this type of risk impacts on assets held in custody, under management and traded, and can lead to a reduction in the Bank's revenues. Combined with credit risk and liquidity risk, it can generate losses in the execution of credit guarantees.

The Bank maintains investments in the financial markets through it own portfolios of available for sale assets, assets measured at fair value and assets held to maturity, in accordance with EU Regulation 575/2013, recorded in accordance with IAS 38 and 39. These portfolios are regularly measured by Coolbiz (the Bank's backoffice application) according to stock price updates. For accounting purposes, the portfolio of assets held to maturity is recorded at amortised cost and the remaining ones at fair value. Unrealised gains or losses are recognised in reserves, in the case of available for sale assets, and in profit or loss for the remainder.

In prudential terms, market risk capital requirements apply to trading portfolio.

To determine the capital requirements to hedge the trading book's market risk, the two-week historical VaR method is used, with a 99.9% confidence interval and a 1-year time horizon.

The model's time parameters are in line with what is customary in the industry and with the definitions in Article 365(1)(c)(d) of Regulation 575/2013. As for the confidence interval, sub-paragraph b) of said article refers to 99%. However, for the sake of consistency with its *Risk Appetite Vision*, the Bank adopted 99.9% for the confidence interval, which is much more conservative than the regulatory order:

	2018	2017
VaR Trading Portfolio	991 753	99 798

Changes in VaR between 2017 and 2018 concern essentially the growth of about 70% in the trading portfolio. In 2018, the portfolio increased from €15.8M to €27M.

Interest rate risk

Interest rate risk is part of market risk analysis and relates to the balance sheet items that are not part of the trading portfolio, including off-balance sheet items. It results from the combination of base risk, interest rate yield curve, repricing risk and option risk. The following are the concepts underlying each risk sub-type in the interest rate risk:

- Basis risk – the risk arising from interest rates of assets being remunerated at indices other than those of interest rates of liabilities;
- Yield curve risk – the risk arising from unfavourable trends in various segments of the yield curve, which can originate losses when assets and liabilities are in different segments of the curve in different proportions;
- Repricing risk – the risk derived from the various assets and liabilities reindexing at different dates and rates;
- Option risk – the risk that arises from the option inherent to some assets and liabilities. The risk resulting from embedded options in balance sheet and off-balance sheet items.

On the other hand Instruction 34/2018 of BdP, Article 4(2) considers the sudden parallel change of +/- 200 base points in the original yield curve, i.e., without interest rate changes (C0), originating two new yield curves, Cs0 and Cd0, showing, respectively, a parallel rise and a parallel decline of 200 base points. Therefore, the two new yield curves thus obtained were considered the two filter levels, in a sequential manner.

Therefore, applying the methodology for the December 2018 financial year, we obtained the following results:

Change in the estimated expected financial margin at 1 year, arising from a parallel rise in the yield curve after the standard shock	(739 975)
Change in the estimated expected financial margin at 1 year, arising from a parallel decline in the yield curve after the standard shock	236 214

It should be noted that Instruction 34/2018 proposes the use of the cash-flow method ly, contrary to Instruction 19/2005, which set out contractual maturities as the method to be followed.

Exchange risk

Exchange risk is the likelihood of negative impacts affecting the results or the Bank's equity, arising from currency fluctuation against the euro. This risk is analysed for all positions denominated in currencies other than the euro.

The negative impacts arising from short-term exchange rate fluctuations normally result from the institution's trading activity. Indirectly, this risk impacts on the guarantees received denominated in foreign currency and on the portfolio management activity and financial brokerage.

With respect to currency mismatch, in December 2018 and 2017 the exchange risk was residual, as shown in the table below:

CURRENCY	2018	2017
USD	685 691	438 562
CHF	208 620	25 944
AUD	63 459	60 646
SEK	48 004	173 963
GBP	27 887	248 315
NOK	23 424	60 364
NZD	19 304	19 540
CAD	12 385	68 126
JPY	10 443	33 677
DKK	9 674	86 742
SGD	5 208	4 530
HKD	2 537	1 653
BRL	1 413	7 322
ZAR	345	384
MXN	288	274
RUB	45	1 034
PLN	10	10
TOTAL	1 118 727	1 231 087

2.6 OPERATIONAL RISK

Operational risk is the loss resulting from the inadequacy or failure of procedures, staff, internal systems or external events, and also legal risks, as laid down in EU Regulation 575/2013. Operational risk must be assessed at two different levels: technical and organisational. At a technical level, Banco Carregosa has also chosen to invest strongly in computerisation. As a result of this strategy, the Bank has a solid computer system, highly flexible and reliable for the Bank's operating processes.

The Bank's information systems contain sensitive and confidential private financial and personal data. Only the staff at Banco Carregosa is allowed to access these systems, in addition to subcontracted workers, under an appropriate framework, involved in the system's development or operation, or whose work involves the recording, review or retrieval of that data. This privilege is based on trust, good faith and is duly documented. At organisational level, in particular in the means and form used in reporting, monitoring risk and rules and policies related thereto, the Bank had to redefine and seek a new compromise between commercial interests and risks involved.

To monitor the risk, there is a model that allows the Bank to:

i) Determine process-related risks, without regard to existing controls (inherent risk);
ii) Assess the exposure of various processes to risk, considering the influence of existing controls (residual risk);
iii) Identify the impact of opportunities to improve the reduction of the more significant exposures (objective risk).

To mitigate operational risk, other arrangements exist, in particular internal report, contingency plans, business continuity plan, internal audit activities, and staff training plans. So far, loss history is not substantial compared to the volume of transactions and/or total revenue of the Bank.

2.7 LIQUIDITY RISK

Liquidity risk reflects the Bank's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

The Basel Committee published in 2014 the definition of the liquidity coverage ratio (LCR), and subsequently the delegated act of the European Commission was adopted, which introduced, given the CRD IV/CRR, new metrics and calculation criteria to be implemented in the European Union, in accordance with Directive 2013/36/EU of 26 June, of the European Parliament and of the Council on the access to the activity of credit institutions and prudential supervision of credit institutions and investment companies (*Capital Requirements Directive*, or CRD IV) and of the EU Regulation 575/2013 of the European Parliament and of the Council, of 26 June, on the prudential requirements for credit institutions and for investment companies (*Capital Requirements Regulation*, or CRR).

Banco Carregosa favours deposit investments in Central Bank, in other credit institutions and in tradable securities, thus avoiding cash shortfalls.

As part of risk control processes, the Executive Committee and those involved in own portfolio management receive a report from the Risk Department every day, which includes:

i) Allocation of assets, liabilities and off-balance sheet items;
ii) Estimates of minimum requirements for own funds;
iii) Counterpart concentration;
iv) Liquidity profile;
v) Other prudential indicators.

ALCO analyses the mismatch of asset and liability transactions on a monthly basis, and suggests alterations/corrections of maturities.

2.8 INFORMATION SYSTEM RISKS

Information system risks reside in the probability of negative impacts on profit and loss or on the Bank's equity arising from the information systems being incapable of preventing unauthorised accesses, of ensuring the integrity of data, or of continuing the business in the event of a failure, as well as of the pursuance of an inadequate strategy in this area, leading to, for example, the information systems being inadequate for new needs. This is systematised in the table below, which also points out the main factors that affect each of the identified risks.

Operational Risk | Information Systems

Strategy | Flexibility | Access | Integrity | Continuity | Outsourcing

RISK LEVELS	RELEVANT FACTORS
Strategy	- Consistency of the strategy defined for information systems with the (current and foreseeable) business needs of the Bank; - Soundness and effectiveness of policies for information systems; - Management and resource support to the strategy and information system policies.
Flexibility	- Flexibility and upgrading capacity; - Time needed for upgrading and maintenance.
Access	- Identification of functions and responsibilities as the basis for assigning differentiated accesses; - Access to the registration of the user who performed a specific process or task; - Efficacy of the authorisation process and adequacy thereof; - Robustness of protection and security mechanisms.
Integrity	- Completeness, correctness, consistency, relevance and timeliness of information; - Compliance with regulatory requirements and parameters defined at internal level; - Scale and standardisation of manual interventions; - Scale of virus infections.
Continuity	- Availability of information and information processing systems during office hours; - Delays in recovering information and resuming information processing processes after failure; - Contingency plan adequacy for IT risks.
Outsourcing	- Existence and importance of outsourcing contracts; - Duration of relationship and credibility of sub-contracted companies; - Transparency of contractual relations with sub-contracted companies; - Rotation and quality monitoring of resources used by sub-contracted companies; - Confidentiality of information transmitted or handled by sub-contracted companies; - Ease and cost of detecting errors or faults made; - Degree of Banks control of the quality of sub-contractors' activity; - Level of competition of services and ease of replacement.

Some one-off situations involving sub-contracted service providers (outsourcing) are subject to the same restrictions applicable to the Bank's employees.

The Bank recognises that information is a valuable asset and has, therefore, implemented sophisticated security and backup systems at communications level, with the required levels of redundancy of machines and communication lines, among others.

To support the existing system, the Bank's IT structure and its use is regulated through a Computer Use Policy, known to all employees. The Bank also has in place sophisticated redundancy and contingency systems.

2.9 COMPLIANCE RISK

Compliance risk is the likelihood of negative impacts affecting the Bank's results or equity, arising from violations or non-conformances with the laws, regulations, contracts, codes of conduct, established practices or ethical principles. They may result in legal or regulatory penalties, the limitation of business opportunities, less expansion potential or render impossible the requirement to meet obligations. This risk derives from various circumstances, listed in the table below, and impacts on the reputational risk, which will be treated in a separate topic.

Operational Risk | Compliance and Legal

- Laws and Regulations
- Codes of Conduct
- Transparency
- BC/FT

RISK LEVELS	RELEVANT FACTORS
Compliance with laws and regulations	- Compliance with disciplinary norms of the activity, namely legal and regulatory requirements, including fiscal ones; - Accuracy, rigour, completeness and compliance with reporting periods; - Veracity and accuracy of statements and tax calculations; - Capacity to anticipate changes in tax rules; - Implementation of sanctions or legal proceedings due to non-compliance, in particular by supervisory authorities, other activity regulators and tax authorities.
Information reporting	- Change in reporting duties; - Ability to monitor reporting duties; - Proper identification of information and form of reporting required; - Ability to process information.
Compliance with codes of conduct	- Respect for practices, procedures and policies by ethical principles and instituted practices; -Comprehensiveness of the code of conduct and of various principles and ethical rules, including accurate and clear codes of conduct, in particular the duty of secrecy, conflicts of interest, on the use of privileged information and others related with organisational culture; -Overall knowledge and understanding of the code of conduct by employees and collaborators; -Appreciation, by the Bank, of the integrity of its employees, visible in the selection criteria and institutional training programmes; -Punishing offences within the law.
Transparency	- Compliance with information disclosure requirements; - Level of transparency, as evidenced by the voluntary availability of information, either on the website, at the Bank's facilities, or to be sent to interested parties; - Helpfulness in providing information to the authorities, even based on informal contacts; - Availability of the "right" information to clients and other counterparts, either when the business relationship is concluded, or information provided subsequently.
Money laundering and terrorist financing	- Non-compliance with prevention of money laundering and sanctions imposed; - Development of business areas usually associated with money laundering and their relevance to the institution's overall business; - Risk profile of clients and counterparts in money laundering; - Geographical areas in which the institution operates.

The Bank pays special attention to the compliance risk, not so much for its financial impact, but because it is determined to comply with all legal rules. For this reason, there is an ongoing concern to improve the competences of the Compliance Department employees, and to strengthen the technical resources they have access to, providing specific tools to look up sanctioned entities or Politically Exposed Persons, and also of resources for monitoring communications through Bloomberg. The Bank nevertheless considers that monitoring this risk is not a duty of the Compliance Department alone.

The analysis of the adequacy and compliance with procedures depends on contributions from all the departments, who are responsible for identifying potential improvements and situations of non-compliance with the previously established procedures.

2.10 CREDIT CONCENTRATION RISK

Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the institution. Credit risk is found mainly in credit exposures (including securities credit lines, guarantees, derivatives and the Bank's deposits in other credit institutions. Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments.

At the reference date, there were no limits imposed on Demand Deposits, although the monitoring of concentration was overseen by the Assets and liabilities Committee (ALCO); as shown in the graph below, more than 70% of assets have an implicit risk in Portugal.

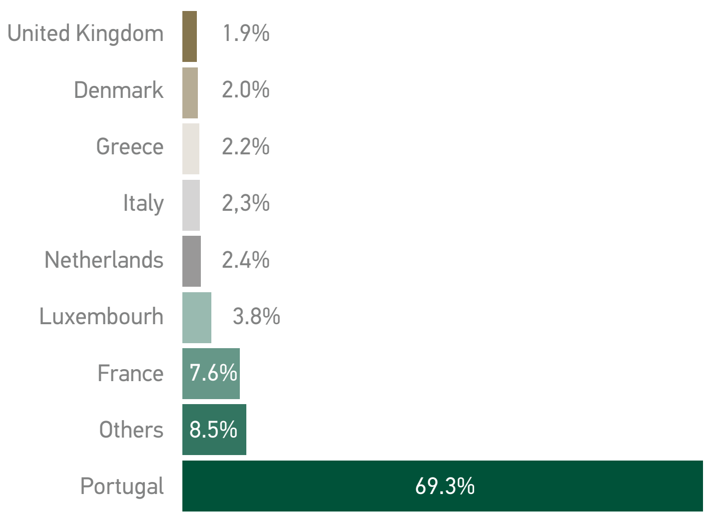


Figure 1 - Risk concentration Country

The table below characterises the three major exposures according to the following attributes:

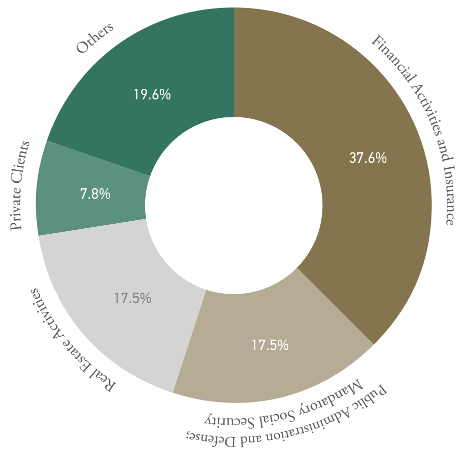
i) Country;
ii) Rating;
iii) (Type of) Product;
iv) Currency;
v) Sector of activity;
vi) Index benchmark.

It should be noted that the 3 largest economic groups correspond to almost 20% of the Bank's total assets (15.6%), as at 31 December 2018.

ECONOMIC GROUP	COUNTRY	RATING	PRODUCT	CURRENCY	SECTOR	INDEX BENCHMARK	EXPOSURE
Grupo Santander	Portugal	A	DO	EUR	Cred. Inst.	Fixed	16 436 120€
BANKINTER S.A.	Portugal	BBB+	DO	EUR	Cred. Inst.	Fixed	14 522 947€
BNP Paribas	France	A	DO	EUR	Cred. Inst.	Fixed	11 812 992€
TOTAL							42 772 060€
% Total Net assets							15.6%

Table 1 - Top 3 Exposures

As at 31 December 2018, the Sectoral Concentration Index (ICS) amounted to 31.7, the most important sectors being financial activities and insurance (NACE "K" Code) and real estate activities("L"), as shown below in accordance with Annex to Instruction 5/2011 on NACE* key sectors.



NACE SECTORS	%
K	37.6
L	17.5
Others	19.6
Subtotal	74.7
Others	17.5
Private Clients	7.8
Exp. Total Dívida	100

* NACE K Code
Financial activities and insurance

NACE L Code
Real estate activities

Nace O Code
Public Administration

Figure 3 - Total direct exposure, by NACE sectors

If the analysis were to include the Public Central Administration sector, the index would drop from 33.6 to 24.4. In a second cycle, also including private Clients, the concentration index would further drop to 21.4.

Finally, in accordance with the said instruction of Banco de Portugal, we reach an individual Concentration Index (ICI) of 1.98 considering the institutions' largest 100 counterparts.

2.11 EQUITY MANAGMENT

With respect to capital management, the Bank seeks to ensure an appropriate level of solvability and profitability according to the objectives and risk appetite policies defined by the Board of Directors, this being, therefore, a critical aspect in the institution's approach to its stable and sustainable management.

Management practices

Equity management policies and practices are defined according to the strategic business objectives and the level of risk appetite defined by the Board of Directors. To determine the adequate level of capital, both in quantity and quality, Banco Carregosa has implemented a capital management model based on the following principles:

i) Ongoing monitoring of regulatory equity requirements;
ii) Annual review of risk appetite;
iii) Setting business objectives properly measured in equity planning.

In addition to the regulatory requirements, the Bank carries out, every year, an internal and prospective self-assessment of all material risks to which the institution is exposed (ICAAP exercise). As an integral part of the capital management process, the Bank has in place a Recovery Plan which establishes the decision-making protocol applicable to crisis management and, on the other hand, identifies the pre-defined actions and strategies to respond to events that may have an adverse impact on capital.

Finally, but also in particular as regards equity management, the Bank performs an internal and prospective annual self-assessment of all material risks to which the institution is exposed, the ICAAP (*Internal Capital Adequacy Assessment Process*).

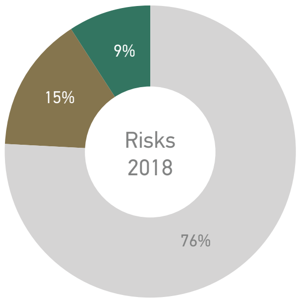
ICAAP

The ICAAP is an essential tool in the definition of the Bank's strategy, enabling the follow-up and monitoring of the consequences of its execution. This process enables the regular analysis of risk appetite and compares it with the defined appetite and the availability of economic capital. The ICAAP is prepared along two dimensions:

i) Regulatory, based on regulatory reports, especially prudential reports, that provide important data for the quantitative and qualitative analysis of equity and risk;
ii) Economic capital and its requirements, which quantifies the risk according to the confidence level established in its RAS (*Risk Appetite Statement*). The qualitative analysis completes the exercise in a systemic approach.

The Risk Department (DR) is responsible for presenting proposals for measures to assess the need and availability of economic capital, which are discussed and approved internally. These proposals are presented to the Asset and Liability Committee (ALCO), which issues its own recommendations, and they are then approved by the Executive Committee. The Risk department is also responsible for developing stress tests, scenario analyses, financing and capital plans, and for most of the prudential reports in the context of risk and capital management.

Regulatory Capital



Credit Risk
Market Risk
Operational Risk

On the prudential side, regulatory capital requirements are associated to credit, market and operating risks. The table below shows the risk-weighted assets (RWA) and corresponding capital requirements for the various types of regulatory risks, as at 31 December 2018.

RISK TYPES	OWN FUNDS REQUIREMENTS	RISK WEIGHTED ASSETS
Credit risk	12 736 954 €	159 211 924 €
Market risk	2 437 874 €	30 473 419 €
Operating risk	1 568 822 €	19 610 279 €
Total	16 743 650 €	209 295 621 €

Below are the risk weighted assets (RWA) as at December 2017 and corresponding own funds requirements for the various types of regulatory risks:

Credit Risk
Market Risk
Operational Risk

RISK TYPES	OWN FUNDS REQUIREMENTS	RISK WEIGHTED ASSETS
Credit risk	10 295 718 €	128 696 472 €
Market risk	1 234 498 €	15 431 223 €
Operating risk	1 752 144 €	21 901 796 €
Total	13 282 359 €	166 029 492 €

Note should be made of the strong preponderance of credit risk, responsible for 78% of prudential requirements.

Credit risk – for prudential purposes, the Bank uses the following methods with respect to credit risk, in accordance with the CRR:

i) Standard Method, using the market price for measuring Counterparty Risk;
ii) Comprehensive Method on financial collateral, as a means to reduce risk, when applicable.

The Bank analyses the credit risk on all its assets, except for the assets included in the securities portfolio measured at fair value and others deducted from own funds, as well as on some off-balance sheet items potentially subject to this type of risk. As regards counterparty credit risk, asset, liability and off-balance sheet items are included, irrespective of the portfolio of which they are part, always excluding those deducted from own funds or weighted at 1.250% for other types of risk.

The table below presents the prudential capital requirements for credit risk calculated based on the aforementioned assumptions, as at 31 December 2018:

RISK TYPE	CREDIT RISK-WEIGHTED ASSETS (RWA)	PRUDENTIAL REQUIREMENTS, CREDIT RISK
Institutions	23 416 091	1 873 287
Companies	66 206 157	5 296 493
Lending collateralised by commercial real estate property	23 441 629	1 875 330
Default	1 558 101	124 648
Funds	19 364 794	1 549 182
Equity	698 873	55 910
Other assets	24 526 278	1 962 102
Total	159 211 924	12 736 954

Results as at December 2017 are as follows:

RISK TYPE	CREDIT RISK-WEIGHTED ASSETS (RWA)	PRUDENTIAL REQUIREMENTS, CREDIT RISK
Institutions	26 458 411	2 116 673
Companies	42 055 965	3 364 477
Lending collateralised by commercial real estate property	19 567 640	1 565 411
Default	1 332 347	106 588
Funds	7 828 980	626 318
Other assets	31 453 129	2 516 250
Total	128 696 472	10 295 718

With respect to the calculation of capital requirements associated to other categories, the Bank uses the following regulatory methods:

i) Market Risk - for prudential purposes, the Bank uses the General or Specific Risk Assessment Method of the CRR. Capital requirements for the Bank's risk position consist in the sum of capital requirements for specific and general risk of positions in debt instruments and capital;

ii) Operating Risk - to determine the capital requirements for hedging operating risks in prudential terms, the Bank follows the Basic Indicator Approach, according to which the requirement equals to 15% of the average of the previous three years for the Relevant Indicator. The Relevant Indicator is defined based on the accounting categories of the Statement of profit and Loss, in accordance with Article 316 of the CRR.

Own Funds

The risk absorption capacity is determined by the amount of own funds. To calculate own funds the applicable regulatory standards in effect must be followed, in particular the aforementioned CRR, based on the accounting information in the financial statements, especially those of the capital items, and complemented with non-accounting information.

Total own funds correspond to the sum of basic own funds (*Common Equity Tier 1*) and ancillary own funds (*Tier 2*), after deductions have been applied to these items.

The main positive items of own funds as at 31 December 2018 were:

i) Paid-in capital: the Bank's share capital is represented by 200 million registered book-entry shares, each with a par value of €0.10, fully subscribed and paid;

ii) Issue premiums: these refer to the premiums paid by shareholders in capital increases;

iii) Reserves: the amount of profit generated over the financial years but retained in the company as legal reserve, other reserves and/or retained earnings, excluding positive reserves arising from unrealised gains in sovereign bonds;

iv) Net result for the financial year: net profit for the year in progress and for the previous year; if they are positive, only after the legal certification of accounts (if negative, they are to be immediately included in the calculation). As at the date when the ICAAP was performed the positive net profit for 2018 2017 was not yet certified, it was not included in the calculation of own funds at that date.

Deductions made to own funds consist of:

i) Intangible assets: amounts of intangible assets, in particular costs related to the development of brands and data processing systems.

The transitional provisions defined in the CRR are also considered:

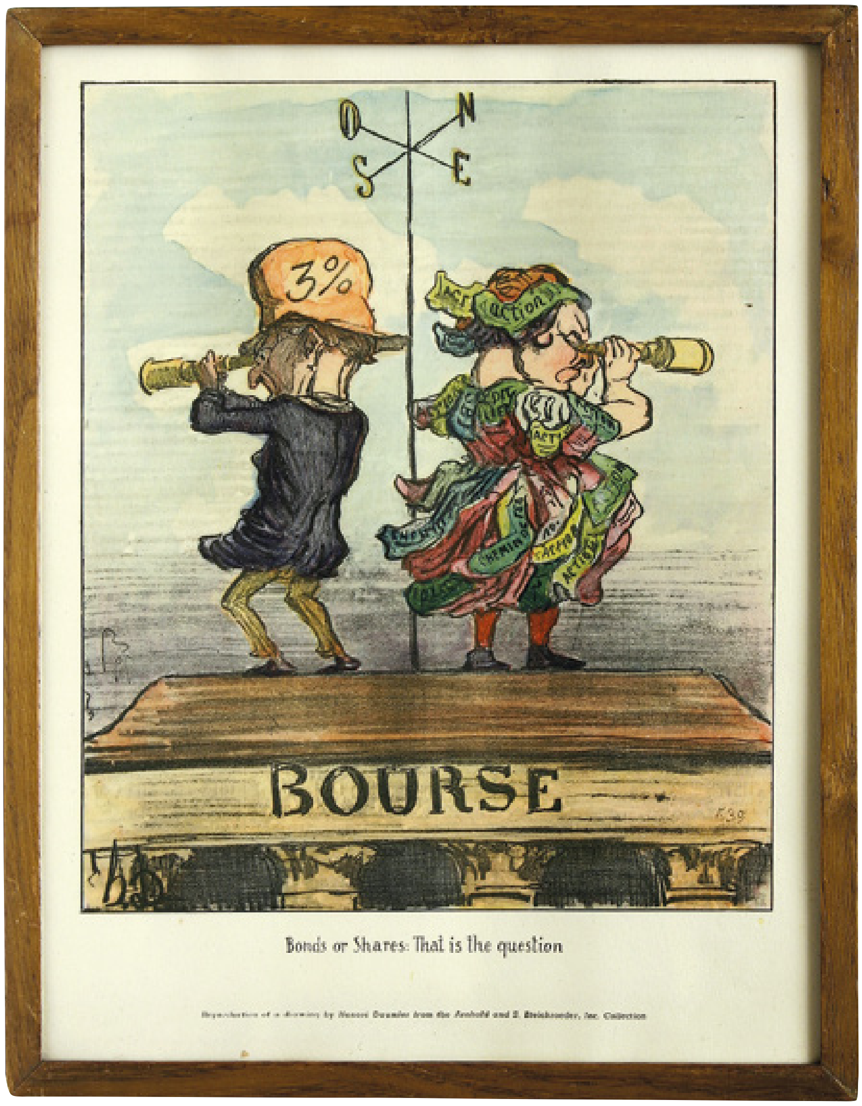
ITEMS	VALUE
Paid-in-capital	20 000 000
Issue premiums	369 257
Retained earnings	974 209
Legal reserves	13 912 451
Intangible assets	(496 624)
Own funds with no transitional provisions	34 167 365
Prudent Evaluation	(76 664)
CET 1Ratio	16.29%
Total Own funds ratio	16.29%

Capital Indicators

As at 31 December 2018, risk-weighted assets amounted to €209.3 M, setting capital requirements of €16.7M - comfortably hedged by own funds in the amount of €34.1 M.

As such, on that date the Bank showed a Tier 1 own funds ratio that tallied with the total own funds ratio in the amount of 16.29%, well above the legally minimum required by regulation.

In addition, the gearing ratio stood at 11.89%.




THE REPUBLIC OF PORTUGAL
No. M 7271
1000
1000
REPUBLIC OF PORTUGAL
7% EXTERNAL LOAN BOND DUE 1976
DUE NOVEMBER 15, 1976
The Republic of Portugal (hereinafter called the Republic) for value received, hereby promises to pay to bearer, or if this Bond be registered as to principal, to the registered owner hereof, the principal sum of
ONE THOUSAND DOLLARS
Dated: November 15, 1966
CERTIFICATE OF AUTHENTICATION
MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
as Authenticating Agent,
Authorized Officer
REPUBLIC OF PORTUGAL
Minister of Finance
President of the Junta do Crédito Público
Member of the Junta do Crédito Público

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet and statement of profit and loss accounts are compared as at 31 December 2018 and 31 December 2017 in compliance with the International Financial Reporting Standards, and consist of the following headings:

3.01 Cash and liquid assets in central banks and other demand deposits Note 01

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Cash	116 291	75 133
Liquid assets at demand with Banco de Portugal	39 837 611	57 270 238
Demand deposits in monetary institutions		
Residents	21 225 133	18 130 042
Non-residents	25 991 426	27 163 286
	87 170 461	102 638 700

Demand deposits with Banco de Portugal include interest-earning deposits for meeting the legal requirements on minimum cash availability. These deposits are remunerated.

3.02.1 Available for sale financial assets Note 02.1

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Trading securities		
Securities	26 821 882	10 342 867
Derivative instruments with a positive fair value	136 428	12 647
	26 958 310	10 355 514

This portfolio grew by 160% compared to the previous financial year and results from purchases arising from favourable market opportunities, the breakdown of which is shown in the table below.

AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31 December 2018, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT
		FAIR VALUE	GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury bonds	461 610	452 614	1 009	10 005	
Of other resident issuers					
Non-subordinated debt	8 543 241	8 567 990	28 180	3 431	
Subordinated debt	428 000	422 438	3 568	9 130	
Issued by non-residents					
Of other foreign public issuers					
Non-subordinated debt	1 954 950	1 999 260	44 310		
Of other non-resident issuers					
Non-subordinated debt	13 586 851	13 192 718	2 434	396 566	
Subordinated debt	956 425	928 043		28 382	
	25 931 077	25 563 062	79 500	447 514	
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	1 689	2 616	927		
Issued by non-residents					
Of other non-resident issuers					
Shares	74 624	66 127	7 227	15 724	
Investment units	2 468	2 166	4	305	
Others					
	78 781	70 910	8 158	16 030	
OTHERS					
Issued by residents					
Of other resident issuers					
Others	20 000	20 000			
Issued by non-residents					
Of other non-resident issuers					
Structured products	1 271 295	1 167 910	568	103 952	
	1 291 295	1 187 910	568	103 952	
DERIVATIVE INSTRUMENTS WITH A POSITIVE FAIR VALUE					
Other					
Unrealised gains from Options		756			
Unrealized gains from CFDs over currency		135 671			
		136 428			
TOTAL	27 301 153	26 958 310	88 226	567 496	

AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31 December 2017, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT
		FAIR VALUE	GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury bonds	279 430	280 250	820		
Of other resident issuers					
Non-subordinated debt	8 825 848	8 822 918		2930	
Issued by non-residents					
Of other non-resident issuers					
Non-subordinated debt	129 676	129 118	558		
	9 234 954	9 232 286	820	3 488	
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	2 860	2 254	2	609	
Issued by non-residents					
Of other non-resident issuers					
Shares	633 325	408 562	1 544	226 307	
Investment units	31 516	31 197	38	357	
Other	8 486	10 537	2 051		
	676 187	452 550	3 635	227 273	
OTHER					
Issued by residents					
Of other resident issuers					
Other					
Issued by non-residents					
Of other non-resident issuers					
Structured products	682 812	658 031	4 221	29 002	
	682 812	658 031	4 221	29 002	
DERIVATIVE INSTRUMENTS WITH A POSITIVE FAIR VALUE					
Other					
Unrealised gains from Options		12 647			
		12 647			
TOTAL	10 593 954	10 355 514	8 676	259 763	

In 2018, the Retail Properties fund and the Arquimedes fund were transferred from the class of Assets Held for Trading to the class of Assets not held for trading mandatorily at fair value through profit or loss.

3.02.2 Other financial assets — Note 02.2

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other securities		
Issued by residents	18 003	11 969
	18 003	11 969

Amount relating to the contribution to the Work Compensation Fund, recorded at fair value, and the quote is obtained from the Work Compensation Fund website.

3.03. Financial assets at fair value through other comprehensive income — Note 03

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Issued by residents		
Debt instruments	2 722 816	9 008 797
Equity instruments	639 549	551 750
Other		4 421 904
	3 362 365	
Issued by non-residents		
Debt instruments	40 655 366	8 281 123
Equity instruments		6 676
Other		632 943
	40 655 366	8 920 742
TOTAL	44 017 731	22 903 194

This portfolio grew by 92% compared to the previous financial year and results from purchases arising from favourable market opportunities, the breakdown of which is shown in the table below.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2018, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT RECOGNISED IN ASSET	IMPAIRMENT RECOGNISED IN RESERVES
			GAINS	LOSSES		
DEBT INSTRUMENTS						
Issued by residents						
Of Portuguese public debt						
Treasury bonds	1 637 126	1 689 756	52 631			1 521
Of other resident issuers						
Non-subordinated debt	1 051 320	1 033 060		18 260		455
Issued by non-residents						
Of other foreign public issuers						
Non-subordinated debt	8 324 721	8 212 455	2 239	114 505		80 537
Of other non-resident issuers						
Non-subordinated debt	32 941 854	32 442 911	2 170	501 113		171 697
	43 955 021	43 378 182	57 039	633 878		254 209
EQUITY INSTRUMENTS						
Issued by residents						
Of other resident issuers						
Shares	705 000	705 000			65 451	
	705 000	705 000			65 451	
TOTAL	44 660 021	44 083 182	57 039	633 878	65 451	254 209

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2017, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT
		FAIR VALUE	GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury bonds	6 216 985	6 208 797	54 474	62 661	
Of other resident issuers					
Non-subordinated debt	2 800 000	2 800 000			
Subordinated debt					
Issued by non-residents					
Of other non-resident issuers					
Non-subordinated debt	7 942 305	8 281 123	355 579	16 761	
Subordinated debt					
	16 959 290	17 289 921	410 053	79 422	
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	1 842 160	551 750			1 290 410
Issued by non-residents					
Shares		6 676	6 676		
	1 842 160	558 426	6 676		1 290 410
OTHER					
Issued by residents					
Of other resident issuers					
Other	3 993 759	4 421 904	428 145		
Issued by non-residents					
Of other non-resident issuers					
Structured products	669 046	632 943	781	36 885	
	4 662 805	5 054 847	428 927	36 885	
TOTAL	23 464 255	22 903 194	845 655	116 306	1 290 410

3.04 Financial assets at amortised cost

Note 04

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Assets		
Other availabilities	9 901	147 081
Investments in credit institutions	611 400	611 400
Investments held to maturity	2 930 724	8 641 541
Debtors and other investments	13 547 325	15 924 269
Loans to clients	101 901 308	94 349 516
	119 000 658	119 673 807
TOTAL	119 000 658	119 673 807

The changes in impairment losses of debtors and other investments are presented as follows:

	31/12/2018	31/12/2017
Balance on 1 January	549 975	1 549 975
Appropriation		
Reversal	(350 000)	
Utilisation		(1 000 000)
Exchange differences and others		
Balance on 31 December	199 975	549 975

With the entry into force of IFRS 9, as of 01.01.2018 the Bank calculates impairments to the Investments held to maturity portfolio. As at 31.12.2018, the breakdown is as follows:

FINANCIAL ASSETS AT AMORTISED COST

As at 31 December 2018, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	PAR VALUE	ACQUISITION VALUE	EFFECTIVE RATE	BALANCE SHEET VALUE AMORTISED COST	IMPAIRMENT RECOGNISED IN ASSET
DEBT INSTRUMENTS					
Issued by non-residents					
Of other issuers					
Non-subordinated debt					
TRAFIG 5.00 04/20	1 000 000	915 000	7.47%	969 101	8 372
BNDES 3.625 01/19	2 000 000	1 910 000	5.37%	1 997 544	27 549
TOTAL	3 000 000	2 825 000		2 966 645	35 921

FINANCIAL ASSETS AT AMORTISED COST

As at 31 December 2017, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	PAR VALUE	ACQUISITION VALUE	EFFECTIVE RATE	BALANCE SHEET VALUE AMORTISED COST
DEBT INSTRUMENTS				
Issued by residents				
Of other resident issuers				
Non-subordinated debt				
EGLPL 5.50 04/19	2 000 000	2 000 000	5,67%	1 999 818
Issued by non-residents				
Of other non-resident issuers				
Non-subordinated debt				
BANBRA 3.75 07/18	1 600 000	1 516 000	6,10%	1 977 751
TRAFIG 5.00 04/20	1 000 000	915 000	7,47%	948 198
BNDES 3.625 01/19	2 000 000	1 910 000	5,37%	1 964 504
BCOBMG 8.00 04/18	5 253 064	5 253 064	8,24%	1 751 269
TOTAL	11 853 064	11 594 064		8 641 541

The changes occurred in impairment losses of the Investments held to maturity portfolio are presented as follows:

	31/12/2018	31/12/2017
Balance on 1 January		
Adjustment transition IFRS 9	118 988	
Appropriation	3 302	
Reversal	(85 924)	
Utilisation		
Exchange differences and others	(445)	
Balance on 31 December	35 921	

3.04.1 Loans to clients

Note 04.1

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Domestic loans		
Loans	40 909 701	29 913 689
Current account loans	58 342 041	58 739 771
Overdrafts in demand deposits		3 565 332
Foreign loans		
Loans	1 096 758	1 175 799
Current account loans	1 115 398	1 048 965
Overdue loans and interest	2 044 899	1 372 715
Income receivable		
Shareholder loans	146 822	127 799
Revenue with deferred income	(201 518)	(127 472)
	103 454 102	95 816 598
Provisions/Impairments for Overdue loans and interest	(1 552 794)	(1 467 082)
TOTAL	101 901 308	94 349 516

In 2018, the loan portfolio grew slightly, being more and more relevant in the Bank's activity, as regards new operations in each of the loan types offered by the Bank to its clients. Note that loans are mostly covered by real and personal guarantees that significantly exceed the outstanding amounts. Moreover, impairments in 2018 are formed in conformity with IFRS 9.

The changes in impairment losses of the loan portfolio for sale are presented as follows:

	31/12/2018	31/12/2017
Balance on 1 January	1 467 082	968 346
Adjustment transition IFRS 9	(413 296)	
Appropriation	1 674 639	1 171 338
Reversal	(1 176 754)	(781 898)
Utilisation		
Exchange differences and others	1 123	109 297
Balance on 1 December	1 552 795	1 467 082

3.05 Derivatives - Hedge accounting

Note 05

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Hedging derivatives		
Positive fair value - cash flow hedging	26 133	53 480
	26 133	53 480

The Bank offers to its clients structured term deposits through a basket of specific products with minimum guaranteed remuneration and a maximum return conditional on the valuation of this basket at maturity. At the same time, the Bank contracts similar options to hedge against the risk of the price increase of this basket, to ensure that it will receive the value of the option should it have to pay the client an interest greater than the minimum interest.

In the financial years of 2017 and 2018, hedging items, more specifically cash flow hedging (interest payable to clients at maturity) are recognised in Hedging derivatives at positive fair value. Premium is deferred and recognised as spent over the term deposit. Changes in option price over time and the expected evolution of interest payable were recognised under revaluation reserves at fair value.

3.06 Other Property, plant and equipment — Note 06

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other Property, plant and equipment		
Buildings	6 875 172	6 875 172
Equipment	7 075 132	6 785 027
Financial lease assets	63 705	63 705
Property, plant and equipment in progress	222 524	82 602
	14 236 533	13 806 507
Accrued amortisations		
Buildings	(298 872)	(188 870)
Equipment	(5 512 996)	(5 075 402)
Financial lease assets	(8 122)	(7 167)
	(5 819 991)	(5 271 439)
	8 416 542	8 535 068

In terms of investment, there was a positive year-on-year variation in Property, plant and equipment in progress as a result of the ongoing works at the facilities in Latino Coelho (Lisbon) and Avenida da Boavista (Porto). The increase in equipment is due to the purchase of furniture, IT equipment and the renewal of the car fleet in 2018.

Changes recorded in other intangible assets are shown in the following note:

3.07. Intangible assets

Note 07

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other intangible assets		
Goodwill	5 184	200
Automatic data processing system (software)	2 600 702	2 472 701
Intangible assets in progress	365 017	
Other	272 187	272 187
	3 243 090	2 745 087
Accrued amortisations		
Automatic data processing system (software)	(2 483 342)	(2 405 439)
Other	(263 125)	(249 402)
	(2 746 467)	(2 654 841)
	496 624	90 246

The heading Intangible assets in progress grew by €365 017 following the ongoing IT development projects, as shown in the table below:

PROJECT	AMOUNT
Biometric project	20 894
CRC project	200 326
AML project	65 053
Biometria project	41 684
FundManager project	37 061
	365 017

Changes and balances as at 31 December 2018 under "Other property, plant and equipment" and "intangible assets", including amortisations and impairment adjustments are presented in the next table.

PROPERTY, PLANT AND EQUIPMENT AND TANGIBLE ASSETS AS AT 31 OF DECEMBER 2018 | (CONSOLIDATED ACTIVITY)

ACCOUNTS	ON 31/12/2017		INCREASES DUE TO ACQUISIT.	DEPRECIATION	WRITE-OFFS (NET)
	GROSS VALUE	ACCRUED AMORTISATIONS			
OTHER INTANGIBLE ASSETS					
Goodwill	200		4 984		
Set-up costs					
Multi-year costs					
Data processing systems (software)	2 472 701	(2 405 439)	128 002	(77 903)	
Other intangible assets	272 187	(249 402)		(13 723)	
Intangible assets in progress			365 017		
	2 745 087	(2 654 841)	498 003	(91 625)	
PROPERTY, PLANT AND EQUIPMENT					
Property	6 875 172	(188 870)		(110 002)	
Equipment	6 785 027	(5 075 402)	515 904	(648 907)	(14 487)
Financial leasing assets	63 705	(7 167)		(956)	
Property, plant and equipment in progress	82 602		139 922		
	13 806 507	(5 271 439)	655 826	(759 865)	(14 487)
TOTALS	16 551 594	(7 926 280)	1 153 829	(851 490)	(14 487)

The Certified Accountant

EUROS

TRANSF.	SETTLEMENTS			ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED AMORTISATIONS	NET VALUE ON 31/12/2018
	GROSS VALUE	DEPRECIATION	ACCRUED AMORTISATIONS				
				5 184			5 184
				2 600 702	(77 903)	(2 405 439)	117 360
				272 187	(13 723)	(249 402)	9 062
				365 017			365 017
				3 243 090	(91 625)	(2 654 841)	496 624
				6 875 172	(110 002)	(188 870)	6 576 299
				7 300 932	(648 907)	(5 075 402)	1 562 136
				63 705	(956)	(7 167)	55 583
				222 524			222 524
				14 462 333	(759 865)	(5 271 439)	8 416 542
				17 705 423	(851 490)	(7 926 280)	8 913 166

The Board of Directors

PROPERTY, PLANT AND EQUIPMENT AND TANGIBLE ASSETS AS AT 31 OF DECEMBER 2017 | (CONSOLIDATED ACTIVITY)

ACCOUNTS	ON 31/12/2016		INCREASES DUE TO ACQUISIT.	DEPRECIATION	WRITE-OFFS (NET)
	GROSS VALUE	ACCRUED AMORTISATIONS			
OTHER INTANGIBLE ASSETS					
Goodwill	200				
Set-up costs					
Multi-year costs					
Data processing systems (software)	2 439 863	(2 329 404)	32 838	(76 036)	
Other intangible assets	272 187	(220 671)		(28 731)	
Intangible assets in progress					
	2 712 249	(2 550 075)	32 838	(104 766)	
PROPERTY, PLANT AND EQUIPMENT					
Property	5 095 220	(75 489)	557 119	(87 439)	(284 341)
Equipment	6 029 642	(4 872 104)	975 732	(460 022)	(2 207)
Financial leasing assets	368 570	(35 935)		(956)	
Property, plant and equipment in progress	223 953		1 103 326		
	11 717 384	(4 983 528)	2 636 176	(548 417)	(286 548)
TOTALS	14 429 633	(7 533 603)	2 669 014	(653 184)	(286 548)

The Certified Accountant

EUROS

TRANSF.	SETTLEMENTS GROSS VALUE	SETTLEMENTS DEPRECIATION	SETTLEMENTS ACCRUED AMORTISATIONS	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED AMORTISATIONS	NET VALUE ON 31/12/2017
				200			200
				2 472 701	(76 036)	(2 329 404)	67 261
				272 187	(28 731)	(220 671)	22 785
				2 745 087	(104 766)	(2 550 075)	90 246
1 510 957		2 286	(32 011)	7 163 296	(85 153)	(107 500)	6 686 302
38 584				7 043 957	(460 022)	(4 872 104)	1 709 625
(304 864)		(2 286)	32 011	63 705	(3 242)	(3 925)	56 539
(1 244 677)				82 602			82 602
				14 353 561	(548 417)	(4 983 528)	8 535 068
				17 098 647	(653 184)	(7 533 603)	8 625 313

The Board of Directors

3.08 Current tax assets

Note 08

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Current tax assets		
Recoverable corporate income tax		288 300
Other	106 791	
	106 791	288 300
Deferred tax assets		
Temporary differences		
Property, plant and equipment	12 870	17 667
Other	247 697	307 971
	260 567	325 638
Total	367 358	613 938

This heading reflects only the impact in terms of temporary differences of income tax. As indicated in accounting policies, the temporary differences between amortisations accepted for taxation purposes and those recognised in accounting and on impairment losses are also identified.

3.09 Other assets

Note 09

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Income receivable from client loan interest	349 778	314 897
Other assets	3 466 000	37 883
Other interest and similar income		
Of investments		
In the country - in other credit institutions	788	380
Of Investments held to maturity		
Of non-residents	102 972	188 717
Of fixed income issued by residents		
Of Portuguese public debt	17 380	126 815
Of other residents	112 229	153 288
Other Income receivable		
Other obligations	641 889	109 094
Commissions for services provided	29 081	113 804
Costs with deferred charges		
Insurance	101 539	90 875
Other rents	7 840	
Other costs with deferred charges	420 459	534 684
Other regularisation accounts	2 060 302	2 666 255
	7 310 259	4 336 692

"Other regularisation accounts" include the security transactions made at the end of the period, pending settlement at the beginning of the subsequent financial year:

3.10 Non-current assets and disposal groups classified as held for sale — Note 10

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Non-current asset classified as held-for-sale		
Property	85 680	85 680
	85 680	85 680

Amount corresponding to a property purchased as part of a credit recovery.

3.11 Financial liabilities held for trading — Note 11

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Derivative instruments at negative fair value	9 798	
	9 798	

3.12 Financial liabilities measured at amortised cost — Note 12

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Loans and deposits from domestic credit institutions		
Deposits	19 885 213	15 659 141
Loans	712 734	437 580
Other deposits	286	2 014
	20 598 234	16 098 734
Loans and deposits in foreign credit institutions		
Deposits	236 133	14 815
Loans	2 070	24 314
	238 203	39 129
Charges payable		
Salaries payable	645 691	527 078
Other charges payable	159 024	150 497
	804 715	677 576
Liabilities relating to pensions and other benefits	41 672	173 335
Creditors/futures and options	1 941 204	1 784 632
Other resources	6 754 862	21 456 042
Client deposits		
Deposits		
Of residents		
Demand	87 872 182	77 981 565
Term	125 667 407	87 401 772
Of non-residents		
Demand	7 965 961	15 220 933
Term	10 516 147	8 793 258
	232 021 697	189 397 526
Total	262 400 587	229 626 975

The heading Other deposits is broken down according to the information shown in the table below. In the item "Miscellaneous deposits", the reported amount refers to the financial balances of clients arising from transactions in derivatives and from deposits invested in the liquidity of portfolio management contracts.

	31/12/2018	31/12/2017
Miscellaneous deposits	6 120 605	20 225 824
Creditors - transactions in securities	104 202	132 211
Suppliers	151 550	724 195
Other creditors	378 505	373 812
	6 754 862	21 456 042

3.13 Provisions

Note 13

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other provisions		
Guarantees and other commitments	6 081	13 513
	6 081	13 513

3.14 Current tax liabilities

Note 14

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Current tax liabilities		
Corporate income tax payable	120 444	
Other	14 805	72 834
	135 249	72 834

3.15 Other liabilities

Note 15

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
VAT payable	130 632	153 603
Withholding and other taxes payable to the State	382 954	446 897
Contributions to Social Security	87 716	84 913
Third party collections	721	788
Contributions to other health systems	3 841	4 200
Other revenue with deferred income	11 988	79
Operations to be regularised	2 437 310	2 968 382
	3 055 162	3 658 863

3.16 Equity Note 16

Movements and balances as at 31 December 2018 under the own equity headings are presented in the annex "Statement of changes in equity".

Breakdown of equity:

i) Paid-in capital: the Bank's share capital is represented by 200 million registered book-entry shares, each with a par value of €0.10, fully subscribed and paid;
ii) Issue premiums: these refer to the premiums paid by shareholders in capital increases.

Reserves: the amount of profit generated over the financial years but retained in the company as legal reserve, other reserves and/or retained earnings, excluding positive reserves arising from unrealised gains in sovereign bonds.

3.17 Minority interests Note 17

Minority interests in 2018 were calculated according to the following table:

SUBSIDIARIES	OWN EQUITY	% MINORITY INTERESTS	MINORITY INTERESTS
CoolLink, Lda	131 290	50.00%	65 645
TOTAL	131.290		65 645

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is estimated in accordance with IFRS 13.

The fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in a transaction made in the principal (or more favourable) market at measurement date, under prevailing market conditions (i.e., exit price), irrespective of whether this price is directly observable or estimated using another valuation technique.

Financial instruments recorded in the balance sheet at fair value were classified into three levels, in accordance with IFRS 13:

a) Level 1 – Quoted prices in active markets;
b) Level 2 – Indirect valuation techniques based on market data;
c) Level 3 – Valuation techniques using mostly unobservable inputs.

The fair value of the Bank's financial assets and liabilities as at 31 December is as follows:

2018	AMORTISED COST	MEASURED AT FAIR VALUE				CARRYING AMOUNT	FAIR VALUE
		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL		
FINANCIAL ASSETS							
Cash and liquid assets in central banks	87 170 461					87 170 461	87 170 461
Liquid assets in other credit institutions:							
Financial assets held for trading		3 413 295	23 545 015		26 958 310	26 958 310	26 958 310
Financial assets not held for trading compulsorily at fair value through profit or loss			8 101 664		8 101 664	8 101 664	8 101 664
Other financial assets at fair value through profit or loss	18 003					18 003	18 003
Available for sale financial assets		2 920 066	40 655 366	442 299	44 017 731	44 017 731	44 017 731
Financial assets at amortized cost	118 844 917					118 844 917	118 896 622
Hedging derivatives	26 133					26 133	26 133
Other assets	7 466 000					7 466 000	7 466 000
	213 525 514	6 333 361	72 302 045	442 299	79 077 705	292 603 219	292 654 924
FINANCIAL LIABILITIES							
Financial liabilities held for trading			9 798		9 798	9 798	9 798
Financial liabilities measured at amortized cost	263 749 736					263 749 736	263 749 736
Other liabilities	2 998 066					2 998 066	2 998 066
	266 747 802					266 747 802	266 747 802

2017	AMORTISED COST	MEASURED AT FAIR VALUE				CARRYING AMOUNT	FAIR VALUE
		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL		
FINANCIAL ASSETS							
Cash and liquid assets in central banks	102 638 700					102 638 700	102 638 700
Liquid assets in other credit institutions:							
Financial assets held for trading		692 406	9 663 108		10 355 514	10 355 514	10 355 514
Other financial assets at fair value through profit or loss	11 969					11 969	11 969
Available for sale financial assets		6 215 473	16 135 971	551 750	22 903 194	22 903 194	22 903 194
Financial assets at amortized cost	119 670 727					119 670 727	120 023 640
Hedging derivatives	53 480					53 480	53 480
Other assets	4 336 892					4 336 892	4 336 892
	226 711 768	6 907 879	25 799 079	551 750	33 258 708	259 970 476	260 323 389
FINANCIAL LIABILITIES							
Financial liabilities held for trading							
Financial liabilities measured at amortized cost	229 626 975					229 626 975	229 626 975
Other liabilities	3 658 863					3 658 863	3 658 863
	233 285 838					233 285 838	233 285 838

Fair value hierarchy

IFRS 13 categorises the inputs used to measure fair value into three levels:

i) Level 1 – Assets or liabilities are measured based on quoted prices (unadjusted) in active markets that the Bank can access. This level includes government bonds, company bonds and shares and derivatives listed and traded in regulated markets;

ii) Level 2 – Assets or liabilities are measured based on inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly. To determine the fair value with level 2 inputs, the Bank uses valuation techniques based on inputs that are observable on the market (quoted prices in active markets of similar assets or liabilities and based on quoted prices that are not assets or net, interest rates, exchange rates, risk ratings given by external entities, others). This level includes bonds, non complex OTC derivatives and gross shares;

iii) Level 3 – Assets or liabilities are measured based on non observable inputs on the market for the assets or liabilities. To determine the fair value with level 3 inputs, valuation techniques are used based on inputs that are not observable on the market and that do not fulfil the Level 1 or level 2 classification requirements.

In the 2017 and 2016 financial years, no transfers of assets or liabilities occurred between Level 1 and level 2.

In the 2018 and 2017, the changes in Level 3 class of assets or liabilities in the fair value hierarchy are as follows:

	AVAILABLE FOR SALE FINANCIAL ASSETS	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Balance on 1 January 2018			551 750
Gains/(losses) recognised in profit and loss			
Income from assets and liabilities measured at fair value through profit or loss			
Income from available for sale financial assets			
Impairment recognised in the year			(21 851)
Gains/(losses) recognised in fair value reserves			
Acquisitions			
Disposals			(87 600)
Transfers from other levels			
Transfers to other levels			
Exchange differences			
Other			
Balance on 31 December 2018			442 300
Balance on 1 January 2017			572 900
Gains/(losses) recognised in profit and loss			
Income from assets and liabilities measured at fair value through profit or loss			
Income from available for sale financial assets			
Impairment recognised in the year			
Gains/(losses) recognised in fair value reserves			
Acquisitions			
Disposals			(108 750)
Transfers from other levels			87 600
Transfers to other levels			
Exchange differences			
Other			
Balance on 31 December 2017			551 750

Interest rates

The short term interest rates presented reflect the indicative values of deposit rates and/or futures, while for the long term swap rates are used[11]:

	2018		2017	
	EUR	USD	EUR	USD
1 week	- 0.373	2.411	- 0.378	1.480
1 month	- 0.363	2.503	- 0.368	1.564
2 months	- 0.336	2.614	- 0.340	1.622
3 months	- 0.309	2.808	- 0.329	1.694
6 months	- 0.237	2.876	- 0.271	1.837
1 year	- 0.233	2.758	- 0.257	1.881
2 years	- 0.174	2.657	- 0.150	2.060
3 years	- 0.077	2.590	0.013	2.147
4 years	0.059	2.598	0.172	2.191
5 years	0.198	2.570	0.316	2.226
7 years	0.469	2.624	0.565	2.291
10 years	0.812	2.709	0.886	2.375
30 years	1.380	2.838	1.501	2.518

Exchange rates

The *fixing* values of the Central Bank[12] are used for exchange rates. The table below shows the exchange rates of some of the relevant currency pairs as at 31 December 2018 and 2017:

2018	EUR	USD	GBP	CHF	SEK	NOK	AUD	CAD	NZD	BRL
EUR		1.1467	0.89908	1.1261	10.152	9.9084	1.6269	1.5637	1.7066	4.4505
USD	0.87207		0.78406	0.98207	8.8533	8.6409	1.4187	1.3637	1.4883	3.8812
GBP	1.1122	1.2754		1.2525	11.292	11.021	1.8095	1.7393	1.8982	4.9501
CHF	0.88799	1.0183	0.79837		9.0149	8.7986	1.4446	1.3886	1.5155	3.952
SEK	0.0985	0.11295	0.08856	0.11093		0.97601	0.16025	0.15403	0.16811	0.43839
NOK	0.10092	0.11573	0.09074	0.11365	1.0246		0.16419	0.15782	0.17224	0.44917
AUD	0.61468	0.70485	0.55265	0.69222	6.2403	6.0905		0.9612	1.049	2.7357
CAD	0.6395	0.73331	0.57496	0.72016	6.4922	6.3364	1.0404		1.0914	2.8461
NZD	0.58595	0.67191	0.52682	0.65987	5.9486	5.8059	0.95326	0.91627		2.6078
BRL	0.22469	0.25765	0.20202	0.25303	2.2811	2.2263	0.36554	0.35136	0.38346	

[11] The above amounts were obtained from *Bloomberg*.

[12] Source of exchange rates: https://www.bportugal.pt/taxas-cambio

2017	EUR	USD	GBP	CHF	SEK	NOK	AUD	CAD	NZD	BRL
EUR		1.2005	0.88809	1.17029	9.8342	9.8432	1.53722	1.50886	1.69160	3.9785
USD	0.83299		0.73977	0.97484	8.19175	8.19925	1.28048	1.25686	1.40908	3.1404
GBP	1.12601	1.35178		1.31776	11.0734	11.0836	1.73093	1.69899	1.90476	4.47984
CHF	0.85449	1.02581	0.75886		8.4032	8.41091	1.31354	1.2893	1.44545	3.39959
SEK	0.10169	0.12207	0.09031	0.11900		1.00092	0.15631	0.15343	0.17201	0.40456
NOK	0.10159	0.12196	0.09022	0.11889	0.99908		0.15617	0.15329	0.17186	0.40419
AUD	0.65053	0.78096	0.57772	0.76130	6.39739	6.40325		0.98155	1.10043	2.58811
CAD	0.66275	0.79563	0.58858	0.77561	6.51764	6.52360	1.01880		1.12111	2.63676
NZD	0.59116	0.70968	0.52500	0.69182	5.81355	5.81887	0.90874	0.89197		2.35192
BRL	0.25135	0.30175	0.22322	0.29415	2.47184	2.47410	0.38638	0.37925	0.42519	

3.18 Financial margin — Note 18

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Interest and similar income de:		
Interest on deposits in other credit institutions	26 551	14 173
Interest on investments in credit institutions	662	47 790
Interest on loans to clients	4 758 822	4 127 983
Interest on overdue loans	172 359	83 450
Interest and similar income from other financial assets	1 597 517	1 659 820
Commissions received associated to amortised cost	124 592	27 246
	6 680 503	5 960 463
Interest and similar costs on:		
Deposits from Banco de Portugal	(47 596)	(67 032)
Deposits from other credit institutions	(109 499)	(131 730)
Interest from creditors and other deposits		
Interest on deposits from clients	(713 122)	(624 000)
Interest on trading liabilities	(353)	(1 257)
Other interest and similar costs	(50 188)	(68 751)
Interest on loans	(9 969)	
	(930 728)	(892 771)
TOTAL	5 749 775	5 067 692

3.19. Income from equity instruments — Note 19

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Available for sale financial assets		
Issued by residents		
Investment units	225 749	126 981
	225 749	126 981

These results arise from the distribution of dividends of the investment fund Retail Properties, corresponding to €0.0263/€0.050 and to €0.0156/€0.0430 respectively, in 2018 and 2017, per unit held.

3.20 Revenue and charges from and with commission services — Note 20

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Income from services and commissions from:		
Guarantees and commitments	77 199	101 959
Deposits and securities under custody	37 135	27 619
Collection of securities	105 202	118 942
Administration of securities	1 080 241	1 011 077
Collective investment undertakings	351 357	242 476
Other services provided	859 430	1 694 748
Transactions carried out on behalf of third parties	1 892 925	2 410 662
Other commissions received	981 113	864 114
	5 384 603	6 471 597
Charges - services and commissions for:		
Deposits and securities under custody	(45 179)	(66 759)
Organisation of collective investments in transferable securities		(15 129)
Other banking services provided by third parties	(43 106)	(46 263)
Transactions carried out by third parties	(1 780 265)	(2 162 843)
Other commissions paid		(369)
	(1 868 550)	(2 291 364)
	3 516 053	4 180 233

3.21 Income from assets and liabilities evaluated at fair value — Note 21

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Available for sale financial assets		
Securities	4 457 928	2 757 135
Derivative instruments	205 068	630 211
	4 662 996	3 387 346
Losses from:		
Financial assets held for trading		
Securities	(4 334 761)	(1 795 828)
Derivative instruments	(113 795)	(460 306)
	(4 448 556)	(2 256 134)
	214 440	1 131 212

3.22 Income from financial assets at fair value through other comprehensive income — Note 22

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments		1 527
Equity instruments	909 580	300 000
Other	270 287	
Issued by non-residents		
Debt instruments	286 490	437 482
Equity instruments		176
	1 466 357	739 184
Losses from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	(173 600)	(5 714)
Issued by non-residents		
Debt instruments	(2 880)	(270 198)
	(176 480)	(275 912)
	1 289 876	463 272

Under the implementation of IFRS 9, replacing IAS 39 - Financial instruments, in 2018 this note was renamed from Income from available for sale financial assets (net) to Income from financial assets at fair value through other comprehensive income.

3.23 Income from non-negotiable financial assets mandatorily at fair value through profit or loss — Note 23

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Non-negotiable financial assets mandatorily at fair value through profit or loss		
Equity instruments	1 528 807	
Losses from:		
Non-negotiable financial assets mandatorily at fair value through profit or loss		
Equity instruments	(900 055)	
	628 752	

In 2018, as a result of the implementation of Notice 1/2019 of Banco de Portugal, Income from portfolio funds are now recorded in "Income from non-negotiable financial assets mandatorily at fair value through profit or loss", in accordance with the structure set out in Annex III of the Implementation Regulation (EU) 680/2014 of the Commissions, of 16 April 2014 (FINREP).

3.24 Income from financial assets at amortised cost — Note 24

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Assets held to maturity		
Debt instruments	42 200	
	42 200	

3.25 Income from currency revaluation — Note 25

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Exchange differences		
Other items in foreign currency – foreign currencies	176 250	245 567
Losses from:		
Exchange differences		
Other items in foreign currency – foreign currencies	(193 168)	(468 735)
	(16 917)	(223 167)

3.26 Income from the disposal of other assets — Note 26

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Non-financial assets	50 696	45 862
Losses from:		
Non-financial assets	(920)	(28 745)
	49 776	17 117

3.27 Other operating income

Note 27

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Other gains and operating income	165 652	50 415
	165 652	50 415
Losses from:		
Other taxes	(300 475)	(255 811)
Donations and membership fees	(82 917)	(71 235)
Contributions to the Deposit Guarantee Fund (FGD)	(235)	(110)
Contributions to the Investor Compensation Scheme	(5 000)	(5 000)
Failure of computer systems or telecommunications	(1 268)	(1 058)
Other costs and operating expenses	(159 771)	(141 931)
	(549 666)	(475 146)
	(384 014)	(424 730)

3.28 Staff costs

Note 28

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Remuneration		
Management and supervisory bodies	(446 390)	(423 969)
Employees	(3 274 172)	(3 012 166)
Mandatory social security contributions		
Remuneration-related charges	(896 355)	(825 018)
Other mandatory social security contributions		
Pension fund	(48 107)	(61 565)
Insurance against accidents at work	(18 627)	(16 928)
Other staff costs	(243 413)	(258 578)
	(4 927 064)	(4 598 224)

In December 2018, the Bank had 96 employees in Portugal, as shown below in the professional categories.

DISTRIBUTION BY PROFESSIONAL CATEGORY	31/12/2018	31/12/2017
Management Board	4	4
Management	19	19
Technical staff	19	20
Admin. staff	13	15
Commercial/Operations	31	22
Other	10	8
Banco Carregosa	96	88
Coollink (includes 2 managers)	18	16

Retirement and survivors' pension liabilities

Banco Carregosa provides a defined Pension Plan to its employees. For the purpose thereof, beneficiaries of this pension plan are current and former workers of the Bank who, having been admitted to the banking sector up to 3 March 2009, were not registered with social security until that date.

The Pension Plan of Banco Carregosa is a defined benefit plan that follows the provisions of the Collective Labour Agreement for the Banking Sector (ACT/V) and is subject to the requirements set by Banco de Portugal. Amounts paid depend on the number of years worked by the Employee and the salary table stipulated by the ACTV.

Benefits granted by the Pension Plan of Banco Carregosa:

i) Old-age retirement or presumable disability pension;
ii) Deferred survivors' pension;
iii) Immediate survivors' pensions;
iv) Post-retirement contributions to SAMS (medical-social aid assistance for bank employees);
v) Death grant (*).

(*) In the event of death of a participant or beneficiary (due to disability or presumed disability) an allowance will be paid – a death grant will be paid – as defined in Clause 102 of the ACT.

In addition, the Bank also has health care responsibilities and costs with its employees. The employees who as at 31 December 2010 were integrated in CAFEB can benefit from the Medical-Social Aid Services (SAMS) of their unions. The remaining employees' benefits are covered by the ADVANCECARE health insurance, which offers similar terms and conditions to the SAMS medical aid services.

Responsibilities for retirement and survivors' pensions and their costs arising from the Bank's pension plan have been prepared through an actuarial evaluation performed by an actuary. The Bank's pension plan is a defined benefit plan in line with the ACTV – Collective Vertical Labour Agreement for the Banking Sector. As at 31 December 2018, Banco Carregosa's pension plan included 14 active participants, 49 with acquired rights and 3 pensioners.

Decree-law no. 1-A/2011, of 3 January, provided for changes in the calculation of responsibilities in pension funds. From the date when banking employees integrated in CAFEB changed to the General Social Security Scheme on 31 December 2010, the fund will no longer be responsible for the full ACT pension; from that date on, only the supplemental pension resulting from the difference between the ACT pension and the Social Security pension will be taken into consideration.

Number of participants in the plan

As at 31 December of every year, the participants in the pension plan are as follows:

	2018	2017
Active participants	14	14
Former participants with acquired rights	49	49
Pensioners	3	4
TOTAL	66	67

Assumptions

The liabilities of the pension scheme were assessed on the basis of the following assumptions:

	2018	2017
ACTUARIAL EVALUATION METHOD	PROJECT UNIT CREDIT METHOD	PROJECT UNIT CREDIT METHOD
Demographic assumptions		
Mortality tables	TV88/90	TV88/90
Invalidity tables	SR88	SR88
Turnover tables		
Financial assumptions		
Fund yield	2.00%	2.00%
Wage growth rate	0.75%	1.25%
Pension adjustment rate	2.00%	2.00%
Pension growth rate	0.75%	1.00%
General information		
Number of benefit payments	14	14

Fund yield – The discount rate that reflects the economic reality to meet the requirements of International Accounting Standard IAS 19 is up to date. The discount rate of 2.00% is adjusted to the interest rate on private debt bonds with a high credit rating (AA) and a maturity similar to the liabilities.

The comparison between actuarial and financial assumptions used in the 2018 and 2017 financial years and values actually recorded is shown below:

	2018		2017	
	PLANNED	CONFIRMED	PLANNED	CONFIRMED
Mortality	0.34%	0.00%	0.31%	0.00%
Wage growth rate	1.25%	0.00%	1.25%	0.75%
Pension growth rate	1.00%	20.22%	1.00%	11.12%
Yield rate	2.00%	-5.86%	2.00%	3.10%

Mortality table – In view of the history of death rate, the TV88_90 mortality table is maintained.

Yield rate – As in recent years, the yield rate in 2018 was much lower than the planned rate. 10-year projections until 2028, in a best estimate scenario, point to an average annual yield rate of 3.0%. This expected rate in line with the portfolio potential and with the discount rate used to measure liabilities. So, if the necessary contributions are made, solvency ratios are expected to improve. The development of the fund's assets and liabilities should be carefully analysed.

Pension growth rate – The pension growth in respect of the number of pensioners in the period reflects:

i) The application of the ACT table in effect for the year (Pension Table and Employer Costs);
ii) The loss of the right to a survivors' pension by an orphan, which reverted to the remaining beneficiaries, as provided for in the pension plan in question.

The increase seen in the last 2 years is due to the orphan pensions that were reverted to the surviving spouse.

Pension liabilities

Pension liabilities as at 31 December are as follows:

	2018	2017
Pension payment liabilities	687 304	727 740
Asset liabilities	2 633 783	2 863 223
TOTAL	3 321 087	3 590 963

Pension payment liabilities

The current value of pension liabilities as at 31 December 2018 is as follows:

	CURRENT VALUE OF PENSIONS UNDER PAYMENT	SAMS	DEATH GRANT	TOTAL
Old-age pensions	175 406	18 023	1 102	194 531
Invalidity pensions				
Survivors' pensions	480 878	11 956		492 773
Orphans' pensions				
TOTAL	656 224	29 979	1 102	687 304

The current value of pension liabilities as at 31 December 2017 is as follows:

	CURRENT VALUE OF PENSIONS UNDER PAYMENT	SAMS	DEATH GRANT	TOTAL
Old-age pensions	187 890	19 285	1 144	208 320
Invalidity pensions				
Survivors' pensions	500 910	12 533		513 444
Orphans' pensions	5 777	200		5 977
TOTAL	694 577	32 018	1 144	727 740

Asset liabilities

The current value of asset liabilities as at 31 December 2018 is as follows:

CURRENT VALUE OF LIABILITIES FOR PAST SERVICE LIABILITIES	ASSETS	ACQUIRED RIGHTS	SAMS ASSETS	DEATH GRANT ASSETS	TOTAL
<65 years	1 336 669	936 146	156 817	13 659	2 444 663
≥ 65 years	151 112	19 806	18 380	1 071	189 120
TOTAL	1 487 781	955 952	175 321	15 789	2 633 783

The current value of asset liabilities as at 31 December 2017 is as follows:

CURRENT VALUE OF LIABILITIES FOR PAST SERVICE LIABILITIES	ASSETS	ACQUIRED RIGHTS	SAMS ASSETS	DEATH GRANT ASSETS	TOTAL
<65 years	1 438 508	1 051 083	156 817	14 664	2 661 073
≥ 65 years	179 700	2 945	18 380	1 125	202 150
TOTAL	1 618 209	1 054 028	175 197	15 789	2 863 223

Plan assets

Benefit liabilities are financed through collective subscription no. 1 to the Open-end Funds Optimize Capital Equilibrado (FP OCP Equilibrado), Optimize Capital Moderado (FP OCP Moderado) and Optimize Capital Ações (FP OCP Ações) and collective subscription no.4 to the Real Reforma Garantida Pension Fund.

The above pension funds subscribed collectively are open-end funds whose risk profile varies according to their investment policies. The FP OCP Equilibrado for participants 10 or more years away from retirement age leaves some room for manoeuvre in terms of investment values, the FP OCP Moderado is for participants averse to risk or under 5 years away from retirement age, and the FP OCP Ações for long-term investments or for participants 15 or more years away from retirement age. The FP Real Reforma Garantida pension fund is intended for participants averse to risk or under 5 years away from retirement age, who would rather sacrifice profitability to protect their capital.

The value of each fund as at 31 December is detailed below:

	2018	2017
FP OCP Equilibrado	821 880	885 259
FP OCP Moderado	1 387 597	1 403 490
FP OCP Ações	1 069 939	1 128 880
TOTAL	3 279 416	3 417 628

In 2018 and 2017, the three funds developed as follows:

	2018			2017		
	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE
Opening balance		482 338.9640	3 417 628	6.8723	480 387.8095	3 301 366
Pensions + Costs		(6 991.4506)	(49 180)		(15 839.9366)	(111 113)
Contributions + Other receipts		16 278.9114	113 151		17 791.0911	123 683
Total movements		9 287.4248	63 970		1 951.1545	12 570
Fund yield rate	-5.86%		(202 183)	3.10%		103 693
Closing Balance	6.6705	491 626.4248	3 279 416	7.0855	482 338.9640	3 417 628

Below is an analysis of the differences in each financial year:

	2018			2017		
	ESTIMATED	REAL	DIFF.	ESTIMATED	REAL	DIFF.
Pensions + Costs	(109 932)	(49 180)	60 751	(69 297)	(111 113)	(41 815)
Contributions + Other receipts		113 151	113 151		123 683	123 683
Total movements	(109 932)	63 970	173 902	(69 297)	12 570	81 867
Fund yield rate	67 253	(202 183)	(269 436)	65 334	103 693	38 359
Closing balance	3 374 950	3 279 416	(95 534)	3 297 402	3 417 628	120 226

Pensions and yield rate estimated for the previous year were considered in this estimate. The negative difference is justified by the fact that the fund's yield was lower than expected.

Defined benefit liability

As at 31 December 2018 and 2017, the Bank's past service liabilities and their hedges are broken down as follows:

	2018	2017
Liabilities as at 31 December		
Pensions under payment	687 304	727 740
Assets	2 633 783	2 863 223
	3 321 087	3 590 963
Value of funds	3 279 416	3 417 628
Net asset/(Liabilities) in the balance sheet	(41 672)	(173 335)
Actuarial differences recognised in other comprehensive income	77 944	28 978

As at 31 December 2018 and 2017, past service liabilities developed as follows:

	2018	2017
Opening liabilities	3 590 963	3 492 230
Current service cost	43 541	57 055
Interest cost	71 819	69 844
Actuarial losses/(gains)	(347 380)	9 381
Payments	(37 856)	(37 547)
Closing liabilities	3 321 087	3 590 964

The development of the pension funds value in the years ended 31 December 2018 and 2017 is broken down as follows:

	2018	2017
Opening balance	3 417 628	3 301 366
Net yield	(138 212)	57 300
Contributions	113 150	96 510
Pensions paid	(49 180)	(37 547)
Closing balance	3 279 416	3 417 628

As at 31 December 2018 and 2017, the weight by class of financial asset for each of the 3 funds is shown below:

	2018		
ASSET CLASS	FP OCP EQUILIBRADO	FP OCP MODERADO	FP OCP AÇÕES
Shares	21.8%	11.0%	31.0%
Liquidity	8.9%	7.4%	7.4%
Real estate			
Bonds	68.5%	79.7%	60.8%
Other	0.8%	1.8%	0.8%

	2017		
ASSET CLASS	FP OCP EQUILIBRADO	FP OCP MODERADO	FP OCP AÇÕES
Shares	32.61%	14.60%	46.27%
Liquidity	2.85%	2.47%	3.48%
Real estate			
Bonds	64.54%	82.92%	50.24%
Other			

The financing level of pension payment liabilities as at 31 December is as follows:

	2018	2017
Liabilities (VAPP+VASP)	3 321 088	3 590 963
Fund value	3 279 416	3 417 628
Overall funding level	98. 75%	95. 17%

The fund value on which the financing level is calculated is its net value, already minus the costs and expenses attributable to it. As the financing of the current pension fund is subject to a minimum amount established by Banco de Portugal, i.e., the full financing of pensions under payment and acquired rights liabilities, and 95% of past service liabilities relating to Active participants, it does not fulfil the requirement.

According to the method used, as at 31 December2018 the Current Value of Past Service Liabilities totals 3 €321 088, of which €687 304 correspond to the Current Value of Pensions under Payment. At the same date, the fund is worth €3 279 416, which means an overall financing hedge of 98.75%.

As at 31 December 2018, the sensitivity analysis of changes in the main actuarial assumptions would result in the following impacts on the current value of past service liabilities:

	IMPACT ON LIABILITIES
Discount rate	
+ 0.5 bp	(306 657)
- 0.5 bp	349 796
Wage growth rate	
+ 0.5 bp	188 959
- 0.5 bp	(165 900)
Pension growth rate	
+ 0.5 bp	185 547
- 0.5 bp	(170 587)
Mortality	
Up 1 year	119 860

The maturity of defined benefit obligation as at 31 December 2018 and 2017 is as follows:

	31/12/2018	31/12/2017
Duration of defined benefit obligation	19,74	21,56
Maturity of defined benefit obligation		
up to 12 months	43 858	38 033
between 1 and 3 years	89 477	78 515
between 3 and 6 years	158 426	135 998
between 6 and 11 years	363 184	291 688
between 11 and 16 years	574 607	541 893
> more than 16 years	2 548 486	3 157 047

The actuarial report is available at the Bank's head-office for consultation.

3.29 General administrative costs

Note 29

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Supplies:		
Water, electricity and fuel	(204 800)	(198 816)
Consumables	(16 405)	(28 856)
Publications	(8 928)	(7 533)
Hygiene and cleaning products	(16 118)	(17 771)
Other third party supplies	(206 731)	(209 497)
	(452 982)	(462 473)
Services:		
Leases and rentals	(142 256)	(140 111)
Communications	(243 567)	(239 426)
Travel, hotel and entertainment expenses	(311 852)	(308 418)
Advertising and publishing	(668 791)	(591 167)
Repairs and maintenance	(154 816)	(122 322)
Insurance	(65 550)	(59 769)
Specialised services		
Retainers and fees	(123 136)	(144 480)
Legal, litigation and notaries	(31 202)	(10 923)
IT services	(142 404)	(373 046)
Security and surveillance	(19 817)	(19 411)
Cleaning services	(3 617)	(2 901)
Information	(570 496)	(485 363)
Databases	(56 871)	(48 385)
Other specialised services		
Studies and consultations	(9 225)	(1 068)
Advisors and external auditors	(607 186)	(498 309)
Other third party services		
Public relations and advisory services	(38 982)	(41 666)
Banco de Portugal - Bpnet Service	(2 397)	(3 939)
Housekeeping services	(10 069)	(7 409)
Temporary manpower		(1 650)
Other	(67 019)	(73 587)
	(3 269 252)	(3 173 350)
	(3 722 234)	(3 635 822)

In compliance with Chapter VI Article 66-A(1)(b) of the C.S.C. (Companies Code), the following fees were posted for Banco Carregosa and its subsidiary, there being no other type of service provision:

STATUTORY AUDITORS	
Legal Certification of Accounts	43 200
Assurance and reliability services	11 750
Other (Coollink)	1 500
Other (Circuitos e Traçados)	1 250
	57 700

3.30 Depreciation and amortisations

Note 30

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Property, plant and equipment		
Of property	(110 002)	(87 439)
Of equipment	(648 907)	(460 022)
Of financial lease assets	(956)	(956)
	(759 865)	(548 417)
Intangible assets	(91 625)	(104 766)
	(851 490)	(653 184)

As mentioned in Notes 6 and 7, the movements and balances of the headings 'Other property, plant and equipment' and 'Intangible assets', including amortizations and impairment adjustments, are shown in the table related to these notes.

3.31 Provisions net of write-offs

Note 31

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Provisions for general credit risks		
Provisions for guarantees and commitments made	6 498	19 604
Losses from:		
Provisions for guarantees and commitments made	(9 831)	(23 071)
	(3 333)	(3 466)

3.32 Impairment of financial assets at amortised cost

Note 32

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Investments held to maturity		
Debt instruments	82 621	
Loans		
Normal loans	1 526 754	781 898
Overdue loans (includes other debtors)	(1 674 639)	(1 171 338)
	(147 885)	(389 440)
	(65 264)	(389 440)

3.33 Impairment of financial assets at fair value through other comprehensive income — Note 33

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Available for sale financial assets		
Debt instruments	(164 479)	5 248
Equity instruments	(426)	(1 800)
	(164 904)	3 448

3.34 Impairment of other assets net of reversals and recoveries — Note 34

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Of other assets	155 740	
	155 740	

This value refers to the impairment at Sociedade Circuitos e Traçados, S.A. under the heading Inventories.

3.35 Taxes — Note 35

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Current	(191 777)	(240 592)
Deferred	(72 424)	(75 969)
	(264 201)	(316 561)

Current taxes recognised in 2018, in the amount of €191 777, arise from income tax calculated according to the tax law applicable to Banco Carregosa, in the amount of €185 726, and to the participated company Coollink in the amount of €6,051.

Deferred taxes recognised in 2018, in the amount of €72 424, are broken down into €65 071 relating to the recognition of the impact of temporary differences identified in amortisations and impairments accepted for tax purposes and those recognised in Banco Carregosa's accounting records, and of €7,353 for Coollink.

In accordance with the law in force, tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security).

In addition, and in accordance with Article 63 of the Corporate Income Tax Code, the tax and customs authority may make whatever corrections it deems necessary to determine the taxable income whenever, due to special relations between the taxpayer and another person, whether or not subject to corporate income tax, different conditions are agreed other than the ones usually agreed between independent individuals, leading to a result other than the one that would have otherwise been calculated had such a relationship not existed. However, the Board considers that any corrections arising from the different interpretations of the law in force by the tax authorities should not have a significant effect on the financial statements in attachment.

Deferred taxes recorded in 2018 result from the impact of temporary differences in income tax on both property, plant and equipment and intangible assets, and on impairments.

3.36 Off-balance sheet accounts

Note 36

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Commitments to third parties:		
Irrevocable commitments		
Potential commitments to SII	598 778	442 626
Revocable commitments		
Credit lines	9 960 726	9 674 698
Account overdraft facilities		2 510 168
	10 559 504	12 627 493
Liability for service provision:		
Of deposits and values under custody	795 660 770	588 443 217
Administrative amounts of the institution	137 919 974	166 464 320
	933 580 744	754 907 537
Services provided by third parties:		
For deposits and values under custody	523 948 297	351 862 830
	523 948 297	351 862 830
Foreign exchange transactions and derivative instruments:		
Trading instruments		
Foreign exchange forward transactions	125 873	
Options	756	12 647
Hedge instruments		
Options	7 103	50 851
	133 733	63 498
Guarantees provided and any other services:		
Personal guarantees	10 339 662	10 215 994
Real guarantees	12 515 000	5 586 000
	22 854 662	15 801 994
Guarantees received:		
Personal guarantees	99 131 332	71 167 797
Real guarantees	333 804 896	334 661 434
	432 936 229	405 829 231
Other off-balance sheet items:		
Write-offs	1 340 261	1 340 261
Accrued interest	92 690	71 477
Miscellaneous accounts	(1 925 446 120)	(1 542 504 321)
	(1 924 013 169)	(1 541 092 582)

3.37 Contingent liabilities originated by the Resolution Fund

In accordance with Decree-law 24/2013, establishing the operation of the Resolution Fund (hereinafter referred to as "RF"), the Bank has since 2013 made an initial contribution followed by the mandatory annual contributions, as stated in articles 3 and 4 of said diploma.

In a circular letter in 2015, Banco de Portugal explained that the periodic contribution to the RF should be regarded as a cost in the year in which it is paid, that is, in late April of each year.

In a press release issued in 2015, the Resolution Fund clarified that a special contribution to finance the resolution measure applied to BES is unlikely to happen. As such, and as mentioned in the press release, the possibility of a special contribution seems quite remote.

The uncertainty as to the future contributions to the Resolution Fund (RF), considering the commitments to repay the debt contracted by the RF with the State (€3.9 bn) and other banks (€500 M) for the capital increase of Novo Banco after the resolution of Bank BES seems to be overcome with the definition of a 30-year period for that reimbursement.

This period should be ample enough for banks not to be required to make additional significant contributions to the Resolution Fund, in order to allow the said reimbursement, despite the high risks assumed by the Resolution Fund under the framework of the agreement to sell 75% of Novo Banco equity to the Lone Star Fund, which may entail a considerable additional financial effort for the Resolution Fund in 2019 and in subsequent years.

The contribution payable in 2018, in the amount of €50 811.78, compares to the €29 282.31 paid in 2017, as a result of the change in the rate applied.

These contributions were recognised as a cost in each financial year, in accordance with IFRIC 21 – Taxes.

3.38 Assets given as collateral

These assets are broken down as shown in the table below:

PLEDGED FINANCIAL ASSETS	31/12/2018	31/12/2017
Available for sale financial assets		
Debt securities	12 475 851	6 010 705
Other assets		
Receivables from futures and options transactions – margins	3 041 743	3 791 170
Various investments – uncleared values	10 163 477	10 395 180
	25 681 071	20 197 055

3.39 Related parties

As at 31 December 31 December 2018 and 2017, the Bank is controlled by the following shareholders with a holding of more than 2%:

31/12/2018			
SHAREHOLDING COMPOSITION:	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649.00
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768.00
Pojeto Inverso, S.G.P.S., S.A.	15 880 743	7.94	15 880.00
Groupe Norwich S.A.	9 999 990	5.00	9 999.00
Mauricio Zlatkin	9 999 000	5.00	9 999.00
Sophia Capital - Fundo de Capital de Risco	8 510 000	4.26	8 510.00
Imocarregosa - Gestão e Comercialização Imobiliária, S.A.	8 186 751	4.09	8 186.00
António José Paixão Pinto Marante	7 500 000	3.75	7 500.00
Ruasgest, S.G.P.S., S.A.	4 764 223	2.38	4 764.00

31/12/2017			
SHAREHOLDING COMPOSITION:	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649.00
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768.00
Amorim Projetos, S.G.P.S., S.A.	15 880 743	7.94	15 880.00
Groupe Norwich S.A.	9 999 990	5.00	9 999.00
Mauricio Zlatkin	9 999 000	5.00	9 999.00
Sophia Capital - Fundo de Capital de Risco	8 510 000	4.26	8 510.00
António José Paixão Pinto Marante	8 200 000	4.10	8 200.00
Imocarregosa - Gestão e Comercialização Imobiliária, S.A.	7 358 751	3.68	7 358.00
Ruasgest, S.G.P.S., S.A.	4 764 223	2.38	4 764.00

Remuneration of the Board of Directors

The members of Board of Directors of the Bank were considered, in accordance with IAS 24, as the only 'key' management members of the Bank. The remunerations earned by the Board of Directors during the years ended 31 December 2018 and 2017, are shown in Note 28 to this annex.

16

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Separate Accounts
ANALYSIS AND ANNEXES

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2018 AND 2017

EUROS

	NOTES	31/12/2018	31/12/2017
ASSETS			
Cash and liquid assets in central banks and other demand deposits	1	87 123 442	102 625 677
Financial assets at fair value through profit or loss	2	35 072 444	15 839 281
Available for sale financial assets	2.1	26 957 400	15 830 080
Non-negotiable financial assets mandatorily at fair value through profit or loss	2.2	8 101 664	0
Other financial assets	2.3	13 380	9 201
Financial assets at fair value through other comprehensive income	3	44 017 731	22 903 194
Financial assets at amortised cost	4	118 888 950	119 562 715
Of which:			
Loans to clients	4.1	101 901 308	94 349 516
Derivatives - Hedge accounting	5	26 133	53 480
Investments in subsidiaries, joint ventures and associates	6	4 920 536	25 000
Property, plant and equipment	7	8 359 753	8 483 962
Intangible assets	8	490 477	87 690
Tax assets	9	367 358	613 938
Other assets	10	3 866 032	4 308 663
Non-current assets and disposal groups classified as held for sale	11	85 680	85 680
Total assets		303 218 538	274 589 280

The Certified Accountant

EUROS

	NOTES	31/12/2018	31/12/2017
LIABILITIES			
Financial liabilities held for trading	12	9 798	0
Financial liabilities measured at amortised cost	13	263 749 736	235 521 071
Provisions	14	6 081	13 513
Tax liabilities	15	137 390	72 834
Other liabilities	16	2 998 066	3 610 535
Total Liabilities		266 901 072	239 217 953
EQUITY	17		
Equity		20 000 000	20 000 000
Issue premiums		369 257	369 257
Other accumulated comprehensive income		(519 495)	287 911
Retained earnings		1 408 512	1 054
Other reserves		13 912 451	13 912 451
Income for the year		1 146 740	800 654
Total Own Equity		36 317 465	35 371 327
TOTAL LIABILITIES AND EQUITY		303 218 538	274 589 280

The Board of Directors

SEPARATE INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2017

EUROS

	NOTES	31/12/2018	31/12/2017
Interest and similar income		6 680 390	5 960 350
Interest and similar costs		(930 728)	(892 771)
Financial margin	19	5 749 662	5 067 579
Income from equity instruments	20	225 749	126 981
Income from services and commissions	21	5 384 657	6 477 651
Charges – services and commissions	21	(1 868 237)	(2 275 357)
Income from assets and liabilities evaluated at fair value through profit or loss (net)	22	214 487	1 106 140
Income from financial assets at fair value through other comprehensive income	23	1 289 876	463 272
Income from non-negotiable financial assets mandatorily at fair value through profit or loss (a)	24	628 752	0
Income from financial assets at amortised cost	25	42 200	0
Income from foreign currency revaluation (net)	26	(16 917)	(223 167)
Income from the disposal of other assets	27	9 510	10 024
Other operating income	28	(408 055)	(417 571)
Net operating revenue		11 251 684	10 335 551
Staff costs	29	(4 291 470)	(4 095 526)
General administrative costs	30	(4 411 277)	(4 104 189)
Depreciation and amortisations	31	(818 790)	(622 153)
Provisions net of reinstatements write-offs	32	(3 333)	(3 466)
Impairment of financial assets at amortised cost	33	(65 264)	(389 440)
Impairment of financial assets at fair value through other comprehensive income	34	(164 904)	3 448
Impairment of investments in subsidiaries, joint ventures and associates	35	(99 109)	0
Pre-tax profit		1 397 537	1 124 224
Taxes			
Current	36	(185 726)	(234 978)
Deferred	36	(65 071)	(88 593)
Profit after tax		1 146 740	800 654

a) In the context of the implementation of Notice 1/2019 of Banco de Portugal, in 2018, Earnings from portfolio funds are not recorded under "Income from non-negotiable financial assets mandatorily at fair value through profit or loss", as defined in Annex III of the Implementing Regulation (EU) 680/2014 of the Commission, of 16 April 2014 (FINREP).

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SEPARATE STATEMENT OF COMPREHENSIVE INCOME

EUROS

	31/12/2018	31/12/2017
CONSOLIDATED NET INCOME FOR THE YEAR	1 146 740	800 654
Items that will not be restated into profit or loss:		
Property, plant and equipment	1 121	(479)
Actuarial gains or losses (-) with defined benefit pension plans	77 944	28 978
Items that may be restated into profit or loss:		
Cash flow hedging	688	(2 231)
Financial assets at fair value through other comprehensive income	(870 933)	333 454
Income tax related to items that may be restated into profit or loss	164 820	(347 243)
OTHER COMPREHENSIVE INCOME	(626 360)	12 478
OVERALL COMPREHENSIVE INCOME FOR THE YEAR	520 380	813 132

The Certified Accountant

The Board of Directors

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

EUROS

	31/12/2018	31/12/2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and commissions received	11 892 378.60	12 304 625.60
Interest and commissions paid	(2 844 815.26)	(3 170 014.40)
Payments to employees and suppliers	(8 517 188.76)	(8 524 175.59)
Deposits from credit institutions and central banks	4 456 217.83	2 176 401.61
Other operating assets and liabilities	(21 385 757.73)	7 044 776.25
Other receipts from clients	30 392 653.50	24 572 640.55
Income taxes	225 158.66	(1 055 925.58)
Net cash from operating activities	14 218 646.84	33 348 328.44
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Dividends received	-	-
Acquisition of financial assets at fair value through other comprehensive income, net of disposals	(29 674 278.27)	3 845 035.96
Acquisition of financial assets at amortised cost, net of disposals	5 717 095.68	2 141 413.05
Acquisitions of property, plant and equipment and intangible assets	(1 111 853.71)	(2 652 753.58)
Disposals of property, plant and equipment and intangible assets	61 750.00	294 364.49
Investments in subsidiaries and associated companies	(5 004 000.00)	-
Net cash from investment activities	(30 011 286.30)	3 628 059.92
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital increase	-	-
Dividends paid	-	-
Issue of securitised and subordinated debt	-	-
Remuneration paid on cash and other bonds	-	-
Remuneration paid on subordinated debt	-	-
Deposits from credit institutions (not associated with the main revenue-generating activities)	-	-
Net cash from financing activities	-	-

The Certified Accountant

EUROS

	31/12/2018	31/12/2017
Net increase (decrease) of cash and cash equivalents	(15 792 639.46)	36 976 388.36
Cash and cash equivalents at the start of the year	103 063 319.64	66 086 931.30
Cash and cash equivalents at the end of the year	87 270 680.19	103 063 319.64

Cash and cash equivalents		
In the years ended 31 December 2018 and 2017, the heading cash and cash equivalents is broken down as follows:		
Cash and liquid assets in central banks	39 953 883.18	57 345 291.88
Liquid assets in other credit institutions	47 169 559.01	45 280 384.98
Investments in other credit institutions	500 467.50	500 172.23
Overdrafts in other credit institutions	(353 229.50)	(62 529.45)
Cash and cash equivalents at the end of the financial year	87 270 680.19	103 063 319.64

The Board of Directors

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018 | (SEPARATE ACTIVITY)

	CAPITAL	ISSUE PREMIUMS	OTHER ACCUMULATED COMPREHENSIVE INCOME	LEGAL RESERVES
OPENING BALANCES	20 000 000	369 257	275 433	2 242 959
Changes in fair value reserves			330 744	
Deferred tax			(347 243)	
Actuarial gains or losses (-) with pension plans			28 978	
Net result for 2017				
Comprehensive income for 2017				
Distribution of dividends				
Other changes in equity				
BALANCES AS AT 31 DECEMBER 2017	20 000 000	369 257	287 912	2 242 959
Changes in fair value reserves			(869 124)	
Deferred tax			164 820	
Actuarial gains or losses (-) with pension plans			77 944	
Net result for 2018				
Comprehensive income for 2018				
Distribution of dividends				
Other changes in equity			(181 046)	
BALANCES AS AT 31 DECEMBER 2018	20 000 000	369 257	(519 494)	2 242 959

The Certified Accountant

EUROS

OTHER RESERVES	RETAINED EARNINGS	RESULT FOR THE YEAR	TOTAL OWN EQUITY
11 669 492	389 879	(388 825)	34 558 195
			330 744
			(347 243)
			28 978
		800 654	800 654
			813 132
			0
	(388 825)	388 825	0
11 669 492	1 054	800 654	35 371 327
			(869 124)
			164 820
			77 944
		1 146 740	1 146 740
			520 380
			0
	1 407 457	(800 654)	425 758
11 669 492	1 408 512	1 146 740	36 317 465

The Board of Directors

ANNEX TO THE SEPARATE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

(EXCEPT WHERE OTHERWISE STATED, AMOUNTS ARE EXPRESSED IN EURO)

1. GENERAL INFORMATION

Banco L.J. Carregosa, SA (Bank or Carregosa) is a commercial bank with head-office in Portugal, at Av. da Boavista nº 1083, in Porto, duly authorised by the Portuguese authorities. It began to operate as a commercial bank in November 2008.

The Bank's network consists of three branches.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. BASIS OF PRESENTATION AND COMPARABILITY

As set out in Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002 and Banco de Portugal Notice 5/2015, of December, the Bank's annual financial statements were prepared based on the International Financial Reporting Standards ("IFRS") as adopted by the European union ("EU"). The IFRS include the accounting standards issued by the *International Accounting Standards Board* ("IASB") and the interpretations thereof issued by the *International Financial Reporting Interpretation Committee* ("IFRIC"), and by the respective former bodies.

The Bank's financial statements presented herein report to the year ended 31 December 2018 and were prepared in accordance with the current IFRS as adopted in the European Union.

The financial statements are expressed in euro.

New standards and amendments to the standards that came into effect on 1 January 2018

IFRS 9 – Financial instruments

This standard is included in the draft revision of IAS 39, establishing new requirements for the classification and measurement of financial assets and liabilities, for the impairment calculation method and for the implementation of the hedge accounting rules.

IFRS 9 – Financial Instruments was approved by the EU in November 2016 and came into effect for the periods beginning on or after 1 January 2018. IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement, and establishes new rules for recording financial instruments, with significant changes especially as regards impairment requirements. The requirements contained in IFRS 9 are generally applied retrospectively by adjusting the opening balance at the date on which it is first applied.

(EC) Regulation 2016/2067, of 22 November.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from contracts with customers

This standard provides the model for recognising revenue based on principles and on a model to be applied to all contracts entered into with customers, replacing standards IAS 18 – Revenue, IAS 11 – Construction contracts; IFRIC 13 – Customer loyalty programmes; IFRIC 15 – Agreements for the construction of real estate; IFRIC 18 – Transfers of assets from Customers, and SIC 31 – Revenue- Barter transactions involving advertising services.

There were no significant impacts on the application of this standard in the Bank's financial statements.

(EC) Regulation 2016/1905, of 22 September.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from contracts with customers – clarifications

These amendments introduce a number of clarifications to IFRS 15 and refer to additional indications to be followed in:

i) Determining the obligation of contract performance;
ii) Determining when a revenue from an intellectual property licence will be recognised;
iii) Identifying the indicators for the classification of the main relation *versus* agent; and
iv) Selecting the new transitional regimes foreseen for the adoption of IFRS 15.

There were no significant impacts on the application of this standard in the Bank's financial statements.

(EC) Regulation 2017/1987, of 31 October.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 4 – Insurance contracts (implementation of IFRS 4 with IFRS 9)

This amendment gives the entities trading in insurance contracts the choice to recognise in another comprehensive income, as opposed to recognising it in the profit and loss for the period, the volatility resulting from the implementation of IFRS 9, before IFRS 17 – "Insurance contracts" enters into effect.

Entities whose predominant activity concerns insurance may also benefit from a derogation from the implementation of IFRS 9 up to 2021, which is optional and applicable to a Group's financial statements, when the Group includes an insurance institution, as per the "*carve in*" proposal of the European Union.

(EC) Regulation 2017/1988, of 3 November.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 2 – Classification and measurement of share-based payment transactions

This amendment clarifies the basis for measuring cash-settled share-based payments, and accounts for the modifications to a share-based payment plan, that changes its classification as "cash-settled" to "equity-settled". An additional modification is the introduction of an exception to the IFRS 2 principles, which requires that a share-based payment plan be treated as if it were fully equity-settled when the employer is obligated to retain an amount of the plan value for the payment taxes to which the employee is subject, and to pay the amount to the tax authority.

(EC) Regulation 2018/289, of 26 February.
Effective for annual periods beginning on or after 1 January 2018.

IAS 40 – Transfer of investment properties

These amendments clarify that the change in the classification of or to an investment property should only be made when there is evidence of change in the use of the asset, with the change in the management intention not being sufficient to perform the transfer.

(EC) Regulation 2018/400, of 14 March.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 1 – First-time adoption of the IFRS

Deletion of some short-term exemptions provided for in the transition to the IFRS, to IFRS 7 (disclosures relating to the comparative period and transfer of financial assets), IFRS 10 (transitional provisions relating to investment entities) and IAS 19 (comparative information on the sensitivity analysis of obligations of defined benefits), as these no longer apply under the respective standards.

(EC) Regulation 2018/182, of 7 February.
Effective for annual periods beginning on or after 1 January 2018.

IFRS 12 – Disclosure of interests in other entities

This improvement clarifies that the scope of the IFRS 12 includes financial holdings in subsidiaries, associated companies and/or joint ventures part of the groups held for sale (under IFRS 5) and that the exemption from IFRS 12 concerns only the disclosure of the summarised financial information of these entities.

(EC) Regulation 2018/182, of 7 February.
Effective for annual periods beginning on or after 1 January 2018.

IAS 28 – Investments in associates and joint ventures

This improvement clarifies that the investments in associates or joint ventures held by a venture company may be measured at fair value in accordance with IFRS 9, in a separate manner. It further clarifies that a non-investment entity, but which nevertheless holds investments in associates and in joint venture that are investment entities may continue to measure the holding of those associate companies or joint ventures in their own subsidiaries at fair value, by applying the equity method.

(EC) Regulation 2018/182, of 7 February.
Effective for annual periods beginning on or after 1 January 2018.

New interpretations that came into effect on 1 January 2018

IFRIC 22 – Foreign currency transactions and advance consideration

IFRIC 22 is an interpretation of IAS 21 – "The effects of changes in foreign exchange rates", and refers how to account for the "date of transaction" when an entity pays or receives an advance consideration from contracts denominated in foreign currency. Thus, the total value of a transaction denominated in foreign currency will be determined according to the exchange rate applicable at the date of the advance and at the effective date of the transaction, by obtaining the right or fulfilment of the associated obligation.

This interpretation includes three transition models similar to those provided for in IFRS 15.

(EC) Regulation 2018/519, of 28 March.
Effective for annual periods beginning on or after 1 January 2018.

New standards and amendments endorsed by the EU, but not yet in effect

IFRS 16 – Leases

IFRS 16 replaces IAS 17 – "Leases" and related interpretations, having a significant impact on the recognition by the lessee, who is required to recognise, for all lease contracts, a lease liability corresponding to the future payments of rents and a "right-of-use" asset".

Exemptions to this accounting treatment are provided for short-term leases (< 12 months) and for low value assets (<USD 5,000).

The definition of a lease contract has also been revised, based on the "right to control, the use of an identified asset".

With regard to the transition regime, IFRS 16 may be applied retrospectively, or a simplified retrospective approach may be followed.

(EC) Regulation 2017/1986, of 31 October.
Effective for annual periods beginning on or after 1 January 2019, but earlier adoption is allowed.

IFRS 9 – Prepayment features with negative compensation

This change allows an entity to classify/measure financial assets at amortised cost even if they include conditions that provide for the early payment for a consideration less than nominal value ("negative compensation"), being an exemption from the requirements of IFRS 9 for classifying financial assets at amortised cost.

It also clarifies that when a change occurs in the conditions of a financial liability that does not give rise to derecognition, then the measurement difference must be immediately recorded in the income statement.

(EC) Regulation 2018/498, of 22 March.
Effective for annual periods beginning on or after 1 January 2019.

New interpretations endorsed by the EU, but not yet in effect

IFRIC 23 – Uncertainties over income tax treatments

IFRIC 23 is an interpretation of IAS 12 – "Income tax", referring to the measurement and recognition requirements that apply where there are uncertainties as to whether a specific tax treatment will be accepted by the Tax Authorities.

Where the opinion of the Tax Authorities on a specific transaction is uncertain, the entity shall give its best estimate and enter the income tax assets or liabilities as per IAS 12, and not IAS 37 – 'Provisions, contingent liabilities and assets', based on the estimate of the expected amount or probable amount.

IFRIC 23 may apply retrospectively or retrospectively amended.

(EC) Regulation 2018/1595, of 23 October.
Effective for annual periods beginning on or after 1 January 2019.

Amendments to the standards published by IASB, but not yet endorsed by the EU

IAS 19 – Amendment, curtailment or settlement of defined benefit plans

This amendment to IAS 19 requires an entity to:

i) Use up-to-date assumptions to determine the cost of the current service and the net interest for the remaining period after the amendment, curtailment or settlement of the plan; and
ii) Recognises through profit or loss as part of the past service cost, or as gain or loss on settlement, any curtailment in surplus hedge, even if the surplus hedge has not been recognised before due to the impact of "*asset ceiling*", which is always recorded in other comprehensive income, and may not be recycled through profit or loss.

Applies for annual periods beginning on or after 1 January 2019.

IAS 28 – Long-term investments in associates and joint ventures

This amendment outlines how to apply the equity method to long-term investments in associates and joint ventures (components of the investment of an entity in associates and joint ventures), that are not measured through the equity method. The aforementioned long-term investments are accounted for according to IFRS 9. This clarification determines that long-term investments in associates and joint ventures are subject to the impairment requires of IFRS 9 (model for the 3 phases of expected losses), before being added for the purpose of impairment test on the overall investment in an associate or joint venture, when impairment indicators exist.

Applies for annual periods beginning on or after 1 January 2019.

2.2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies hereunder apply to Banco Carregosa's financial statements.

2.2.1. TRANSACTIONS IN FOREIGN CURRENCY (IAS 21)

Transactions in foreign currency (other than the Bank's functional currency) are recorded at the exchange rates in effect on the date of transaction.

Financial assets and liabilities in foreign currency are recorded in their currency denomination (*multi-currency system*).

At each reporting date, the carrying amounts of monetary items denominated in foreign currency are restated at the exchange rate on that date. Favourable and unfavourable exchange differences arising from the differences between exchange rates in effect on the date of transactions and those in effect at the date of collection, payment or balance sheet date are recognised in profit or loss for the period.

2.2.2. CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement, cash and cash equivalents comprise the amounts recorded in the balance sheet with a maturity of less than three months as of their contract date, including cash and other liquid assets in other credit institutions.

2.2.3. INVESTMENTS IN DOMESTIC AND FOREIGN CREDIT INSTITUTIONS

These instruments are measured at fair value, which is normally the consideration paid, net of directly associated transaction costs.

2.2.4. FINANCIAL INSTRUMENTS

The Bank adopted IFRS 9 – Financial Instruments on 1 January 2018 in lieu of IAS 39 – Financial Instruments: Recognition and Measurement, which was effective until 31 December 2017.

The accounting classification is determined upon the acquisition of the asset, in accordance with IFRS 9 and in compliance with the rules of IFRS 13, as regards fair value measurement.

When assets are first recognised, they are classified according to one of the following categories:

i) Assets measured at amortised cost;
ii) Assets measured at fair value through another comprehensive income;
iii) Assets measured at fair value through profit or loss.

This classification is done based on the Bank's business model for managing the financial asset and also taking into consideration the characteristics of the contractual cash flows of the financial asset.

Adopted by Regulation (EU) 1255/2012, of the Commission, of 11 December 2012, the International Financial Reporting Standard (IFRS) 13 defines fair value, sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements.

IFRS 13 defines (cf. §9) fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The disclosures required by IFRS 13 are not required for the following (cf. §7):

i) Plan assets measured at fair value in accordance with IAS 19 – Employee Benefits;
ii) Retirement benefit plan investments measured at fair value in accordance with IAS 26 – Accounting and Reporting by Retirement Benefit Plans; and
iii) Assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36 – Impairment of Assets.

According to paragraph 8, the fair value measurement framework described in IFRS13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

As from 1 January 2018, there has been a specific balance sheet heading – **"Non-negotiable financial assets mandatorily at fair value through profit or loss"**.

This account is supported by references IFRS 7.8 (a)(ii) and IFRS 9.4.1.4, cf. Regulation (EU) 2016/2067 of the Commission, of 22 November 2016.

The following accounting classes are, therefore considered:

i) Financial assets at amortised cost – HTM;
ii) Financial assets at fair value through other comprehensive income – FVTOCI;
iii) Financial assets at fair value through profit or loss – FVTPL;
iv) Other assets not held for trading, mandatorily recorded at fair value (*Not Held for Trading, PL*).

Financial assets at amortised cost

An asset must be recorded at amortised cost if both the following conditions are met:

i) The asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
ii) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Initial recognition and subsequent measurement

Assets are initially recognised at fair value, including costs or gains associated to the transactions, and subsequently they are measured at amortised cost. Additionally, at their initial recognition they are subject to the calculation of expected impairment losses, which will reduce the book value of these financial assets by corresponding entry under the heading “impairment of financial losses at amortised cost”.

Interest on financial assets at amortised cost is recorded under “interest and similar income”.

Gains or losses generated at the time of their “derecognition” are recorded under “gains/ losses” with the “derecognition” of financial assets and liabilities at amortised cost.

When mention is made of a “derecognition”, the following are said to occur:

i) A disposal;
ii) Or an entity reclassifies an asset out of the amortised cost measurements category into the fair value through profit or loss measurement category (item 5.6.2 IRFS 9).

If an entity reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, any gain or loss arising from a difference between the previous amortised cost of the financial value and fair value is recognised in other comprehensive income (item 5.6.4 IFRS 9).

Financial assets at fair value through other comprehensive income

An asset must be recorded at fair value through other comprehensive income if both the following conditions are met:

i) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This classification must consider the asset portfolio recorded at fair value through other comprehensive income (FVTOCI), reasonably close to the so-designated prudential investment portfolio.

Additionally, in the initial recognition of an equity instrument that is not held for trading, or in the case of a contingent retribution recognised by a buyer in a business combination to which IFRS3 applies, the Bank may irrevocably opt to classify it under "Financial assets at fair value through other comprehensive income".

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income are initially recognised at fair value, including costs and gains associated to the transactions, and are subsequently measured at fair value. Changes in the fair value of these assets are recorded by corresponding entry under other comprehensive income and, at the time of their disposal, their accumulated gains or losses in other comprehensive income are reclassified into a specific profit and loss heading designated Gains or losses with the "derecognition" of financial assets at fair value through comprehensive income".

Additionally, since their initial recognition these financial assets are subject to the calculation of impairment losses, which will not reduce the carrying amount of the financial asset in the balance sheet, therefore being recognised in profit or loss under "Impairment of assets at fair value through other comprehensive income" against other comprehensive income.

Interest on financial assets at fair value through other comprehensive income is recognised under the item "interest and similar income (financial margin)" based on the interest rate of each issue.

Equity instruments at fair value through other comprehensive income are initially recognised at fair value, plus transaction costs, and are subsequently measured at fair value. Changes in the fair value of these financial assets are recorded against other comprehensive income. Dividends are recognised in profit or loss only when the entity's right to receive payment of the dividend is established.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income, but does not affect profit or loss (item 5.6.5 IFRS 9).

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

Financial assets at fair value through profit or loss

A financial asset must be recorded at fair value through profit or loss if the business model defined by the Bank for managing the financial assets, or the contractual cash flow characteristics, do not meet the conditions to be measured at amortised cost or at fair value through other comprehensive income.

However, the Bank may irrevocably designate a financial asset that meets the criteria of amortised cost measurement or fair value measurement through other comprehensive income as measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The following must be considered under this classification:

i) Assets valued at fair value through profit and loss (FVTPL), almost coincident with the designated prudential trading portfolio;
ii) Non-trading financial assets, mandatorily measured at fair value through profit or loss or, separately, other assets not held for trading, mandatorily recorded at fair value (*Not Held for Trading, PL*).

Initial recognition and subsequent measurement

Financial assets at fair value through profit or loss are initially recognised at fair value, and costs or income related to the transactions are recognised in profit or loss at the initial date, with subsequent changes also recognised in profit or loss.

The periodical calculation of interest is recognised under "interest and similar income" based on the interest rate of each issue (coupon rate).

2.2.5. RECLASSIFICATION

The reclassification of financial assets is only permitted in strict accordance with the regulatory and accounting standards in force.

The reclassification of a position in the trading book into a non-trading book position or, inversely, the reclassification of a non-trading book position into a trading book position may only occur in specific circumstances and must comply with the policies and procedures set out in the EBA guidelines, in particular where there is:

i) Final delisting;
ii) The loss of public company status;
iii) Default by the issuer.

The Bank reclassifies its portfolio based on assumptions in a way that the exceptional nature of the circumstances and consistency with the defined policy are made absolutely clear.

Where the competent authorities permit the reclassification:

i) The reclassification of that position cannot be changed;
ii) The Bank must disclose publically, on the first reporting date, the information that its position was reclassified;
iii) Under the regulations, where, at the first reporting date, the net change in the amount of the Bank's own funds requirements, arising from the reclassification of the position, results in a net reduction, the Bank will henceforth provide for additional own funds equal to the net change and will publically disclose the amount of such additional own funds;

iv) The additional own funds amount will remain constant until the maturity date of the position, unless the competent authorities allow the institution to gradually reduce that amount at an earlier date.

2.2.6. FINANCIAL DERIVATIVES (IFRS 9)

Financial derivatives are recorded at fair value at the date on which the Bank negotiates the contracts and are subsequently measured at fair value. Fair values are obtained through market prices in active markets, including recent market transactions, and valuation models, namely: discounted cash flow models and option valuation models. Derivatives are considered as assets when their fair value is positive and as liabilities when their fair value is negative.

Some derivatives embedded in other financial instruments, such as the indexation of the yield of debt instruments to share value or share indices, are split and treated as separate derivatives when their risk and economic characteristics are not clearly related to those of the underlying contract and the latter is not measured at fair value with changes recognised through profit or loss. These embedded derivatives are measured at fair value, with subsequent changes recognised in the statement of profit and loss.

2.2.7. HEDGE ACCOUNTING

As permitted by IFRS 9, the Bank opted to continue to apply the requirements for hedge accounting provided for in IAS 39.

Principle:

Derivatives and other financial instruments to hedge interest rate risk and exchange risk resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting will be recorded as trading derivatives.

Hedge derivatives are recorded at fair value and gains or losses resulting from the revaluation are recognised according to the hedge accounting model. A hedge relation exists when:

i) At the start date of the relation there is formal documentation of the hedge;
ii) The hedge is expected to be highly effective;
iii) Hedge effectiveness can be reliably measured;
iv) Hedge is evaluated on a continuous basis and effectively determined as being highly effective throughout the financial reporting year; and
v) In relation to the hedging of an expected transaction, this transaction is highly likely to occur and is exposed to cash flow variations that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge exchange fluctuations of monetary assets or liabilities, no hedging accounting model is applied. Any gain or loss associated to the derivative is recognised in profit or loss, as well as the exchange risk fluctuations of underlying monetary items.

(i) Fair value hedging

Changes in the fair value of derivatives that are designated and qualify for fair value hedging instruments are recognised in profit or loss, together with changes in the fair value of the asset or liability or group of assets or liabilities that are attributable to the hedged risk.

If the hedging relation no longer complies with the hedging accounting requirements, the cumulative gains or losses from the changes in interest rate risk associated to the hedging item until the date when the hedging is discontinued are amortised through profit or loss for the remaining period of the hedged item.

(ii) Cash flow hedging

Changes in fair value of derivatives that qualify for hedging cash flows that are considered as effective hedges are recognised in fair value reserves. The ineffective portion of the change in fair value is recognised through profit or loss.

Amounts recognised in equity are restated to profit or loss in the period in which the hedged item.

(iii) Hedge effectiveness

For a hedging relationship to be considered as such, its effectiveness must be demonstrated. To this end, prospective tests must be carried out at the date when the hedging relation starts, where applicable, and retrospective tests to show the hedging effectiveness at each balance sheet date, showing that changes in the fair value of the instrument are hedged by changes in the hedged item with respect to the hedged risk. Any resulting ineffectiveness is recognised through profit or loss at the time it occurs.

2.2.8. LOANS TO CLIENTS AND OTHER RECEIVABLES (RECEIVABLES)

Valuation, initial and subsequent recognition

Loans to clients and receivables from other debtors are the financial assets corresponding to provisions of cash, goods or other services to a certain entity by the institution. This concept covers the typical activity of granting loans to clients, as well as the creditor positions arising from operations with third parties carried out as part of the institution's activities.

Loans to clients and receivables from other debtors are valued as follows:

On the initial recognition date, credits and amounts receivable are recorded at fair value. In general, the fair value at the initial date corresponds to the transaction value and includes commissions, fees or other charges and incomes associated to loan transactions. Subsequently, loans and accounts receivable are valued at amortised cost based on the effective interest rate and subject to impairment tests.

Where applicable, interest, commissions and other charges and income associated to loan transactions are accrued over the life of the transactions, in the case of transactions that produce residual flows over a period of more than one month, regardless of the moment when they are charged or paid. Loan commitment fees are recognised on a deferred and straight-line basis over the lifetime of the commitment.

For the purpose of constituting impairments, the total loans granted are to be considered, including other liabilities assumed with third parties, such as guarantees or other similar instruments.

Derecognition (IFRS 9)

Loans to clients are derecognised from the balance sheet when:

i) The contractual rights to the cash flows expires;
ii) The Bank transfers substantially all the risks and rewards of ownership;
iii) Despite having withdrawn part but not substantially all the risks and rewards of ownership, the control over assets was transferred; and
iv) Changes to the contractual terms of a financial asset give rise to a substantial change in the current value of cash flows, *i.e.*, the new contractual terms discounted at the interest rate of the initial contract give rise to a change of at least 10% of the current value of the remaining cash flows of the original financial asset.

Credit Impairment Loss (IFRS 9)

Identified impairment losses are recorded through profit or loss and are subsequently reversed through profit or loss if there is a reduction in the amount of the estimated loss at a later time.

IFRS 9 replaces the IAS 30 "incurred loss" model with a *forward-looking* model of Expected Credit Loss (ECL), which considers the expected credit losses in the lifetime of financial instruments. Thus, in determining the ECL macroeconomic factors and other *forward looking* information are taken into account, whose changes impact on the expected losses.

The current impairment model analyses all positions individually.

2.2.9. ASSETS ACQUIRED IN EXCHANGE FOR LOANS

Assets acquired in exchange for loans, which may relate to real estate, equipment and other assets received as payment, are classified under "non-current assets held for sale" and are initially recorded at the lower amount between their fair value minus costs to be incurred in the sale and the carrying amount of the balance of the loans granted subject to recovery.

2.2.10. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale whenever it is determined that their book value will be recovered through their sale and not through their continued use.

Assets recorded in this category are measured at the lower of the amount established by the applicable IFRS and the fair value, calculated based on the valuations of external independent internal or external experts, minus costs to be incurred in the sale, and are not subject to depreciation.

2.2.11. OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASES (IAS 16 AND IAS 17)

Other property, plant and equipment are stated at acquisition cost, minus depreciation and impairment losses, and are depreciated on a straight-line basis over their expected useful life. This period lies within the limits allowed by the Portuguese tax law as follows:

EQUIPMENT	YEARS
Vehicles	4 - 8
Furniture and material	8 - 16
IT equipment	3 - 8
Other property, plant and equipment	5 - 50

Land is not amortised

The acquisition cost includes expenses directly attributable to asset acquisition. Maintenance and repair costs are recognised as a cost for the year under "General administrative costs".

According to IAS 16, whenever there is an indication that the carrying amount exceeds their recoverable value, these assets are subject to impairment tests. The difference, if any, is recognised through profit or loss. The recoverable amount is the highest between the two values, asset market value minus costs and its value in use. Impairment loss of Property, plant and equipment are recognised in the income statement.

As per IAS 17, the Bank classifies leases as financial leases. Financial leases are all operations in which the risks and rewards of ownership are substantially transferred to the lessee.

As a lessee, the Bank records contracts classified as financial leases as follows:

i) Leased assets are recorded initially as assets under "Other Property, plant and equipment" and as liabilities under "Other liabilities" for their fair value which is equivalent to their acquisition cost;
ii) Subsequently, when leases are settled, the part relating to the financial charge (interest) is recorded under profit or loss in "Interest and similar costs", while that of the financial amortisation of principal is deducted from the debt recorded in liabilities.

2.2.12. INTANGIBLE ASSETS (IAS 38)

The Bank record under this heading the costs with development of projects implemented and to be implemented, as well as the cost of software purchased, in either case when the expected impact extends beyond the period in which they are incurred.

Costs directly related to the development of IT applications, whose use can be expected to generate future economic flows beyond one financial year, are recognised and recorded as intangible assets.

All other expenses related to IT services are recognised as costs when they are incurred.

Intangible assets are recorded at acquisition cost, minus the impairment losses and depreciations using the straight-line method and by twelfths over their estimated useful life, which is, in general, three years.

2.2.13. INVESTMENTS IN ASSOCIATES (IAS 28)

Investments in associates (companies in which the Bank has a significant influence by participating in financial and operating decisions of the company – usually investments representing between 20% and 50% of the share capital) are recorded through the equity method.

Under this method, on initial recognition financial investments in associates is recognised at cost, plus or minus the amount corresponding to the proportion of the companies' equity capital, reported at acquisition date or when the equity method is first applied. Financial investments are then adjusted every year by the amount corresponding to the participation in the net results of the associates through profit or loss for the year. Additionally, the dividends of these companies are recorded as a reduction in investment value and the proportional part in equity capital changes is recorded as a change in equity of the Group.

The differences between the cost of the investment and associate's share of the fair value of the identifiable assets or liabilities, if positive, are recognised as goodwill, included in the carrying amount of the investment. If these differences are negative, after the fair value is reconfirmed, then they are recorded as gains in the period.

When there is an indication that an asset may be impaired, investments in associates are evaluated and the impairment losses, if any, are recorded as a cost, and reversed when this is no longer justified.

When the proportion of the accumulated losses of the associate exceeds the value by which the investment is recorded, the investment is reported with a null amount, except when the entity has assumed commitments with the associate, in which case a provision is recorded to meet these obligations.

2.2.14. OTHER FINANCIAL LIABILITIES – DEPOSITS FROM OTHER CREDIT INSTITUTIONS, CLIENT DEPOSITS, OTHER LOANS AND OTHERS (IFRS 9)

Other financial liabilities, which essentially include deposits from clients and deposits from central banks, are valued at amortised cost.

Financial liabilities held for trading, in particular those resulting from short selling, and the adjustments thereof are recognised through profit or loss.

According to the fair value option, financial liabilities included under liabilities represented by securities and subordinated liabilities are classified as financial liabilities at fair value, through profit or loss, whenever they meet the classification requirements of this category, in particular due to the fact that they contain one or more embedded derivatives. These liabilities are initially measured at fair value, subsequent changes in fair value being recorded in profit or loss.

2.2.15. PROVISIONS AND CONTINGENT LIABILITIES (IAS 37)

A provision is constituted when (i) the Bank has a present obligation (legal or constructive), (ii) it is probable that the settlement thereof will be required in the future, and (iii) the amount of the obligation can be reliably estimated. In cases where the discount effect is significant, the provision corresponds to the current amount of expected future payments, discounted at a rate that reflects the risk associated to the obligation. If the future expenditure on resources is not likely to occur, then this is a contingent liability. Contingent liabilities are only the object of disclosure, save if the possibility of their realisation is remote. A provision for onerous contracts is recognised when the benefits expected to be received from a formal contract are less than the costs that the Bank will inevitably incur in order to meet the obligations arising therefrom. This provision is measured based on the current value of the lower of the costs for terminating the contract or estimated net costs resulting from its continuation.

2.2.16. TAX ON PROFITS (IAS 12)

Banco Carregosa and its subsidiary with head-office in Portugal are subject to the tax regime in the Corporate Income Tax Regime and to the Tax Benefit Charter (Estatuto dos Benefícios Fiscais (EBF).

Income tax corresponds to the sum of current taxes and deferred taxes. These are both recorded through profit or loss, except when they relate to items directly posted in equity. In these cases, deferred taxes are also recorded in equity.

Current tax payable is based on the taxable profit for the period, calculated in accordance with the tax criteria in force at the date of financial reporting. Taxable profit differs from accounting result, in that it excludes various charges and incomes that will only be deductible or taxable in other financial periods. Taxable profit excludes charges and income that will never be deductible or taxable.

Deferred taxes refer to the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences. However, they are recognised only to the extent that it is probable that future tax profits will be available to use these deferred tax assets, or when there are deferred tax liabilities whose reversal is expected to occur during the same period in which the deferred tax assets may be used. These deferred tax assets are reviewed at each reporting date, and adjusted based on expectations of future use.

2.2.17. RECOGNITION OF REVENUE AND COSTS

Revenue and costs are recognised over the life of the transactions and according to the accrual accounting principle, in other words, they are recorded as they are generated. Revenues are recognised to the extent that it is likely that economic benefits flow to the company and the amount of the revenue can be measured. Interest accrued and not collected is reversed in the balance sheet after three months of maturity and are only recognised as revenue when they are actually received.

2.2.18. RECOGNITION OF INCOME FROM SERVICES AND COMMISSIONS (IFRS 15)

IFRS 15 redefines the principles for recognising revenue and applies to all contracts with clients not contracted under other standards (for example, taxes in respect of instruments which would fall under IFRS 9 and the lease income).

IFRS 15 establishes a five-step model framework for recognising revenue from contracts with clients, which must be recognised in the consideration to which the entity is entitled to in exchange for the services provided to the client.

The Bank applies IFRS 15 to the income arising from services and commissions recognised according to the following criteria:

i) When received as the services are provided, they are recognised in profit or loss in the period to which they refer;
ii) When resulting from service provision, they are recognised when the said service is concluded; and
iii) When wholly part of the effective interest rate, they are recognised under financial margin.

Many of the Bank's revenue sources (for example, interest income, gains and losses in financial instruments) fall outside the scope of IFRS 15, therefore accounting for these flows has not changed with the adoption of IFRS 15.

2.2.19. RECOGNITION OF INTEREST

Results relating to interest on financial instruments measured at amortised cost and on available for sale financial assets are recognised under interest and similar income or interest and similar costs. Interest on financial assets and liabilities at fair value through profit or loss are also included in the heading interest and similar income or interest and similar costs, respectively. The effective interest rate is the rate that exactly discounts estimated future cash payments or estimated future receipts over the expected lifetime of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Effective interest rate is determined at initial recognition of financial assets and liabilities and is not revised subsequently.

2.2.20. COMMISSIONS FOR SERVICES PROVIDED

Banco Carregosa charges commissions to its clients for a broad range of services provided. Commissions are immediately recognised as revenue, as they relate to specific or one-off services and are not associated to service provisions that are continued over time.

2.2.21. GUARANTEES PROVIDED AND IRREVOCABLE COMMITMENTS

Liabilities for guarantees provided and irrevocable commitments are disclosed off-balance sheet items at their risk value, with interest, commissions or other income flows recorded in profit or loss over the lifetime of the transactions.

2.2.22. EMPLOYEE BENEFITS (IAS 19)

Employee benefits are recognised in accordance with IAS 19 – Employee benefits and include retirement pensions, health costs, others, and long-term and short-term benefits.

2.2.23. RETIREMENT AND SURVIVAL PENSIONS

Based on the Collective Labour Agreement for the Banking Sector (*Acordo Coletivo de Trabalho Vertical para o Setor Bancário* – ACTV) as the reference for labour practices, Banco Carregosa made a commitment, exclusively for its employees not integrated in the National Pension System, to grant them or their families cash payments for old-age retirement, early retirement or disability or survivors' pension, by constituting a *Defined Benefit Pension Plan*. This Plan is in line with the ACTV and is subject to the requirements set by Banco de Portugal, in particular its Notice no. 12/2001 and any updates thereto.

To finance these liabilities, Banco Carregosa joined the Pension fund Horizonte – Valorização da Pensõesgere in 2004. In 2010, responding to the evolution of its obligations and according to a policy of rigour and good coverage of the liabilities undertaken, the Bank decided to change the pension fund over to another managing entity, "REAL VIDA PENSÕES – Sociedade Gestora de Fundos de Pensões SA", subscribing three funds: the Aberto Optimize Capital Pensões Ações pension fund (30 %), the Aberto Optimize Capital Equilibrado pension fund (30 %) and the Aberto Optimize Capital Moderado pension fund (40 %). Disability and survivors' pension benefits are covered by a life insurance policy.

Liabilities for services provided in the past by eligible employees are determined every year based on the date of admission at Banco Carregosa and not on the date on which the employee entered the banking sector. Consequently, the share of responsibilities relating to the period between the date of admission in the banking sector and the date of admission in the company will be chargeable to past employers, except if the latter have transferred the amount of their share of responsibility.

The recognised liabilities correspond to the difference between the current value of pension liabilities and the fair value of pension fund assets, taking into account adjustments relating to deferred actuarial gains and losses. The value of liabilities is determined on an annual basis by independent actuaries, using the "*Projected Unit Credit*" method, and actuarial assumptions regarded as appropriate. Liabilities are reviewed on the basis of a discount rate that reflects the market medium and long term interest rate for bonds listed in the Eurozone by companies rated as being of low risk.

In addition to pensions, as part of the fund's liabilities and for that group of employees, the Bank has also assumed a death grant in the event of death.

Following an analysis of the current responsibilities and charges with medical assistance, in 2010 the Bank decided to outsource this benefit to Multicare, changing it to Advancecare in 2017, for all employees, at the same cost.

2.2.24. VARIABLE REMUNERATIONS PAID TO EMPLOYEES (IAS 19)

In accordance with IAS 19 – Benefits to employees, variable remunerations (profit sharing, premiums and others) paid to employees and, eventually, to the executive members of the management bodies are recognised through profit or loss in the period to which they relate.

2.2.25. ADOPTION OF IFRS 9 - FINANCIAL INSTRUMENTS

This standard if part of the IAS 30 draft review project and establishes new requirements for the classification and measurement of financial assets and liabilities, for the calculation method of impairments, and for the application of hedge accounting requirements.

IFRS 9 – Financial instruments was approved by the EU in November 2016 came to the fore for the periods beginning on or after 1 January 2018. IFRS 9 replaced IAS 39 – Financial Instruments: Recognition and Measurement and establishes new rules for recognising financial instruments, with significant changes especially as regards impairment requirements. The standard has been subject to a detailed and complex process of implementation involving all key stakeholders, in order to understand the implications of impacts and changes in processes, governance and business strategy.

The requirements contained in IFRS 9 are generally applied retrospectively by adjusting the opening balance at the date of initial application.

Financial instruments

In July 2014, IASB issued the final version of the IFRS 9 - Financial Instruments. IFRS 9 is effective for periods beginning on or after 1 January 2018, with early application permitted, and replaces IAS 39 – Financial Instruments: Recognition and Measurement.

In October 2017, IASB issued the document "Prepayment Features with Negative Compensation" (amendments to IFRS 9). Amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted. The Bank applied IFRS 9, as issued in July 2014 with the early application of amendments made to IFRS 9 in the period beginning on 1 January 2018.

The standard had an impact on the classification and measurement of financial assets held on 1 January 2018 as follows:

i) Loans to clients and Investments in Financial institutions measured at amortised cost under IAS 39 were measured at amortised cost under IFRS 9;
ii) Investments in held-to-maturity securities, measured at amortised cost under IAS 39, are generally measured at amortised cost under IFRS 9;
iii) Investimentos in debt securities classified as held for sale under IAS 39 were measured at amortised cost, FVOCI or FVTPL under IFRS 9, depending on certain circumstances;
iv) Equity instruments classified as held for sale under IAS 39 are measured at FVTPL under IFRS 9.

Impact of the application of IFRS 9 – Financial instruments

Banco de Portugal has issued guidelines on the requirements for the transition in the scope of IFRS 9 implementation. These guidelines allowed entities to choose between the two approaches for the recognition of the impact of the application of the standard in the regulatory capital:

i) Transition period of the total impact over a 5-year period, based on the following percentages for some components: 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021, and 75% in 2022;
ii) Recognition of the full impact on the date of adoption.

The Banco decided to adopt approach (ii), therefore the impact of the adoption of IFRS 9 on its equity was fully recognised on the adoption date of the standard on 1 January 2018.

IMPAIRMENT ON FINANCIAL ASSETS	ACCUMULATED 31/12/2017	TRANSITION ADJUSTMENT	ACCUMULATED 1/1/2018
Financial assets at fair value through other comprehensive income	6 577 924	(5 461 641)	1 116 283
Investments held to maturity		(118 988)	(118 988)
Loans to clients	1 467 082	413 296	1 880 378
Impairment on guarantees identified in liabilities		10 764	10 764
	8 045 006	(5 156 569)	2 888 437

Impact on other comprehensive income related to the transfer of securities classified under assets at fair value through other comprehensive income for Available for sale financial assets.

	TRANSITION ADJUSTMENT
Financial assets at fair value through other comprehensive income reclassified as Available for sale financial assets	435 255

Note: transition adjustments were recognised in Retained earnings.

Based on this analysis and the strategy defined, there were no material changes in the measurement criteria associated with the Bank's financial assets (financial assets measured at amortised cost *versus* financial assets measured at fair value) with an impact on the transition to IFRS 9.

Most available for sale financial assets were reclassified into the financial asset portfolio at fair value through other comprehensive income (FVOCI). Financial assets not considered valid in the SPPI tests (Solely Payments of Principal and Interest) were reclassified into the financial asset category mandatorily recorded at fair value through profit or loss (FVTPL).

As regards Investments held to maturity, since it fully maintained its approach, they were reclassified to the other financial asset portfolio at amortised cost.

The tax impact will be based on the tax rules currently in force, as the Tax Authority has not yet decided on any specific tax framework for the impacts arising from the said transition.

The Bank has applied the exception that permits non-restatement of prior comparative information from earlier periods regarding changes in the classification and measurement (including impairment). Differences in the carrying amount of financial assets and liabilities arising from the adoption of IFRS 9 are recognised in Reserves and retained earnings on 1 January 2018.

2.3. CRITICAL ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

The IFRS establish a series of accounting treatments according to which the Board of Directors must make the necessary calls and estimates to decide which accounting treatment is most appropriate.

Considering that in many cases alternatives for the accounting treatment adopted by the Board of Directors exist, the results reported by the Bank could have been different had a different treatment been used. The Board of Directors believes that the choices made are appropriate and that the financial statements present fairly the Bank's financial position and the results of its operations on all materially relevant aspects.

2.3.1. IMPAIRMENTS ON LOANS TO CLIENTS

The Bank reviews its loan portfolios on a regular basis to determine potential expected losses.

The loan portfolio review to determine if an impairment loss should be recognised is subject to various estimates and decisions, including on the existence of impairment indicators, the probability of default, credit ratings, estimated recoveries and valuation of existing collateral.

2.3.2. TAXES ON INCOME

Determining the overall amount of taxes on income calls for certain interpretations and estimations. There are various transactions and calculations for which it is not possible to accurately determine the final tax amount to be paid during the normal business cycle.

Different interpretations and estimates could result in a different level of taxes on income, current and deferred, recognised in the period.

Moreover, the Banco records deferred taxes in accordance with the specific policy, with deferred tax assets being recorded only to the extent that it is probable that future taxable profits will be available to absorb deductible temporary differences and reportable tax losses.

The Bank assessed whether deferred tax assets can be recovered (including the rate thereof) based on projections of its future taxable profits established from a business plan.

The Tax Authorities are responsible for reviewing the calculation of the taxable amount for a period of four or six years, if tax losses are reported. It may be, therefore, that corrections will be made to the taxable amount, resulting mostly from differences in the interpretation of the tax law. However, the Board of Directors believes that there will be no major corrections to taxes on income recorded in the financial statements.

2.3.3. PENSIONS AND OTHER EMPLOYEE BENEFITS

Determining retirement pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, discount rate of liabilities and other factors that may impact on costs and liabilities of the pension plan.

Changes in these assumptions could materially affect these amounts.

3. RISK MANAGEMENT

3.1. RISK MANAGEMENT FUNCTION

Risk management consists of the identification, evaluation, measurement, monitoring and control of all materially relevant risks to which the Group is exposed, in order to bring the exposure levels in line with the limits established in the RAS - Risk Appetite Statement.

The purpose of this is that the Bank operates within its limits without incurring in losses that materially affect its financial position. Thus, the risk management policy aims to maintain a balance between:

i) Adequate level of capital (principle of solvency);
ii) Remuneration of risks assumed (principle of profitability);
iii) Maintaining a financially stable structure.

3.2. ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

Notwithstanding the ample management powers vested in the Executive Committee by the Board of Directors, including risk monitoring and management and capital allocation, the Board of Directors closely monitors the Bank's risks. It is responsible for analysing and approving, on a yearly basis, the strategy to be followed and the policies to be adopted by the Bank regarding the risks involved in its business, as generally provided for in Notices and Regulations issued by Banco de Portugal, in particular in connection with operating, reputational, legal, compliance and credit risks, and for defining the procedures to be implemented to assess, monitor and mitigate such risks. In this respect, it is for the Board of Directors to approve the main regulatory documents on risk measurement and mitigation matters, in particular the Internal Capital Adequacy Assessment Process (*ICAAP for short*) and the Recovery Plan.

Given the importance of risk, the Executive Committee is particularly concerned with promoting a culture of careful risk evaluation among all departments and employees. However, the Bank also has a structure with specific functions in risk management.

This control and monitoring function of financial risks is assisted by the Asset and Liability Committee (ALCO). The committee meets at least once a month and is formed by the following members: Executive Committee, the Directors of Private Banking, Financial, Risk, Sourcing and Management departments, and by the persons in charge of Credit and Portfolio Management services. Recommendations are issued at these meetings on the collection and use of funds, through risk-return balance.

The Compliance, Risk and Internal Audit departments, who are part of the Internal Control Group, are in charge of risk monitoring, on a day-to-day basis, providing and compiling information for the Executive Committee and other bodies with relevant functions in the matters involved.

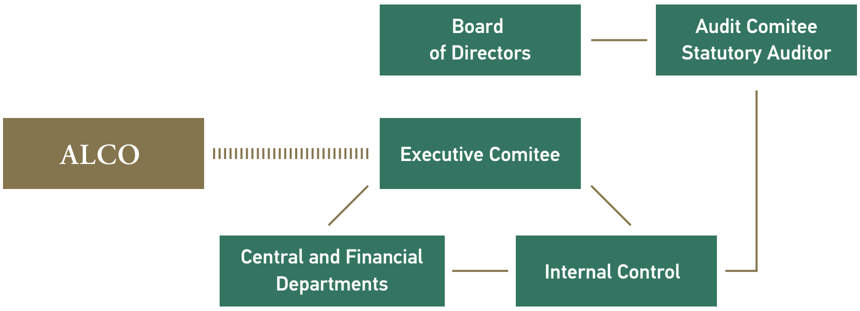
The functions of the Supervisory Committee and the Statutory Audit Firm are similar to those of Internal Control, but with a more general scope.

The Credit Committee was created in 2015. It is currently formed by the head of the Credit Department, a Central Manager and Risk and Financial managers. This committee is responsible for the analysis and monitoring of loans to clients, reporting their comments to the Executive Committee.

As part of the Bank's Recovery Plan, the Recovery Team meets at least once every quarter, or when necessary. It is responsible for managing potential or actual serious risk situations, and is formed by the Chairman of the Executive Committee, in charge of team coordination, by the Executive Committee members in charge of Risk and Financial, by the Central Managers and those responsible for the Financial, Risk, Compliance and Communication departments, in addition to other members invited to take part in functions.

Note also the Department of Accounting and Management Information, responsible for providing vital information to internal governance.

Internal control is in charge of carrying out projections and scenario analyses/stress tests, the determination of which results from the interactive work between the Executive Committee and the Risk Department, with the contributions of the remaining relevant bodies with broader risk management, control and monitoring functions. Similarly, the ICAAP has material significance on internal governance as it measures the adequacy of economic capital.



It is complemented by current information, characterised by easier computing, and shows greater granularity by risk type. The models used follow the theroretical bases generally accepted in the banking industry, strengthened by the good practices recommended by national and international regulators.

3.3. MATERIAL RISKS

The following are the risks considered as material, in particular the Credit Risk, Market Risk, Operating risk, and Liquidity Risk.

3.4. CREDIT RISK

Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the Bank, including any restrictions on the transfer of payments from abroad. Credit risk is found mainly in credit exposures, credit lines, guarantees, derivatives and the Bank's deposits in other credit institutions. Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments. The determination of impairments leads to the decrease in value of a particular asset, thus anticipating a potential or effective loss. The posting of impairments can be regarded as a credit risk mitigation technique, enabling the adequacy of capital to meet the credit risk requirements and the actual financing requirement.

Maximum exposure

Banco Carregosa's maximum exposure to credit risk is as follows:

FINANCIAL ASSETS	31/12/2018	31/12/2017
Cash and liquid assets in central banks and other demand deposits	87 123 442	102 625 677
Financial assets at fair value through profit or loss:		
Available for sale financial assets	26 957 400	15 830 079
Non-negotiable financial assets mandatorily at fair value through profit or loss	8 101 664	0
Other financial assets at fair value through profit or loss	13 380	9 201
Financial assets at fair value through other comprehensive income	44 017 731	22 903 194
Financial assets at amortised cost	118 888 950	119 562 715
Derivatives - Hedge accounting	26 133	53 480
Other assets	3 866 032	4 308 663
Total	288 994 732	265 293 009

OTHER COMMITMENTS	31/12/2018	31/12/2017
Personal/institutional guarantees		
Guarantees and commitments	7 498 436	6 886 982
Other personal guarantees provided and other contingent liabilities	2 841 227	3 329 013
Real guarantees (assets offered as collateral)	12 515 000	5 586 000
Irrevocable commitments	598 778	442 626
Revocable commitments	9 960 726	12 184 867
Total	33 414 166	28 429 487
MAXIMUM EXPOSURE	322 408 899	293 722 496

Client creditworthiness

The disclosures required by Circular Letter CC/2018/00000062 of Banco de Portugal, of November, are presented hereunder:

3.4.1. CREDIT RISK MANAGEMENT POLICY

The Bank grants credit exclusively to corporate entities and investors, according to the following set of standard operations, which it adapts to the needs of each client and transaction:

i) Mutual funds;
ii) Escrow accounts (CCC);
iii) Authorised bank overdrafts;
iv) Unauthorised bank overdrafts:
v) Technical overdrafts, arising exclusively from differences in dates-values of debit and credit transactions in the client's account;
vi) Bank guarantees, as an off-balance sheet form of potential loan;
vii) Credit cards, under the partnership with UNICRE;
viii) Purchasing of credits;
ix) Other types of credits, exceptionally and on a case by case basis, subject to a specific analysis for an appropriate cost-benefit analysis.

Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments.

3.4.2. GRANTING OF LOANS

The lending process is the initial phase of the analysis of the client's risk profile and the operation.

At the express request of the client, the necessary documents may be obtained to prepare the risk analysis. Before this information is sent to the Risk Department, the Director of the department in question together with the Commercial Department assesses the feasibility of the loan.

As regards the private segment, the credit risk assessment is based on an internal risk assessment model (rating model) consisting of qualitative and quantitative information.

As regards the corporate segment, credit rating is obtained directly from *Ignios*, to establish the counterparty risk level.

Cumulatively, the analysis also includes the client's management capacity, the value of the client's assets, loan guarantees, the sector framework and the integration of the operation/client in the loan portfolio (determination of the concentration risk).

Thus it is possible to calculate the impact of the operation on impairments, own funds and their requirements, and major risks.

3.4.3. NATURE OF PRINCIPLES, ESTIMATES AND HYPOTHESES USED IN MEASURING IMPAIRMENT

IFRS 9 introduces a new concept of impairment designated as Expected Credit Loss (ECL) which focuses on the assumption of expected loss, unlike IAS 39 whose underlying concept was that of incurred loss.

The scope of this new model applies to debt instruments recorded at amortised cost of fair value through comprehensive income, to most loan commitments, to financial guarantee contracts and contractual assets under IFRS 15.

The measurement of expected credit losses (ECL) now reflects:

i) An objective amount calculated through the valuation of a set of possible results weighted by their probabilities;
ii) The time value of money; and
iii) Reasonable and supportable information that is available without undue cost or effort at the reporting date on past events, current conditions and projections of future economic conditions.

To estimate the ECL, the Bank considers:

i) Borrower's sources of recurring revenues available to meet the scheduled payments;
ii) The capacity of a borrower to generate sufficient cash flows over the term of the financial instrument;
iii) The general leverage level of the borrower and expected changes to leverage;
iv) Borrowers' incentives to meet their obligations;
v) Unencumbered assets;
vi) Reasonably possible one-off events and recurring behaviours likely to affect the borrower's capacity to meet its contractual obligations;
vii) Macroeconomic scenarios and other assumptions that provide the framework of the ECL;
viii) Timely assessments of the collateral value and analysis of factors likely to impact the future value of the collateral, taking into account that collateral value directly affect the *Loss Given Default* (LGD) estimates.

ECL is recognised at 12 months or the entire lifetime of the operation, depending on whether there was a significant increase in credit risk since initial recognition.

The measurement of the ECL reflects the probability of default by the debtor, considering its temporary effect and the probability given the default (designated as *Loss Given Default* – LGD). Additionally, this calculation must be based on reasonable and supportable information that is available without undue cost or excessive effort.

Note that the change in International Financial Reporting Standards, through the introduction of IFRS 9, implies, as aforementioned regarding the determination of impairments, the measurement of expected losses.

Macroeconomic models are integrated when estimating expected losses, by the weighting of prospective scenarios in relation to key indicators.

Finally, it should be noted that the approach adopted in the calculation of the ECL is at an individual level, as each position is analysed separately.

3.4.4. DETERMINATION OF EXPOSURES WITH LOW CREDIT RISK

In line with BdP's Circular Letter 2018/00000062, the credit risk of a financial instrument is said to have not increased significantly since initial recognition when (which is expected to be limited in number) it is determined that the financial instrument has a low credit risk at the reporting date.

Moreover, the credit risk evolution of these financial instruments must be continuously monitored when they are classified as having a low credit risk, so as to identify whether there have been significant increases in risk and ensure that they maintain the same low credit risk assumptions in each reporting period.

Taking into account the requirements set out in IFRS 9 for the application of the low credit risk assumption, it is reasonable to consider that this assumption can be undertaken in contractual exposures with the following counterparts, notwithstanding the provisions in the preceding paragraph:

i) Central Administrations or Central Banks of State Members and of other EEA countries;
ii) Multilateral development banks;
iii) International organisations.

The calculation of null expected credit losses for these exposures must be properly justified by applying the principle of materiality.

3.4.5. INDICATION OF SIGNS OF IMPAIRMENT BY CREDIT SEGMENTS

Unlikely to pay

Unlikely to pay credit is said to exist when principal and interest instalments are less than 90 days past due, but regarding which there is evidence that justify their classification as problem debt, in particular bankruptcy, the debtor is in liquidation, among others, in accordance with BdP's Circular Letter 2018/00000062.

It is also considered that the entire debtor's exposure is classified as non-performing whenever the exposures more than 90 days past due exceed 20% of the debtor's total exposure. This situation shows an exposure contagion that can spread to a group of connected clients.

Significant increase of credit risk

The transition from the first to the second level, in accordance with IFRS 9, is dictated by the significant increase of credit risk since initial recognition. In this scope, all reasonable and supportable information that is available without undue cost or effort that may determine the existence of a significant increase of credit risk must be considered, in particular in the case of any of the following:

i) Change in internal or external ratings;
ii) Change in external credit risk indicators;
iii) Change (actual or expected) in the risk of non-performing exposure in another instrument of the same debtor;
iv) Change in interest rates applied due to the increase of credit risk;
v) Non-payment.

Without prejudice to using additional indicators, the following indicators are said to translate situations of significant increase of credit risk of a financial instrument, except if there is objective evidence to the contrary:

i) Credit with more than 30 days late payment of principal, interest, commissions or other expenses or a situation similar to an unlikely to pay credit;
ii) Deferred exposures;
iii) Credit whose debtor meets at least two of the following criteria, occurring after the initial recognition of the operation:

  a) Having at least one record of a default with the Central Credit Register;
  b) Having its name in lists of cheque users who represent a risk or who have rebutted / not been collected;
  c) Debts to the Tax Authority, Social Security or to employees, in a default situation or pledge enforced by the State;
  d) Other signs that trigger the activation of internal alert levels.

Deferred exposures can be considered as not being impaired due to agreements between the debtor and its creditors to ensure the sustainability of the debt and feasibility of the debtor, if the said agreements are base on an operational and financial feasibility plan of the company which includes at least one of the following:

i) Demonstration of the company's debt sustainability, considering the amounts that, according to the plan, are recoverable under the new conditions agreed, assuming an adequate conservative margin to absorb any deviations in the estimates made;
ii) Analysis of the company's management quality and, where necessary, the measures adopted to mitigate the problems identified;
iii) Analysis of possible unsustainable business areas and, if any, the plans for a company restructuring process in which only the feasible business areas will be maintained;
iv) Analysis of the fact that there is no other factor reasonably likely to weaken the conclusion that the restructured company, under the previously identified conditions, is able to meet its obligations under the new agreed conditions.

In the case of the aforementioned debt restructuring agreements, a probational period of 24 months is considered, reckoned from the date on which the agreement is formalised, for financial instruments over which the criteria materialising a significant increase of credit risk are no longer observed.

During this probational period, the debt sustainability resulting from the new agreement must be made clear by means of an analysis to check the objective criteria demonstrating the return to a credit risk profile close to that of the financial instrument at initial recognition.

An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date, the operation therefore being classified in the first level.

3.4.6. OBJECTIVE EVIDENCE OF IMPAIRMENT

The existence of objective evidence of impairment determines the classification of the operation on the third level.

In accordance with IFRS 9, on the third level, in addition to considering the whole life of the exposure, the entity needs to take into account that interest income may be based on the net amount, using an adjusted effective interest rate, recognising an allowance for losses according to the whole life of the instrument.

Without prejudice to the companies being able to use other indicators, the following indicators represent impairments of a financial instrument, unless there is objective evidence to the contrary:

i) Credit more than 90 days past due of principal, interest, commissions or other expenses, that is, non-performing credits;
ii) Reduced probability of the debtor fully meeting its credit obligations, the recovery of the debt depending on the activation of any guarantees received, that is, unlikely to pay credit. For example:

- The institution has activated guarantees and collateral;
- The institution has initiated legal proceedings to collect the debt;
- The debtor's sources of recurrent income are no longer available for payment of reimbursement instalments (e.g. loss of a client or important lessee, continued losses or a significant drop in turnover / operating cash flows);
- The debtor's financial structure is significantly inadequate, or the debtor is unable to obtain additional financing;
- The Bank ceases to charge interest (even if partially or on condition);
- The Bank directly cancels the debtor's entire debt or part thereof (asset write-off /debt forgiveness), outside the scope of a restructuring operation;
- The Bank or institution leading the group of creditors, as applicable, initiates bankruptcy/insolvency procedures against the debtor;
- Existence of out-of-court negotiations for the settlement or reimbursement of the debt (e.g., suspension agreements);
- The debtor filed for bankruptcy or insolvency;
- A third party has filed for the bankruptcy or insolvency of the Bank's debtor;
- Debts to the Tax Authority, Social Security or employees, in a situation of litigation or pledge enforced by the State.

i) Deferred exposures may occur when:

- The restructuring is supported by an inadequate payment plan. Among others, an inadequate payment plan is said to exist when it is successively breached, the operation has been restructured to avoid default, or it is based on expectations not supported by macroeconomic forecasts;
- Restructured credits include contractual clauses that extend the repayment operation, in particular with the introduction of a grace period of more than two years for the payment of principal;
- Restructured credits due to financial difficulties that are in a cure period are again restructured due to financial difficulties, or that present overdue principal or interest of more than 30 days during that period;
- Credits included in debt agreement that are not in accordance with the provisions in item 2.2. of the Impairment Manual.

A cure period is considered for financial instruments in which the criteria that resulted in the impairment situation are no longer observed. In particular, a 12-month cure period is applied for instruments in impairment that have been subject to restructuring measures due to the debtor's financial difficulties.

3.4.7. INDICATION OF THE THRESHOLDS DEFINED FOR SEPARATE ANALYSIS

Separate analysis applies to all the credit operations:

i) Of a group of clients whose current exposure is more than 5 % of own funds;
ii) Of a group of clients whose default credit exceeds €50 000.

3.4.8. POLICY ON INTERNAL RISK RATINGS, SPECIFYING THE TREATMENT GIVEN TO A BORROWER CLASSIFIED AS IN DEFAULT

Clients found to be in default are analysed by the Credit Committee. A solution that is more adequate to the client's interests is applied taking into consideration its financial capacity.

3.4.9. GENERAL DESCRIPTION OF THE CALCULATION OF THE CURRENT VALUE OF FUTURE CASH FLOWS IN THE DETERMINATION OF IMPAIRMENT LOSSES VALUATED SEPARATELY AND COLLECTIVELY

The following are taken into consideration in the calculation of specific impairment:

i) Exposure;
ii) Estimated business cash flows or other client's cash flows;
iii) Cash flows of real estate projects;
iv) Expected cash flows related to the execution/pledge of collateral;
v) Estimated cash flows arising from calls on private guarantees;
vi) Cash flows generated by the execution of the financial assets of the debtor with the Bank to settle one-off authorised overdrafts and up to no more than 30 days and overdue loans, originated from contracted loans or otherwise.

As per Circular Letter CC/2018/00000062 of Banco de Portugal, haircuts are applied in the determination of cash flows generated by guarantees and any costs of forced sale are excluded. When the Bank considers that the adjusted market value does not safely reflect the asset's realisable value, additional haircuts are applied. To that end, the haircuts applied previously are used as a guide:

i) Regulatory volatility adjustments using the financial collateral comprehensive method as described in Regulation (EU) 575/2013 for eligible securities;
ii) 30% for other securities;
iii) 35% for other pledges.

This percentage is restated at the contract discount rate plus any maintenance costs of the underlying asset.

When the transaction does not fulfil the conditions that require a specific calculation, or when this originates a null impairment, a general calculation is used. In this case, cor the corporate segment credit ratings provided by specialised companies are used, between 1 and 10, with associated one-year probabilities of default. Risk level 10 stands for the highest probability of default (PD), of 25%, and 1 to the lowest, of 0%. The Bank added a level 0 to the above levels, with a PD of 100 % for credit default.

As regards the private segment, the Bank has in place an internal model based on the knowledge of the client and its solvency situation, as well as on the maturity of the operation. For the sake of prudence, the upper threshold of the results produced by this model is risk level 5 (a PD of 0.4%).

Description of the rescue period used for the various segments and reasons for its suitability.

The rescue period is the time elapsed since the loss event occurs until it is noticed, which can be divided into 2 moments:

i) First moment when the information emerges;
ii) Second moment, at a later date, when indicators are obtained that prove the existence of objective impairment evidence.

Banco Carregosa uses indicators that show a potential impairment loss, enabling it to quickly anticipate any deterioration in their clients' solvency standing, such as abnormal balances, difficulty in fulfilling the debt, changes in PDs, etc.

3.4.10. MONITORING OF THE LOAN PORTFOLIO

The monitoring of the loan portfolio is essential to anticipate pre-default situations, allowing the Bank to:

i) Identify the factors that prove the deterioration of the client's creditworthiness;
ii) Define solutions to renegotiate the debt.

3.4.11. CREDIT RECOVERY

If a credit default situation is found, measures are taken to recover such credit. In the case of private loans, the special schemes PARI/PERSI are activated, in accordance with Decree-law 227/2012.

3.4.12. CONCENTRATION RISK MANAGEMENT

The Risk Department is responsible for the concentration risk management, identifying, measuring and monitoring the exposures to which the securities portfolio is subject.

All operations are analysed by the Risk Committee, who makes a recommendation as regards the operation. This recommendation is then analysed by the Executive Committee, which bases its decision on the recommendation of the Credit Committee.

3.4.13. POLICY ON THE WRITE-OFF OF LOANS

In accordance with the EBA/GL/2017/06, the write-off of loans occurs under all of the following conditions:

i) Bad debt in arrears for more than 24 months;
ii) Loan with 100% impairment loss.

When the conditions for the write-off are met, the operation is taken to the Credit Committee and the application of the write-off is proposed. If there are no tax consequences, bad debts in arrears for more than 24 months and for which and impairment loss in the same amount of the loan is recognised (and accepted for tax purposes) must be removed from the balance sheet.

3.4.14. IMPAIRMENT REVERSAL POLICY

Impairment is reversed whenever there is:

i) A significant improvement in the capacity of the client to honour the payment, with a positive impact on the client's credit rating;
ii) Increase in collateral.

Under these conditions a new impairment is calculated, directly reversing the previous impairment.

3.4.15. DESCRIPTION OF THE RESTRUCTURING MEASURES APPLIED AND THEIR ASSOCIATED RISKS, AS WELL AS THE CONTROL AND MONITORING MECHANISMS THEREOF

The restructuring of a loan takes place whenever there are changes to the terms and conditions of the contract. For that purpose a note must be added indicating "restructured loan due to the client's financial difficulties".

Loans must be marked in the Bank's computer system as "restructured due to the client's financial difficulties".

Solutions for the recovery of the loan must take into consideration the client's current situation and must be in the best interest of Banco Carregosa.

3.4.16. DESCRIPTION OF THE EVALUATION PROCESS AND COLLATERAL MANAGEMENT

Mortgage guarantees

Evaluation

Mortgage guarantees are evaluated by an expert evaluator registered with the CMVM, who will be responsible for drafting a report on the property, in compliance with the CMVM regulation on evaluation criteria and expert evaluators.

Revaluation and review

Mortgage guarantees are revaluated by an expert evaluator on a two-year basis, except in situations where a more regular revaluation is necessary.

3.4.17. OTHER GUARANTEES

i) Listed securities are evaluated mark-to-market at the reporting date;
ii) Non-listed securities are evaluated every year by the Business Area based on the last audited accounts, whenever the area fulfils the necessary conditions, according to the asset's specificities;
iii) Exceptionally, in special situations, the Bank may use evaluators suited to the nature of the collateral;
iv) Guarantees without evaluation which potentially may not be designated on are regarded as equal to zero.

Within the scope of IFRS 9, the recalculation of the ECL amount and disregarding the underlying collateral, the amount totals €4,788,931 as at December 2018.

Quantitative disclosures

The information on the client loans portfolio as at 31 December 2018 and 2017 is presented below.

a) Breakdown of exposures and related impairment

a1)

EXPOSURE AS AT 31.12.2018

SEGMENT	TOTAL EXPOSURE	COMPLIANT LOANS	OF WHICH SETTLED	OF WHICH RESTRUCTURED	DEFAULTING LOANS	OF WHICH RESTRUCTURED
Construction & CRE	68 646 086	68 646 086		11 566 666		
Corporate	16 803 952	16 803 952		2 580 112		
Guarantees	7 491 436	7 491 436		49 017		
Individual	16 013 860	16 013 860		200 000		
Non-contractualised					2 191 720	1 593 641
Total	108 955 334	108 955 334		14 395 795	2 191 720	1 593 641

IMPAIRMENT AS AT 31.12.2018

SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS	DEFAULTING LOANS
Construction & CRE	305 088	299 524	5 565
Corporate	862 200	75 942	786 258
Guarantees	6 081	6 081	
Individual	128 471	69 469	59 002
Non-contractualised	273 858		273 858
Total	1 575 698	451 015	1 124 682

There is a difference between the book values and the figures shown in the table, in that the amortised cost amounts are not included. For the sake of prudence, this value is not included in the impairment calculation method.

a1)

EXPOSURE AS AT 31.12.2017

SEGMENT	TOTAL EXPOSURE	COMPLIANT LOANS	OF WHICH SETTLED	OF WHICH RESTRUCTURED	DEFAULTING LOANS	OF WHICH RESTRUCTURED
Construction & CRE	46 142 203	46 142 203		10 699 017	38 917	15 690
Corporate	23 260 010	23 260 010		4 788 465	8 755	8 677
Guarantees	6 659 965	6 659 965		3 000	306	
Individual	17 909 653	17 909 653		780 257	4 520 979	4 509 652
Non-contracted					154 086	
Transferable Securities	3 880 993	3 880 993			43	
Total	97 852 824	97 852 824		16 270 739	4 723 042	4 534 018

IMPAIRMENT AS AT 31.12.2017

SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS	DEFAULTING LOANS
Construction & CRE	296 928	288 707	8 221
Corporate	277 108	276 162	946
Guarantees	11 612	11 582	31
Individual	635 943	173 963	461 980
Non-contracted	177 415	0	177 415
Transferable Securities	3 638	3 634	4
Total	1 402 644	754 047	648 596

a2)

TOTAL EXPOSURE AS AT 31.12.2018

	COMPLIANT LOANS					
	DAYS IN ARREARS < 30					
SEGMENT	TOTAL EXPOSURE 31.12.2018	NO EVIDENCE	WITH EVIDENCE	SUB-TOTAL	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	68 646 086	119 924	11 566 666	11 686 590	124 155	113 962
Corporate	16 803 952	2 508	2 580 112	2 582 620	2 508	
Guarantees	7 491 436	320	49 017	49 337	320	
Individual	16 013 860	8 044	200 000	208 044	8 044	11 873
Non-contracted					28 769	1 903 666
Total	108 955 334	130 795	14 395 795	14 526 591	163 796	2 029 502

TOTAL IMPAIRMENT AS AT 31.12.2018

	COMPLIANT LOANS			DEFAULTING LOANS	
SEGMENT	TOTAL IMPAIRMENT	DAYS IN ARREARS < 30	DAYS IN ARREARS BETWEEN 30-90	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	305 088	119 924	4 232	124 155	113 962
Corporate	862 200	2 508		2 508	-
Guarantees	6 081	320	-	320	-
Individual	128 471	8 044	-	8 044	11 873
Non-contracted	273 858	16 033	12 736	28 769	1 902 089
Total	1 575 698	146 828	16 968	163 796	2 027 925

a2)

TOTAL EXPOSURE AS AT 31.12.2017

	COMPLIANT LOANS				DEFAULTING LOANS	
	DAYS IN ARREARS < 30					
SEGMENT	TOTAL EXPOSURE 31.12.2017	NO EVIDENCE	WITH EVIDENCE	SUB-TOTAL	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	46 142 203	12 250 000	10 699 017	22 949 017	128 911	670
Corporate	23 260 010		4 788 465	4 788 465	8 677	78
Guarantees	6 659 965	2 440 000	3 000	2 443 000	308	
Individual	17 909 653	1 075 000	780 257	1 855 257		4 520 979
Non-contracted					27 815	153 548
Transferable Securities	3 880 993				43	
Total	97 852 824	15 765 000	16 270 739	32 035 739	165 754	4 675 275

TOTAL IMPAIRMENT AS AT 31.12.2017

	COMPLIANT LOANS			DEFAULTING LOANS	
SEGMENT	TOTAL IMPAIRMENT	DAYS IN ARREARS < 30	DAYS IN ARREARS BETWEEN 30-90	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	296 928	53 953	74 958	128 911	670
Corporate	277 108			8 677	78
Guarantees	11 612	2		308	
Individual	635 943				4 520 979
Non-contracted	177 415	26 822	458	27 815	
Transferable Securities	3 638			43	
Total	1 402 644	80 777	75 416	165 754	4 521 728

*Loan with instalments of principal or accrued interest for less than 90 days, but about which there is evidence justifying its classification as credit risk, including bankruptcy, liquidation of debtor, among others.

b) Breakdown of loan portfolio by segment and by year of production (31/12/2018)

	CORPORATE			CONSTRUCTION & CRE		
YEAR OF PRODUCTION	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT
2004 and prior years						
2005						
2006						
2007						
2008						
2009						
2010						
2011						
2012						
2013				2	1 149 017	4 593
2014	2	847 833	2 143	1	3 500 000	60 937
2015	4	786 925	616 464	5	4 729 770	12 299
2016	7	11 134 016	35 551	8	15 308 898	106 558
2017	7	4 121 519	130 356	9	20 337 570	12 472
2018	5	3 899 499	7 916	21	26 934 848	112 205
Total	25	20 789 792	792 430	46	71 960 103	309 063

Includes Guarantees in the segment "Corporate" and "Construction & CRE".

b) Breakdown of loan portfolio by segment and by year of production (31/12/2017)

	CORPORATE			CONSTRUCTION & CRE		
YEAR OF PRODUCTION	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT
2004 and prior years						
2005						
2006						
2007						
2008						
2009						
2010						
2011	1	230 000	1 150			
2012						
2013	2	1 150 000	3 821	2	1 649 017	4 037
2014	2	792 545	5 014	1	3 550 000	88 817
2015	7	6 658 243	159 438	3	386 777	3 540
2016	8	7 801 353	70 705	8	19 849 576	138 454
2017	6	6 627 869	36 980	10	20 706 834	62 080
Total	26	23 260 010	277 108	24	46 142 203	296 928

c) Breakdown of gross loan exposure and impairment evaluated specifically and in general*, by segment and geographical spread

c.1) By segment:

31.12.2018	CONSTRUCTION & CRE EXPOSURE	CONSTRUCTION & CRE IMPAIRMENT	CORPORATE EXPOSURE	CORPORATE IMPAIRMENT	GUARANTEES EXPOSURE	GUARANTEES IMPAIRMENT
EVALUATION						
Individual	68 646 086	305 088	16 803 952	862 200	7 491 436	6 081
Total	68 646 086	305 088	16 803 952	862 200	7 491 436	6 081

31.12.2018	INDIVIDUAL EXPOSURE	INDIVIDUAL IMPAIRMENT	NON-CONTRACTED EXPOSURE	NON-CONTRACTED IMPAIRMENT	TOTAL EXPOSURE	TOTAL IMPAIRMENT
EVALUATION						
Individual	16 013 860	128 471	2 191 720	273 858	111 147 055	1 575 698
Total	16 013 860	128 471	2 191 720	273 858	111 147 055	1 575 698

31.12.2017	CONSTRUCTION & CRE EXPOSURE	CONSTRUCTION & CRE IMPAIRMENT	CORPORATE EXPOSURE	CORPORATE IMPAIRMENT	GUARANTEES EXPOSURE	GUARANTEES IMPAIRMENT
EVALUATION						
Individual	46 142 203	296 928	23 260 010	277 108	6 659 965	11 612
Total	46 142 203	296 928	23 260 010	277 108	6 659 965	11 612

31.12.2017	INDIVIDUAL EXPOSURE	INDIVIDUAL IMPAIRMENT	NON-CONTRACTED EXPOSURE	NON-CONTRACTED IMPAIRMENT	TRANSFERABLE SECURITIES EXPOSURE	TRANSFERABLE SECURITIES IMPAIRMENT	TOTAL EXPOSURE	TOTAL IMPAIRMENT
EVALUATION								
Individual	17 909 653	635 943		177 415	3 880 993	3 638	97 852 824	1 402 644
Total	17 909 653	635 943		177 415	3 880 993	3 638	97 852 824	1 402 644

* In order to provide more disaggregated information, taking advantage of the structure defined by Circular Letter 2/2014, of BdP, it is assumed that although all loan operations are subject to individual impairment calculation, the tables below have adopted the parallelism between the terms individual > specific and collective > general, which was already adopted in previous years, but lacked this clarification.

c.2) By sector of activity:

	REAL ESTATE ACTIVITIES		PRIVATE		PROPERTY DEVELOPMENT		ACCOMODATION	
31.12.2018	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	71 960 103	309 063	15 143 230	619 584	4 341 276	3 445	2 400 000	6 000
Total	71 960 103	309 063	15 143 230	619 584	4 341 276	3 445	2 400 000	6 000

	ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR		ACCOMODATION		OTHERS		TOTAL	
31.12.2018	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	3 985 840	2 004	3 496 758	30 617	9 819 847	635 601	111 147 055	1 575 698
Total	3 985 840	2 004	3 496 758	30 617	9 819 847	635 601	111 147 055	1 575 698

	REAL ESTATE ACTIVITIES		PRIVATE		FINANCIAL INTERMEDIATION, EXCEPT INCURANCE AND PENSION FUNDS		ACCOMODATION	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	46 302 203	297 703	18 457 368	675 636	11 823 938	297 996	6 257 500	11 095
Total	46 302 203	297 703	18 457 368	675 636	11 823 938	297 996	6 257 500	11 095

	PROPERTY DEVELOPMENT (BUILDING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION		ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR		RETAIL TRADE, EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	4 686 851	38 173	3 985 840	27 219	3 175 094	40 170	1 220 000	3 050
Total	4 686 851	38 173	3 985 840	27 219	3 175 094	40 170	1 220 000	3 050

	MANUFACTURE OF ELECTRICAL EQUIPMENT		ARCHITECTURE, ENGINEERING AND RELATED ACTIVITIES; TESTS AND TECHNICAL ANALYSIS		EDUCATION		CROPS, ANIMAL PRODUCTION, HUNTING, FORESTRY AND FISHING	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	681 683	1 023	450 000	4 500	342 545	514	225 017	1 949
Total	681 683	1 023	450 000	4 500	342 545	514	225 017	1 949

31.12.2017	CONSULTANCY AND IT SERVICE ACTIVITIES EXP.*	IMP.*	ACTIVITIES OF THE SOCIAL HEADQUARTERS AND MANAGEMENT CONSULTING EXP.*	IMP.*	SPECIALIZED CONSTRUCTION ACTIVITIES EXP.*	IMP.*	CONSULTANCY AND IT SERVICE ACTIVITIES EXP.*	IMP.*	TOTAL EXP.*	IMP.*
EVALUATION										
Individual	200 584	2 966	29 000	382	15 201	190	0	78	97 852 824	1 402 644
Total	200 584	2 966	29 000	382	15 201	190	0	78	97 852 824	1 402 644

c.3) By geographical spread:

31.12.2018	PORTUGAL EXPOSURE	IMPAIRMENT	FRANCE EXPOSURE	IMPAIRMENT	SPAIN EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	106 403 945	907 468	1 096 758	28 248	617 248	616 444
Total	106 403 945	907 468	1 096 758	28 248	617 248	616 444

31.12.2017	PORTUGAL EXPOSURE	IMPAIRMENT	FRANCE EXPOSURE	IMPAIRMENT	SPAIN EXPOSURE	IMPAIRMENT	S. TOMÉ E PRÍNCIPE EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	73 736 264	845 395						
Collective	21 839 098	372 563	1 175 799	29 395	603 810	144 462	443 113	665
Total	95 575 361	1 217 958	1 175 799	29 395	603 810	144 462	443 113	665

31.12.2018	S. TOMÉ E PRÍNCIPE EXPOSURE	IMPAIRMENT	OTHERS EXPOSURE	IMPAIRMENT	TOTAL EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	498 150	69	2 530 953	23 470	111 147 055	1 575 698
Total	498 150	69	2 530 953	23 470	111 147 055	1 575 698

31.12.2017	PORTUGAL EXPOSURE	IMPAIRMENT	FRANCE EXPOSURE	IMPAIRMENT	SPAIN EXPOSURE	IMPAIRMENT	S. TOMÉ E PRÍNCIPE EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	95 575 361	1 217 958	1 175 799	29 395	603 810	144 462	443 113	665
Total	95 575 361	1 217 958	1 175 799	29 395	603 810	144 462	443 113	665

31.12.2017	UNITED STATES OF AMERICA EXP.*	IMP.*	LUXEMBOURG EXP.*	IMP.*	UNITED KINGDOM EXP.*	IMP.*	DENMARK EXP.*	IMP.*	TOTAL EXP.*	IMP*
EVALUATION										
Individual	52 699	21	2 042	18		9 973		152	97 852 824	1 402 644
Total	52 699	21	2 042	18		9 973		152	97 852 824	1 402 644

* EXP. = Exposure | IMP. = Impairment

d) Detail of the gross exposure value of credit and impairment by segment, sector and geography

2018	COMPLIANT LOANS			DEFAULTING LOANS		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	13	14 395 795	174 101	2	1 593 641	31 571
Grace Period						
Reduction of Rate						

2018	TOTAL		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	15	15 989 436	205 672
Grace Period			
Reduction of Rate			

2017	COMPLIANT LOANS			DEFAULTING LOANS		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	15	16 270 739	672 850	5	4 557 714	453 402
Grace Period						
Reduction of Rate						

2017	TOTAL		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	15	16 270 739	672 850
Grace Period			
Reduction of Rate			

e) Inward and outward flows in the restructured loan portfolio:

	31.12.2018
Opening balance of the restructured loan portfolio (gross of impairment)	16 286 429
Restructured loans in the period	
Interest accrued on restructured portfolio	
Payment of restructured loans (partial or total)	
Loans reclassified from «restructured» to «normal»	
Others	-296 993
Closing balance of the restructured loan portfolio (gross of impairment)	15 989 436

	31.12.2017
Opening balance of the restructured loan portfolio (gross of impairment)	16 270 739
Restructured loans in the period	
Interest accrued on restructured portfolio	15 690
Payment of restructured loans (partial or total)	
Loans reclassified from «restructured» to «normal»	
Others	
Closing balance of the restructured loan portfolio (gross of impairment)	16 286 429

f) Breakdown of the fair value of collateral underlying the loan portfolio of the Corporate, Construction & CRE and Housing segments

31.12.2018 — CONSTRUCTION & CRE

	BUILDINGS		OTHER REAL COLLATERAL*	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	34	8 493 200	15	29 120 794
>=0,5M€ e <1M€	7	5 611 000	3	650 452
>= 1M€ e <5M€	4	8 393 000	1	199 190
>=5M e <10M€	4	27 416 000	4	1 018 350
>=10M e <20M€				
>=20M e <50M€				
>=50M				
Total	49	49 913 200	23	30 988 787

31.12.2018 — CORPORATE

	BUILDINGS		OTHER REAL COLLATERAL	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	48	10 609 300	14	7 540 684
>=0,5M€ and <1M€	19	11 855 000	5	202 994
>= 1M€ and <5M€	11	17 341 000	8	737 653
>=5M and <10M€	1	5 217 000		
>=10M and <20M€				
>=20M and <50M€				
>=50M				
Total	79	45 022 300	27	8 481 331

31.12.2017 — CONSTRUCTION & CRE

	BUILDINGS		OTHER REAL COLLATERAL*	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	10	2 687 400	26	704 271
>=0,5M€ and <1M€	3	2 472 000	2	1 565 793
>= 1M€ and <5M€	3	8 776 000	4	12 708 959
>=5M and <10M€	3	21 103 000	1	5 605 313
>=10M and <20M€	1	10 507 611		
>=20M and <50M€				
>=50M				
Total	20	45 546 011	33	20 584 335

31.12.2018 — CORPORATE

	BUILDINGS		OTHER REAL COLLATERAL	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	3	517 029	25	826 953
>=0,5M€ and <1M€	5	3 368 625	2	1 148 200
>= 1M€ and <5M€	7	13 959 800	2	5 250 000
>=5M and <10M€	2	11 339 000	1	7 353 473
>=10M and <20M€				
>=20M and <50M€				
>=50M	1	89 481 597		
Total	18	118 666 051	30	14 578 625

*Example: Shares, bonds, deposits, material assets

g) LTV ratio of segments

2018

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral	292 548	1 180	8 516
<60%	12 469 513		20 435
>=60% and <80%	2 195 463		8 3 167
>=80% and <100%	710 678		5 706
>=100%	345 658	10 694	82 422
Construction & CRE			
With no associated collateral	7 130 956		72 069
<60%	45 572 553	113 962	142 862
>=60% and <80%	10 250 000		86 678
>=80% and <100%	692 577		2 065
>=100%	5 000 000		1 414
Corporate			
With no associated collateral	535 595		20 016
<60%	10 903 383		18 966
>=60% and <80%	3 719 150		31 722
>=80% and <100%			
>=100%	1 645 824		719 722
Non-contractualised		2 065 885	273 858
With no associated collateral			
<60%			
>=60% and <80%			
>=80% and <100%			
>=100%			
Guarantees			
With no associated collateral	34 678		76
<60%	2 504 585		877
>=60% and <80%	891 333		2 958
>=80% and <100%			
>=100%	4 060 840		2 170
Total	108 955 334	2 191 721	1 575 698

2017

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral	2 038 004	7 683	43 337
<60%	14 868 175		17 610
>=60% and <80%	169 393	4 509 652	456 079
>=80% and <100%	455 240		5 440
>=100%	378 841	3 644	113 478
Transferable Securities			
With no associated collateral			
<60%	3 855 223		3 428
>=60% and <80%			
>=80% and <100%			
>=100%	25 770	43	210
Construction & CRE			
With no associated collateral			
<60%	18 697 835	23 897	133 347
>=60% and <80%	11 263 248		118 744
>=80% and <100%	6 800 000		14 743
>=100%	9 381 120	15 020	30 094
Corporate			
With no associated collateral			
<60%	17 181 769	8 755	96 428
>=60% and <80%	4 795 860		2 289
>=80% and <100%			
>=100%	1 282 382		178 391
Non-contractualised			
With no associated collateral		145 447	172 450
<60%		3 529	353
>=60% and <80%			
>=80% and <100%			
>=100%		5 110	4 612
Guarantees			
With no associated collateral			
<60%	2 479 913		5 965
>=60% and <80%			
>=80% and <100%			
>=100%	4 180 052	306	5 647
Total	97 852 824	4 723 085	1 402 643

h) Breakdown of the fair value and net book value of property received as payment in kind, by type of asset and seniority

ASSET 31.12.2018	NO. OF PROPERTIES	ASSET FAIR VALUE	BOOK VALUE
Land			
Urban	1	112 000	85 000
Total	1	112 000	85 000

ASSET 31.12.2017	NO. OF PROPERTIES	ASSET FAIR VALUE	BOOK VALUE
Land			
Urban	1	112 000	85 000
Total	1	112 000	85 000

i) Breakdown of the loan portfolio by internal risk degree

2018		LOW DEGREE	
SEGMENT	9	8	7
Construction & CRE	13 586 212	2 306 924	4 670 000
Corporate	1 968 884	2 580 112	5 545 240
Individual	1 104 491		
Guarantees	141 333	750 000	
Total	16 800 920	5 637 036	10 215 240

2018		MEDIUM DEGREE	
SEGMENT	6	5	4
Construction & CRE	4 284 590	20 061 343	17 837 019
Corporate	4 889 869	297 833	432 500
Individual	150 000	3 553 603	8 515 191
Guarantees	2 515 000	4 034 857	50 245
Total	11 839 458	27 947 637	26 834 955

2018		HIGH DEGREE		TOTAL
SEGMENT	3	2	1	
Construction & CRE	5 750 000		150 000	68 646 086
Corporate	60 938	850 000	178 576	16 803 952
Individual	2 642 075		48 500	16 013 860
Guarantees				7 491 436
Total	8 453 012	850 000	377 076	108 955 334

Doesn't include the category "Non-contractualised"

2017	LOW DEGREE		MEDIUM DEGREE	
SEGMENT	7	6	5	4
Construction & CRE	2 596 078	3 711 025	12 849 017	22 145 452
Corporate	4 766 860	2 121 019	4 040 287	9 031 814
Guarantees		2 477 678	3 985 840	
Individual	1 890 553	5 036 341	6 599 494	1 197 974
Non-contractualised				
Transferable Securities		3 880 993		
Total	9 253 490	17 227 055	27 474 638	32 375 240

2017	HIGH DEGREE			TOTAL
SEGMENT	3	2	1	
Construction & CRE	265 632	575 000	4 000 000	46 142 203
Corporate	908 572	450 000	1 941 459	23 260 010
Guarantees			196 447	6 659 965
Individual			3 185 291	17 909 653
Non-contractualised				
Transferable Securities				3 880 993
Total	1 174 204	1 025 000	9 323 197	97 852 824

j) Disclosure of risk parameters associated with the impairment model by segment

2018

	IMPAIRMENT			
	PD (%)			
SEGMENT	< 30 DAYS WITH NO EVIDENCE	< 30 DAYS WITH EVIDENCE	BETWEEN 30-90 DAYS	LGD (%)
Construction & CRE	8%	0%	0%	7%
Corporate	0%	0%	0%	0%
Guarantees	0%	0%	0%	0%
Individual	1%	0%	0%	1%
Non-contractualised	1%	1%	1%	121%

2017

	IMPAIRMENT			
	PD (%)			
SEGMENT	< 30 DAYS WITH NO EVIDENCE	< 30 DAYS WITH EVIDENCE	BETWEEN 30-90 DAYS	LGD (%)
Construction & CRE	4%	5%	5%	0%
Corporate	0%	0%	0%	0%
Guarantees	0%	0%	0%	0%
Individual	0%	0%	0%	322%
Non-contractualised	2%	0%	0%	0%

3.5. MARKET RISK

Market risk is the likelihood of negative impacts affecting the results or capital due to unfavourable changes in the market price of banking and trading portfolio instruments, including fluctuations in interest rates, foreign exchange rates, stock quotes and price of goods.

This risk is primarily associated to the trading portfolio, consisting of short-term positions held by the Bank, in a speculative logic, although it affect other own portfolios of the Bank.

Indirectly, this type of risk impacts on assets held in custody, under management and traded, and can lead to a reduction in the Bank's revenues. Combined with credit risk and liquidity risk, it can generate losses in the execution of credit guarantees.

The Bank maintains investments in the financial markets through it own portfolios of available for sale assets, assets measured at fair value and assets held to maturity, in accordance with EU Regulation 575/2013, recorded in accordance with IAS 38 and 39. These portfolios are regularly measured by Coolbiz (the Bank's backoffice application) according to stock price updates. For accounting purposes, the portfolio of assets held to maturity is recorded at amortised cost and the remaining ones at fair value. Unrealised gains or losses are recognised in reserves, in the case of available for sale assets, and in profit or loss for the remainder.

In prudential terms, market risk capital requirements apply to trading portfolio.

To determine the capital requirements to hedge the trading book's market risk, the two-week historical VaR method is used, with a 99.9% confidence interval and a 1-year time horizon.

The model's time parameters are in line with what is customary in the industry and with the definitions in Article 365(1) (c)(d) of Regulation 575/2013. As for the confidence interval, sub-paragraph b) of said article refers to 99%. However, for the sake of consistency with its *Risk Appetite Vision*, the Bank adopted 99.9% for the confidence interval, which is much more conservative than the regulatory order:

	2018	2017
VaR Trading Portfolio	991 753	99 798

Changes in VaR between 2017 and 2018 concern essentially the growth of about 70% in the trading portfolio. In 2018, the portfolio increased from €15.8M to €27M.

Interest rate risk

Interest rate risk is part of market risk analysis and relates to the balance sheet items that are not part of the trading portfolio, including off-balance sheet items. It results from the combination of base risk, interest rate yield curve, repricing risk and option risk. The following are the concepts underlying each risk sub-type in the interest rate risk:

- Basis risk – the risk arising from interest rates of assets being remunerated at indices other than those of interest rates of liabilities;

- Yield curve risk – the risk arising from unfavourable trends in various segments of the yield curve, which can originate losses when assets and liabilities are in different segments of the curve in different proportions;

- Repricing risk – the risk derived from the various assets and liabilities reindexing at different dates and rates;

- Option risk – the risk that arises from the option inherent to some assets and liabilities. The risk resulting from embedded options in balance sheet and off-balance sheet items.

Instruction 34/2018 of Banco de Portugal repealed Instruction 19/2005 of Banco de Portugal. Instruction 19/2005 contained an interest-sensitive analysis based on a parallel shift in the yield curve in 200 bps.

On the other hand Instruction 34/2018 of BdP, Article 4(2) considers the sudden parallel change of +/- 200 base points in the original yield curve, i.e., without interest rate changes (C0), originating two new yield curves, Cs0 and Cd0, showing, respectively, a parallel rise and a parallel decline of 200 base points. Therefore, the two new yield curves thus obtained were considered the two filter levels, in a sequential manner.

Therefore, applying the methodology for the December 2018 financial year, we obtained the following results:

Change in the estimated expected financial margin at 1 year, arising from a parallel rise in the yield curve after the standard shock	(739 975)
Change in the estimated expected financial margin at 1 year, arising from a parallel decline in the yield curve after the standard shock	236 214

It should be noted that Instruction 34/2018 proposes the use of the cash-flow methodology, contrary to Instruction 19/2005, which set out contractual maturities as the method to be followed.

Exchange risk

Exchange risk is the likelihood of negative impacts affecting the results or the Bank's equity, arising from currency fluctuation against the euro. This risk is analysed for all positions denominated in currencies other than the euro.

The negative impacts arising from short-term exchange rate fluctuations normally result from the institution's trading activity. Indirectly, this risk impacts on the guarantees received denominated in foreign currency and on the portfolio management activity and financial brokerage.

With respect to currency mismatch, in December 2018 and 2017 the exchange risk was residual, as shown in the table below:

CURRENCY	2018	2017
USD	685 691	438 562
CHF	208 620	25 944
AUD	63 459	60 646
SEK	48 004	173 963
GBP	27 887	248 315
NOK	23 424	60 364
NZD	19 304	19 540
CAD	12 385	68 126
JPY	10 443	33 677
DKK	9 674	86 742
SGD	5 208	4 530
HKD	2 537	1 653
BRL	1 413	7 322
ZAR	345	384
MXN	288	274
RUB	45	1 034
PLN	10	10
TOTAL	1 118 727	1 231 087

3.6. OPERATIONAL RISK

Operational risk is the loss resulting from the inadequacy or failure of procedures, staff, internal systems or external events, and also legal risks, as laid down in EU Regulation 575/2013. Operational risk must be assessed at two different levels: technical and organisational. At a technical level, Banco Carregosa has also chosen to invest strongly in computerisation. As a result of this strategy, the Bank has a solid computer system, highly flexible and reliable for the Bank's operating processes. The Bank's information systems contain sensitive and confidential private financial and personal data. Only the staff at Banco Carregosa is allowed to access these systems, in addition to subcontracted workers, under an appropriate framework, involved in the system's development or operation, or whose work involves the recording, review or retrieval of that data.

This privilege is based on trust, good faith and is duly documented. At organisational level, in particular in the means and form used in reporting, monitoring risk and rules and policies related thereto, the Bank had to redefine and seek a new compromise between commercial interests and risks involved.

To monitor the risk, there is a model that allows the Bank to:

i) Determine process-related risks, without regard to existing controls (inherent risk);
ii) Assess the exposure of various processes to risk, considering the influence of existing controls (residual risk);
iii) Identify the impact of opportunities to improve the reduction of the more significant exposures (objective risk).

To mitigate operational risk, other arrangements exist, in particular internal report, contingency plans, business continuity plan, internal audit activities, and staff training plans. So far, loss history is not substantial compared to the volume of transactions and/or total revenue of the Bank.

3.7. LIQUIDITY RISK

Liquidity risk reflects the Bank's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

The Basel Committee published in 2014 the definition of the liquidity coverage ratio (LCR), and subsequently the delegated act of the European Commission was adopted, which introduced, given the CRD IV/CRR, new metrics and calculation criteria to be implemented in the European Union, in accordance with Directive 2013/36/EU of 26 June, of the European Parliament and of the Council on the access to the activity of credit institutions and prudential supervision of credit institutions and investment companies (*Capital Requirements Directive*, or CRD IV) and of the EU Regulation 575/2013 of the European Parliament and of the Council, of 26 June, on the prudential requirements for credit institutions and for investment companies (*Capital Requirements Regulation*, or CRR).

Banco Carregosa favours deposit investments in Central Bank, in other credit institutions and in tradable securities, thus avoiding cash shortfalls.

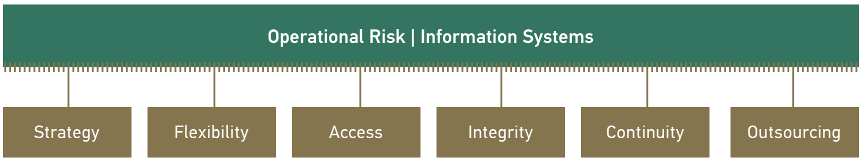
As part of risk control processes, the Executive Committee and those involved in own portfolio management receive a report from the Risk Department every day, which includes:

i) Allocation of assets, liabilities and off-balance sheet items;
ii) Estimates of minimum requirements for own funds;
iii) Counterpart concentration;
iv) Liquidity profile;
v) Other prudential indicators.

ALCO analyses the mismatch of asset and liability transactions on a monthly basis, and suggests alterations/corrections of maturities.

3.8. INFORMATION SYSTEM RISKS

Information system risks reside in the probability of negative impacts on profit and loss or on the Bank's equity arising from the information systems being incapable of preventing unauthorised accesses, of ensuring the integrity of data, or of continuing the business in the event of a failure, as well as of the pursuance of an inadequate strategy in this area, leading to, for example, the information systems being inadequate for new needs. This is systematised in the table below, which also points out the main factors that affect each of the identified risks.



RISK LEVELS	RELEVANT FACTORS
Strategy	- Consistency of the strategy defined for information systems with the (current and foreseeable) business needs of the Bank; - Soundness and effectiveness of policies for information systems; - Management and resource support to the strategy and information system policies.
Flexibility	- Flexibility and upgrading capacity; - Time needed for upgrading and maintenance.
Access	- Identification of functions and responsibilities as the basis for assigning differentiated accesses; - Access to the registration of the user who performed a specific process or task; - Efficacy of the authorisation process and adequacy thereof; - Robustness of protection and security mechanisms.
Integrity	- Completeness, correctness, consistency, relevance and timeliness of information; - Compliance with regulatory requirements and parameters defined at internal level; - Scale and standardisation of manual interventions; - Scale of virus infections.
Continuity	- Availability of information and information processing systems during office hours; - Delays in recovering information and resuming information processing processes after failure; - Contingency plan adequacy for IT risks.
Outsourcing	- Existence and importance of outsourcing contracts; - Duration of relationship and credibility of sub-contracted companies; - Transparency of contractual relations with sub-contracted companies; - Rotation and quality monitoring of resources used by sub-contracted companies; - Confidentiality of information transmitted or handled by sub-contracted companies; - Ease and cost of detecting errors or faults made; - Degree of Banks control of the quality of sub-contractors' activity; - Level of competition of services and ease of replacement.

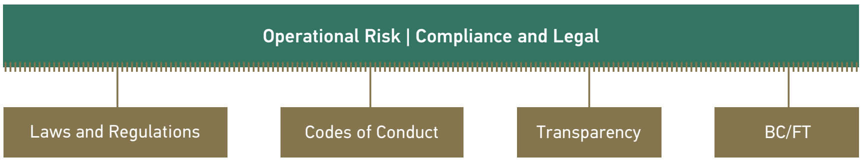
Some one-off situations involving sub-contracted service providers (outsourcing) are subject to the same restrictions applicable to the Bank's employees.

The Bank recognises that information is a valuable asset and has, therefore, implemented sophisticated security and backup systems at communications level, with the required levels of redundancy of machines and communication lines, among others.

To support the existing system, the Bank's IT structure and its use is regulated through a Computer Use Policy, known to all employees. The Bank also has in place sophisticated redundancy and contingency systems.

3.9. COMPLIANCE RISK

Compliance risk is the likelihood of negative impacts affecting the Bank's results or equity, arising from violations or non-conformances with the laws, regulations, contracts, codes of conduct, established practices or ethical principles. They may result in legal or regulatory penalties, the limitation of business opportunities, less expansion potential or render impossible the requirement to meet obligations. This risk derives from various circumstances, listed in the table below, and impacts on the reputational risk, which will be treated in a separate topic.



RISK LEVELS	RELEVANT FACTORS
Compliance with laws and regulations	- Compliance with disciplinary norms of the activity, namely legal and regulatory requirements, including fiscal ones; - Accuracy, rigour, completeness and compliance with reporting periods; - Veracity and accuracy of statements and tax calculations; - Capacity to anticipate changes in tax rules; - Implementation of sanctions or legal proceedings due to non-compliance, in particular by supervisory authorities, other activity regulators and tax authorities.
Information reporting	- Change in reporting duties; - Ability to monitor reporting duties; - Proper identification of information and form of reporting required; - Ability to process information.
Compliance with codes of conduct	- Respect for practices, procedures and policies by ethical principles and instituted practices; - Comprehensiveness of the code of conduct and of various principles and ethical rules, including accurate and clear codes of conduct, in particular the duty of secrecy, conflicts of interest, on the use of privileged information and others related with organisational culture; - Overall knowledge and understanding of the code of conduct by employees and collaborators; - Appreciation, by the Bank, of the integrity of its employees, visible in the selection criteria and institutional training programmes; - Punishing offences within the law.

RISK LEVELS	RELEVANT FACTORS
Transparency	- Compliance with information disclosure requirements; - Level of transparency, as evidenced by the voluntary availability of information, either on the website, at the Bank's facilities, or to be sent to interested parties; - Helpfulness in providing information to the authorities, even based on informal contacts; - Availability of the "right" information to clients and other counterparts, either when the business relationship is concluded, or information provided subsequently.
Money laundering and terrorist financing	- Non-compliance with prevention of money laundering and sanctions imposed; - Development of business areas usually associated with money laundering and their relevance to the institution's overall business; - Risk profile of clients and counterparts in money laundering; - Geographical areas in which the institution operates.

The Bank pays special attention to the compliance risk, not so much for its financial impact, but because it is determined to comply with all legal rules. For this reason, there is an ongoing concern to improve the competences of the Compliance Department employees, and to strengthen the technical resources they have access to, providing specific tools to look up sanctioned entities or Politically Exposed Persons, and also of resources for monitoring communications through Bloomberg. The Bank nevertheless considers that monitoring this risk is not a duty of the Compliance Department alone.

The analysis of the adequacy and compliance with procedures depends on contributions from all the departments, who are responsible for identifying potential improvements and situations of non-compliance with the previously established procedures.

3.10. CREDIT CONCENTRATION RISK

Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the institution. Credit risk is found mainly in credit exposures (including securities credit lines, guarantees, derivatives and the Bank's deposits in other credit institutions. Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments.

At the reference date, there were no limits imposed on Demand Deposits, although the monitoring of concentration was overseen by the Assets and liabilities Committee (ALCO); as shown in the graph below, more than 70% of assets have an implicit risk in Portugal.

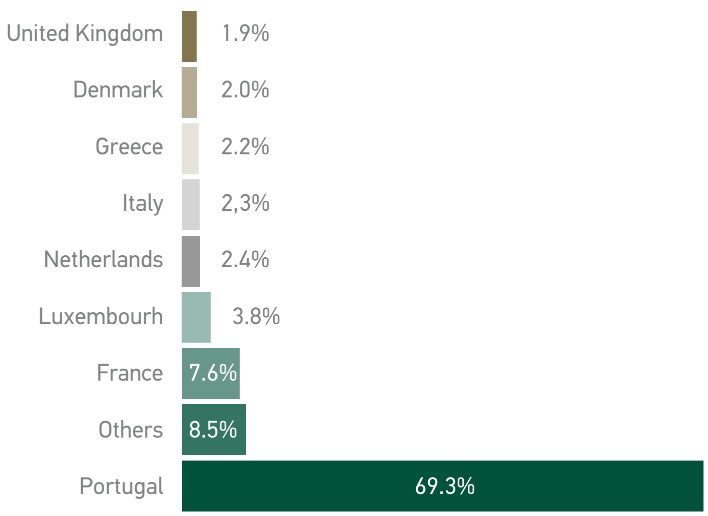


Figure 2 - Risk Concentration Country

The table below characterises the three major exposures according to the following attributes:

i) Country,
ii) Rating,
iii) (Type of) Product;
iv) Currency,
v) Sector of activity,
vi) Index benchmark.

It should be noted that the 3 largest economic groups correspond to almost 20% of the Bank's total assets (15.6%), as at 31 December 2018.

ECONOMIC GROUP	COUNTRY	RATING	PRODUCT	CURRENCY	SECTOR	INDEX BENCHMARK	EXPOSURE
Grupo Santander	Portugal	A	DO	EUR	Cred. Inst.	Fixed	16 436 120€
BANKINTER S.A.	Portugal	BBB+	DO	EUR	Cred. Inst.	Fixed	14 522 947€
BNP Paribas	France	A	DO	EUR	Cred. Inst.	Fixed	11 812 992€
TOTAL							42 772 060€
% Total Net assets							15.6%

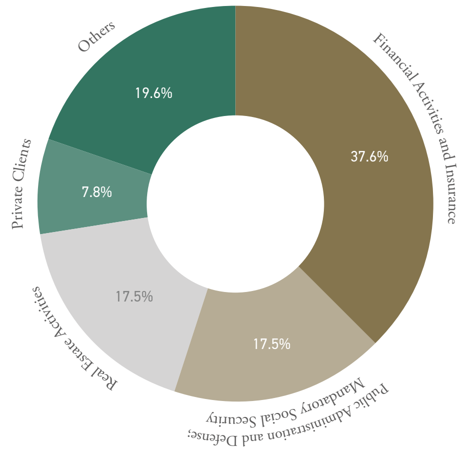
Table 2 – Top 3 Exposures

As at 31 December 2018, the Sectoral Concentration Index (ICS) amounted to 31.7, the most important sectors being financial activities and insurance (NACE "K" Code) and real estate activities("L"), as shown below in accordance with Annex to Instruction 5/2011 on NACE* key sectors.

* NACE K Code
Financial activities and insurance

NACE L Code
Real estate activities

Nace O Code
Public Administration



NACE SECTOR	%
K	37,6
L	17,5
Others	19,6
Subtotal	74,7
Others	17,5
(Private Clients)	7,8
Exp. Total Dívida	100

Figure 3 – Total direct exposure, by NACE sectors.

If the analysis were to include the Public Central Administration sector, the index would drop from 33.6 to 24.4. In a second cycle, also including private Clients, the concentration index would further drop to 21.4.

Finally, in accordance with the said instruction of Banco de Portugal, we reach an individual Concentration Index (ICI) of 1.98 considering the institutions' largest 100 counterparts.

3.11. EQUITY MANAGEMENT

With respect to capital management, the Bank seeks to ensure an appropriate level of solvability and profitability according to the objectives and risk appetite policies defined by the Board of Directors, this being, therefore, a critical aspect in the institution's approach to its stable and sustainable management.

Management practices

Equity management policies and practices are defined according to the strategic business objectives and the level of risk appetite defined by the Board of Directors. To determine the adequate level of capital, both in quantity and quality, Banco Carregosa has implemented a capital management model based on the following principles:

i) Ongoing monitoring of regulatory equity requirements;
ii) Annual review of risk appetite;
iii) Setting business objectives properly measured in equity planning.

In addition to the regulatory requirements, the Bank carries out, every year, an internal and prospective self-assessment of all material risks to which the institution is exposed (ICAAP exercise). As an integral part of the capital management process, the Bank has in place a Recovery Plan which establishes the decision-making protocol applicable to crisis management and, on the other hand, identifies the pre-defined actions and strategies to respond to events that may have an adverse impact on capital.

Finally, but also in particular as regards equity management, the Bank performs an internal and prospective annual self-assessment of all material risks to which the institution is exposed, the ICAAP (*Internal Capital Adequacy Assessment Process*).

ICAAP

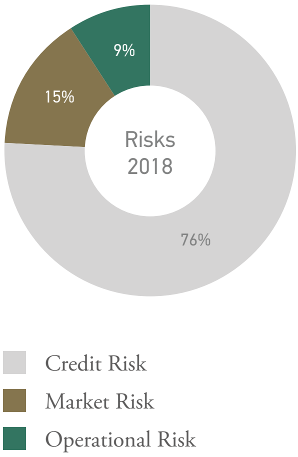
The ICAAP is an essential tool in the definition of the Bank's strategy, enabling the follow-up and monitoring of the consequences of its execution. This process enables the regular analysis of risk appetite and compares it with the defined appetite and the availability of economic capital. The ICAAP is prepared along two dimensions:

i) Regulatory, based on regulatory reports, especially prudential reports, that provide important data for the quantitative and qualitative analysis of equity and risk;
ii) Economic capital and its requirements, which quantifies the risk according to the confidence level established in its RAS (*Risk Appetite Statement*). The qualitative analysis completes the exercise in a systemic approach.

The Risk Department (DR) is responsible for presenting proposals for measures to assess the need and availability of economic capital, which are discussed and approved internally. These proposals are presented to the Asset and Liability Committee (ALCO), which issues its own recommendations, and they are then approved by the Executive Committee. The Risk department is also responsible for developing stress tests, scenario analyses, financing and capital plans, and for most of the prudential reports in the context of risk and capital management.

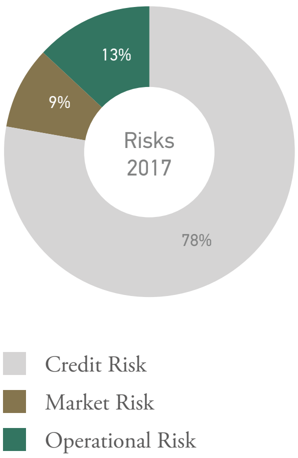
Regulatory Capital

On the prudential side, regulatory capital requirements are associated to credit, market and operating risks. The table below shows the risk-weighted assets (RWA) and corresponding capital requirements for the various types of regulatory risks, as at 31 December 2018.



RISK TYPES	OWN FUNDS REQUIREMENTS	RISK WEIGHTED ASSETS
Credit risk	12 736 954 €	159 211 924 €
Market risk	2 437 874 €	30 473 419 €
Operating risk	1 568 822 €	19 610 279 €
Total	16 743 650 €	209 295 621 €

Below are the risk weighted assets (RWA) as at December 2017 and corresponding own funds requirements for the various types of regulatory risks:



RISK TYPES	OWN FUNDS REQUIREMENTS	RISK WEIGHTED ASSETS
Credit risk	10 295 718 €	128 696 472 €
Market risk	1 234 498 €	15 431 223 €
Operating risk	1 752 144 €	21 901 796 €
Total	13 282 359 €	166 029 492 €

Note should be made of the strong preponderance of credit risk, responsible for 78% of prudential requirements.

Credit risk – for prudential purposes, the Bank uses the following methods with respect to credit risk, in accordance with the CRR:

i) Standard Method, using the market price for measuring Counterparty Risk;
ii) Comprehensive Method on financial collateral, as a means to reduce risk, when applicable.

The Bank analyses the credit risk on all its assets, except for the assets included in the securities portfolio measured at fair value and others deducted from own funds, as well as on some off-balance sheet items potentially subject to this type of risk. As regards counterparty credit risk, asset, liability and off-balance sheet items are included, irrespective of the portfolio of which they are part, always excluding those deducted from own funds or weighted at 1.250% for other types of risk.

The table below presents the prudential capital requirements for credit risk calculated based on the aforementioned assumptions, as at 31 December 2018:

RISK TYPE	CREDIT RISK-WEIGHTED ASSETS (RWA)	PRUDENTIAL REQUIREMENTS, CREDIT RISK
Institutions	23 416 091	1 873 287
Companies	66 206 157	5 296 493
Lending collateralised by commercial real estate property	23 441 629	1 875 330
Default	1 558 101	124 648
Funds	19 364 794	1 549 182
Equity	698 873	55 910
Other assets	24 526 278	1 962 102
Total	159 211 924	12 736 954

Results as at December 2017 are as follows:

RISK TYPE	CREDIT RISK-WEIGHTED ASSETS (RWA)	PRUDENTIAL REQUIREMENTS, CREDIT RISK
Institutions	26 458 411	2 116 673
Companies	42 055 965	3 364 477
Lending collateralised by commercial real estate property	19 364 640	1 565 411
Default	1 332 347	106 588
Funds	7 828 980	626 318
Other assets	31 453 129	2 516 250
Total	128 696 472	10 295 718

With respect to the calculation of capital requirements associated to other categories, the Bank uses the following regulatory methods:

i) Market Risk – for prudential purposes, the Bank uses the General or Specific Risk Assessment Method of the CRR. Capital requirements for the Bank's risk position consist in the sum of capital requirements for specific and general risk of positions in debt instruments and capital;

ii) Operating Risk – to determine the capital requirements for hedging operating risks in prudential terms, the Bank follows the Basic Indicator Approach, according to which the requirement equals to 15% of the average of the previous three years for the Relevant Indicator. The Relevant Indicator is defined based on the accounting categories of the Statement of profit and Loss, in accordance with Article 316 of the CRR.

Own Funds

The risk absorption capacity is determined by the amount of own funds. To calculate own funds the applicable regulatory standards in effect must be followed, in particular the aforementioned CRR, based on the accounting information in the financial statements, especially those of the capital items, and complemented with non-accounting information.

Total own funds correspond to the sum of basic own funds (*Common Equity Tier 1*) and ancillary own funds (*Tier 2*), after deductions have been applied to these items.

The main positive items of own funds as at 31 December 2018 were:

i) Paid-in capital: the Bank's share capital is represented by 200 million registered book-entry shares, each with a par value of €0.10, fully subscribed and paid;
ii) Issue premiums: these refer to the premiums paid by shareholders in capital increases;
iii) Reserves: the amount of profit generated over the financial years but retained in the company as legal reserve, other reserves and/or retained earnings, excluding positive reserves arising from unrealised gains in sovereign bonds;
Net result for the financial year: net profit for the year in progress and for the previous year; if they are positive, only after the legal certification of accounts (if negative, they are to be immediately included in the calculation). As at the date when the ICAAP was performed the positive net profit for 2018 2017 was not yet certified, it was not included in the calculation of own funds at that date.

Deductions made to own funds consist of:

i) Intangible assets: amounts of intangible assets, in particular costs related to the development of brands and data processing systems.

The transitional provisions defined in the CRR are also considered:

ITEMS	AMOUNT
Paid-in-capital	20 000 000
Issue premiums	369 257
Retained earnings	974 209
Legal reserves	13 912 451
Intangible assets	(490 477)
Own funds with no transitional provisions	34 167 365
Prudent Evaluation	(76 664)
CET 1Ratio	16.29%
Total Own funds Ratio	16.29%

Capital Indicators

As at 31 December 2018, risk-weighted assets amounted to €209,3M, setting capital requirements of €16.7M - comfortably hedged by own funds in the amount of €34.1M.

As such, on that date the Bank showed a Tier 1 own funds ratio that tallied with the total own funds ratio in the amount of 16.29%, well above the legally minimum required by regulation.

In addition, the gearing ratio stood at 11.89%.

4. NOTES TO THE SEPARATE FINANCIAL STATEMENTS

The balance sheet and statement of profit and loss accounts are compared as at 31 December 2018 and 31 December 2017 in compliance with the International Financial Reporting Standards, and consist of the following headings:

4.01 Cash and liquid assets in central banks and other demand deposits — Note 01

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Cash	116 272	75 054
Liquid assets at demand with Banco de Portugal	39 837 611	57 270 238
Demand deposits in monetary institutions		
Residents	21 178 133	18 117 099
Non-residents	25 991 426	27 163 286
	87 123 442	102 625 677

Demand deposits with Banco de Portugal include interest-earning deposits for meeting the legal requirements on minimum cash availability. These deposits are remunerated.

4.02.1 Available for sale financial assets — Note 02.1

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Trading securities		
Securities	26 820 972	15 817 433
Derivative instruments with a positive fair value	136 428	12 647
	26 957 400	15 830 080

This portfolio grew considerably compared to the previously financial year, justified by purchases and sales arising from favourable market opportunities, the breakdown of which is shown in the table below.

AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31 December 2018, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT
		FAIR VALUE	GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury bonds	461 610	452 614	1 009	10 005	
Of other resident issuers					
Non-subordinated debt	8 543 241	8 567 990	28 180	3 431	
Subordinated debt	428 000	422 438	3 568	9 130	
Issued by non-residents					
Of other foreign public issuers					
Non-subordinated debt	1 954 950	1 999 260	44 310		
Of other non-resident issuers					
Non-subordinated debt	13 586 851	13 192 718	2 434	396 566	
Subordinated debt	956 425	928 043		28 382	
	25 931 077	25 563 062	79 500	447 514	
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	1 685	1 706	21		
Issued by non-residents					
Of other non-resident issuers					
Shares	74 624	66 127	7 227	15 724	
Investment units	2 468	2 166	4	305	
	78 778	70 000	7 252	16 030	
OTHER					
Issued by residents					
Of other resident issuers					
Other	20 000	20 000			
Issued by non-residents					
Of other non-resident issuers					
Structured products	1 271 295	1 167 910	568	103 952	
	1 291 295	1 187 910	568	103 952	
DERIVATIVE INSTRUMENTS WITH A POSITIVE FAIR VALUE					
Other					
Unrealised gains from Options		756			
Unrealized gains from CFDs over currency		135 671			
		136 428			
TOTAL	27 301 149	26 957 400	87 319	567 496	

AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31 December 2017, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT
		FAIR VALUE	GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury bonds	279 430	280 250	820		
Of other resident issuers					
Non-subordinated debt	8 825 848	8 822 918		2 930	
Issued by non-residents					
Of other non-resident issuers					
Non-subordinated debt	129 676	129 118		558	
	9 234 954	9 232 286	820	3 488	
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	1 310	1 297	1	13	
Issued by non-residents					
Of other non-resident issuers					
Shares	633 325	408 562	1 544	226 307	
Investment units	31 516	31 197	38	357	
Other	8 486	10 537	2 051	-	
	674 637	451 593	3 634	226 677	
OTHER					
Issued by residents					
Of other resident issuers					
Other	5 513 875	5 475 523		38 352	
Issued by non-residents					
Of other non-resident issuers					
Structured products	682 812	658 031	4 221	29 002	
	6 196 687	6 133 553	4 221	67 355	
DERIVATIVE INSTRUMENTS WITH A POSITIVE FAIR VALUE					
Other					
Unrealised gains from Options		12 647			
		12 647			
TOTAL	16 106 278	15 830 080	8 675	297 520	

4.02.2 Financial assets not held for trading mandatorily at fair value through profit or loss — Note 02.2

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Non-negotiable financial assets mandatorily at fair value through profit or loss	8 101 664	
	8 101 664	

In 2018, the Retail Properties fund and the Arquimedes fund were transferred from the class of Assets Held for Trading to the class of Assets not held for trading mandatorily at fair value through profit or loss.

4.02.3 Other financial assets — Note 02.3

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other securities		
Issued by residents	13 380	9 201
	13 380	9 201

Amount relating to the contribution to the Work Compensation Fund, recorded at fair value, and the quote is obtained from the Work Compensation Fund website.

4.03. AFinancial assets at fair value through other comprehensive income — Note 03

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Issued by residents		
Debt instruments	2 722 816	9 008 797
Equity instruments	639 549	551 750
Other		4 421 904
	3 362 365	13 982 451
Issued by non-residents		
Debt instruments	40 655 366	8 281 123
Equity instruments		6 676
Other		632 943
	40 655 366	8 920 742
TOTAL	44 017 731	22 903 194

On 31 December, and in order to comply with IFRS 9, par. 5.5.2, the Bank reclassified the impairments of Debt instruments classified in this category. Assets were, therefore, adjusted against the heading Other comprehensive income in the amount of €254 209. Equity instruments were not subject to this change, therefore changes in imapirments are still recognised in assets.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2018, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT RECOGNISED IN ASSET	IMPAIRMENT RECOGNISED IN RESERVES
			GAINS	LOSSES		
DEBT INSTRUMENTS						
Issued by residents						
Of Portuguese public debt						
Treasury bonds	1 637 126	1 689 756	52 631			1 521
Of other resident issuers						
Non-subordinated debt	1 051 320	1 033 060		18 260		455
Issued by non-residents						
Of other foreign public issuers						
Non-subordinated debt	8 324 721	8 212 455	2 239	114 505		80 537
Of other non-resident issuers						
Non-subordinated debt	32 941 854	32 442 911	2 170	501 113		171 697
	43 955 021	43 378 182	57 039	633 878		254 209
EQUITY INSTRUMENTS						
Issued by residents						
Of other resident issuers						
Shares	705 000	705 000			65 451	
	705 000	705 000			65 451	
TOTAL	44 660 021	44 083 182	57 039	633 878	65 451	254 209

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2017, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE	CAPITAL		IMPAIRMENT
		FAIR VALUE	GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury bonds	6 216 985	6 208 797	54 474	62 661	
Of other resident issuers					
Non-subordinated debt	2 800 000	2 800 000			
Subordinated debt					
Issued by non-residents					
Of other non-resident issuers					
Non-subordinated debt	7 942 305	8 281 123	355 579	16 761	
Subordinated debt					
	16 959 290	17 289 921	410 053	79 422	
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	1 842 160	551 750			1 290 410
Issued by non-residents					
Shares		6 676	6 676		
	1 842 160	558 426	6 676		1 290 410
OTHER					
Issued by residents					
Of other resident issuers					
Other	3 993 759	4 421 904	428 145		
Issued by non-residents					
Of other non-resident issuers					
Structured products	669 046	632 943	781	36 885	
	4 662 805	5 054 847	428 927	36 885	
TOTAL	23 464 255	22 903 194	845 655	116 306	1 290 410

Changes in impairment losses of the Financial assets at fair value through other comprehensive income portfolio are presented as follows:

	31/12/2018	31/12/2017
Balance on 1 January	1 276 693	495 280
Adjustment transition IFRS 9	160 411	
Appropriation	320 327	1 249 560
Reversal	(155 423)	(225 722)
Utilisation	(1 297 740)	(198 000)
Exchange differences and others	15 392	(44 425)
Balance on 1 December	319 660	1 276 693
As reflected in assets	65 451	1 276 693
As reflected in other comprehensive income	254 209	

4.04 Financial assets at amortised cost

Note 04

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Assets		
Other availabilities	9 901	147 081
Investments in credit institutions	500 000	500 000
Investments held to maturity	2 930 724	8 641 541
Debtors and other investments	13 547 017	15 924 577
Loans to clients	101 901 308	94 349 516
	118 888 950	119 562 715
TOTAL	118 888 950	119 562 715

The changes in impairment losses of debtors and other investments are presented as follows:

	31/12/2018	31/12/2017
Balance on 1 January	549 975	1 549 975
Appropriation		
Reversal	(350 000)	
Utilisation		(1 000 000)
Balance on 1 December	199 975	549 975

With the entry into force of IFRS 9, as of 01.01.2018 the Bank calculates impairments to the Investments held to maturity portfolio. On 31.12.2018, the breakdown is as follows:

FINANCIAL ASSETS AT AMORTISED COST

As at 31 December 2018, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	PAR VALUE	ACQUISITION VALUE	EFFECTIVE RATE	BALANCE SHEET VALUE AMORTISED COST	IMPAIRMENT RECOGNISED IN ASSET
DEBT INSTRUMENTS					
Issued by non-residents					
Of other issuers					
Non-subordinated debt					
TRAFIG 5,00 04/20	1 000 000	915 000	7.47%	969 101	8 372
BNDES 3,625 01/19	2 000 000	1 910 000	5.37%	1 997 544	27 549
TOTAL	3 000 000	2 825 000		2 966 645	35 921

The changes occurred in impairment losses of the Investments held to maturity portfolio are presented as follows:

	31/12/2018	31/12/2017
Balance on 1 January		
Adjustment transition IFRS 9	118 988	
Appropriation	3 302	
Reversal	(85 924)	
Utilisation		
Exchange differences and others	(445)	
Balance on 1 December	35 921	

NATURE AND TYPE OF SECURITIES	PAR VALUE	ACQUISITION VALUE	EFFECTIVE RATE	BALANCE SHEET VALUE AMORTISED COST
DEBT INSTRUMENTS				
Issued by residents				
Of other resident issuers				
Non-subordinated debt				
EGLPL 5,50 04/19	2 000 000	2 000 000	5.67%	1 999 818
Issued by non-residents				
Of other non-resident issuers				
Non-subordinated debt				
BANBRA 3,75 07/18	1 600 000	1 516 000	6.10%	1 977 751
TRAFIG 5,00 04/20	1 000 000	915 000	7.47%	948 198
BNDES 3,625 01/19	2 000 000	1 910 000	5.37%	1 964 504
BCOBMG 8,00 04/18	5 253 064	5 253 064	8.24%	1 751 270
TOTAL	11 853 064	11 594 064		8 641 541

4.04.1 Loans to clients

Note 04.01

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Domestic loans		
Loans	40 909 701	29 913 689
Current account loans	58 342 041	58 739 771
Overdrafts in demand deposits		3 565 332
Foreign loans		
Loans	1 096 758	1 175 799
Current account loans	1 115 398	1 048 965
Overdue loans and interest	2 044 899	1 372 715
Income receivable		
Shareholder loans	146 822	127 799
Revenue with deferred income	(201 518)	(127 472)
	103 454 102	95 816 598
Provisions/Impairments for Overdue loans and interest	(1 552 794)	(1 467 082)
TOTAL	101 901 308	94 349 516

In 2018, the loan portfolio grew slightly, being more and more relevant in the Bank's activity, as regards new operations in each of the loan types offered by the Bank to its clients. Note that loans are mostly covered by real and personal guarantees that significantly exceed the outstanding amounts. Moreover, impairments in 2018 are formed in conformity with IFRS 9.

The changes in impairment losses of the loan portfolio for sale are presented as follows:

	31/12/2018	31/12/2017
Balance on 1 January	1 467 082	968 346
Adjustment transition IFRS 9	(413 296)	
Appropriation	1 674 639	1 171 338
Reversal	(1 176 754)	(781 898)
Utilisation		
Exchange differences and others	1 123	109 297
Balance on 1 December	1 552 795	1 467 082

4.05 Derivatives - Hedge accounting

Note 05

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Hedging derivatives		
Positive fair value - cash flow hedging	26 133	53 480
	26 133	53 480

The Bank offers to its clients structured term deposits through a basket of specific products with minimum guaranteed remuneration and a maximum return conditional on the valuation of this basket at maturity. At the same time, the Bank contracts similar options to hedge against the risk of the price increase of this basket, to ensure that it will receive the value of the option should it have to pay the client an interest greater than the minimum interest.

In the financial years of 2017 and 2018, hedging items, more specifically cash flow hedging (interest payable to clients at maturity) are recognised in Hedging derivatives at positive fair value. Premium is deferred and recognised as spent over the term deposit. Changes in option price over time and the expected evolution of interest payable were recognised under revaluation reserves at fair value.

4.06 Investments in subsidiaries, joint venture and associates — Note 06

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Valued at MEP – in the country		
In the country		
Coolink - Serviços de Informática e Consultadoria, Lda.	65 645	25 000
Circuitos e Traçados, Sociedade Imobiliária, S.A.	4 954 000	
Accum. Impairm./Provisions for accumulated impairments		
In the country	(99 109)	
	4 920 536	25 000

In 2018, Banco L. J. Carregosa, S.A. acquired the real estate company Circuitos e Traçados, Lda with a view to acquiring real estate encumbered by mortage under a credit operation. Under the terms of the agreement with the client, a purchase and sale agreement was concluded for the purchase of a significant number of items and another purchase and sale agreement was concluded for other items under licensing process. With the conclusion of business, the company will become the owner of all items that together comprise a very large farming property.

The company received a capital increase from €1,000 to €50 000, and Banco L. J. Carregosa, as sole shareholder, made a supplementary contribution in the amount of €4 950 000.

In 2017, the stake in Coollink was recorded at cost. In 2018, the shareholding was adjusted to the Equity Method. The impact of this change is not considered materially relevant and, therefore, there was no need to restate the accounts.

4.07 Other Property, plant and equipment — Note 07

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other Property, plant and equipment		
Buildings	6 875 172	6 875 172
Equipment	6 841 003	6 587 890
Financial lease assets	63 705	63 705
Property, plant and equipment in progress	222 524	82 602
	14 002 404	13 609 369
Accrued amortisations		
Buildings	(298 872)	(188 870)
Equipment	(5 335 657)	(4 929 371)
Financial lease assets	(8 122)	(7 167)
	(5 642 652)	(5 125 407)
	8 359 753	8 483 962

In terms of investment, there was a positive year-on-year variation in Property, plant and equipment in progress as a result of the ongoing works at the facilities in Latino Coelho (Lisbon) and Avenida da Boavista (Porto). The increase in equipment is due to the purchase of furniture, IT equipment and the renewal of the car fleet in 2018.

Changes recorded in other intangible assets are shown in the following note:

4.08. Intangible assets — Note 08

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other intangible assets		
Automatic data processing system (software)	2 542 092	2 414 090
Intangible assets in progress	365 017	
Other	272 187	272 187
	3 179 296	2 686 277
Accrued amortisations		
Automatic data processing system (software)	(2 425 695)	(2 349 185)
Other	(263 125)	(249 402)
	(2 688 819)	(2 598 587)
	490 477	87 690

The heading Intangible assets in progress grew by €365,017 following the ongoing IT development projects, as shown in the table below:

PROJECT	AMOUNT
Biometric project	20 894
CRC project	200 326
AML project	65 053
Biometria project	41 684
FundManager project	37 061
	365 017

Changes and balances as at 31 December 2018 under "Other property, plant and equipment" and "intangible assets", including amortisations and impairment adjustments, are presented in the table below:

PROPERTY, PLANT AND EQUIPMENT AND TANGIBLE ASSETS AS AT 31 DECEMBER 2018 | (SEPARATE ACTIVITY)

ACCOUNTS	ON 31/12/2017		INCREASES ACQUISITIONS	DEPRECIATION	WRITE-OFFS (NET)
	GROSS VALUE	ACCRUED DEPRECIATION			
OTHER INTANGIBLE ASSETS					
Data processing systems (software)	2 414 090	(2 349 185)	128 002	(76 509)	
Other intangible assets	272 187	(249 402)		(13 723)	
Intangible assets in progress			365 017		
	2 686 277	(2 598 587)	493 019	(90 232)	
PROPERTY, PLANT AND EQUIPMENT					
Property	6 875 172	(188 870)		(110 002)	
Equipment	6 587 890	(4 929 371)	478 913	(617 599)	(14 487)
Financial leasing assets	63 705	(7 167)		(956)	
Property, plant and equipment in progress	82 602		139 922		
	13 609 369	(5 125 407)	618 835	(728 557)	(14 487)
TOTALS	16 295 646	(7 723 994)	1 111 854	(818 790)	(14 487)

The Certified Accountant

EUROS

TRANSF.	SETTLEMENTS GROSS VALUE	SETTLEMENTS DEPRECIATION	SETTLEMENTS ACCRUED DEPRECIATION	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED DEPRECIATION	NET VALUE ON 31/12/2018
				2 542 092	(76 509)	(2 349 185)	116 398
				272 187	(13 723)	(249 402)	9 062
				365 017			365 017
				3 179 296	(90 232)	(2 598 587)	490 477
				6 875 172	(110 002)	(188 870)	6 576 299
				7 066 803	(617 599)	(4 929 371)	1 505 346
				63 705	(956)	(7 167)	55 583
				222 524			222 524
				14 228 204	(728 557)	(5 125 407)	8 359 753
				17 407 500	(818 790)	(7 723 994)	8 850 229

The Board of Directors

PROPERTY, PLANT AND EQUIPMENT AND TANGIBLE ASSETS AS AT 31 DECEMBER 2017 | (SEPARATE ACTIVITY)

ACCOUNTS	ON 31/12/2016		INCREASES ACQUISITIONS	DEPRECIATION	WRITE-OFFS (NET)
	GROSS VALUE	ACCRUED DEPRECIATION			
OTHER INTANGIBLE ASSETS					
Data processing systems (software)	2 381 689	(2 276 170)	32 402	(73 015)	
Other intangible assets	272 187	(220 671)		(28 731)	
Intangible assets in progress					
	2 653 875	(2 496 841)	32 402	(101 746)	
PROPERTY, PLANT AND EQUIPMENT					
Property	5 092 866	(73 135)	557 119	(87 439)	(284 341)
Equipment	5 827 119	(4 735 079)	959 907	(432 012)	
Financial leasing assets	368 570	(35 935)		(956)	
Property, plant and equipment in progress	223 953		1 103 326		
	11 512 507	(4 844 149)	2 620 352	(520 407)	(284 341)
TOTALS	14 166 382	(7 340 990)	2 652 754	(622 153)	(284 341)

The Certified Accountant

EUROS

TRANSF.	SETTLEMENTS GROSS VALUE	SETTLEMENTS DEPRECIATION	SETTLEMENTS ACCRUED DEPRECIATION	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED DEPRECIATION	NET VALUE ON 31/12/2017
				2 414 090	(73 015)	(2 276 170)	64 905
				272 187	(28 731)	(220 671)	22 785
				2 686 277	(101 746)	(2 496 841)	87 690
1 510 957		2 286	(32 011)	7 160 942	(85 153)	(105 146)	6 686 302
38 584				6 825 610	(432 012)	(4 735 079)	1 658 519
(304 864)		(2 286)	32 011	63 705	(3 242)	(3 925)	56 539
(1 244 677)				82 602			82 602
				14 132 859	(520 407)	(4 844 149)	8 483 962
				16 819 136	(622 153)	(7 340 990)	8 571 652

The Board of Directors

4.09 Current tax assets

Note 09

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Current tax assets		
Recoverable corporate income tax		288 300
Other	106 791	
	106 791	288 300
Deferred tax assets		
Temporary differences		
Property, plant and equipment	12 870	17 667
Impairment	247 697	307 971
	260 567	325 638
TOTAL	367 358	613 938

This heading reflects only the impact in terms of temporary differences of income tax. As indicated in accounting policies, the temporary differences between amortisations accepted for taxation purposes and those recognised in accounting and on impairment losses are also identified.

4.10 Other assets

Note 10

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Income receivable from client loan interest	349 778	314 897
Other assets	43 296	37 883
Other interest and similar income		
Of investments		
In the country - in other credit institutions	468	172
Of Investments held to maturity		
Of non-residents	102 972	188 717
Of fixed income issued by residents		
Of Portuguese public debt	17 380	126 815
Of other residents	112 229	153 288
Other Income receivable		
Other obligations	641 889	109 094
Commissions for services provided	29 081	113 804
Costs with deferred charges		
Insurance	101 539	90 875
Other rents	7 840	
Other costs with deferred charges	399 257	506 862
Other regularisation accounts	2 060 302	2 666 255
	3 866 032	4 308 663

"Other regularisation accounts" include the security transactions made at the end of the period, pending settlement at the beginning of the subsequent financial year.

Changes in impairment losses of other assets are presented as follows:

4.11 Non-current assets and disposal groups classified as held for sale — Note 11

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Non-current asset classified as held-for-sale		
Property	85 680	85 680
	85 680	85 680

Amount corresponding to a property purchased as part of a credit recovery.

4.12 Financial liabilities held for trading — Note 12

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Derivative instruments at negative fair value	9 798	0
	9 798	0

4.13 Financial liabilities measured at amortised cost

Note 13

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Loans and deposits from domestic credit institutions		
Deposits	19 885 213	15 659 141
Loans	712 734	437 580
Other deposits		1 678
	20 597 948	16 098 399
Loans and deposits in foreign credit institutions		
Deposits	236 133	14 815
Loans	2 070	24 314
	238 203	39 129
Charges payables		
Salaries payable	565 838	461 261
Other charges payable	155 451	148 495
	721 289	609 756
Liabilities relating to pensions and other benefits	41 672	173 335
Creditors/futures and options	1 941 204	1 784 632
Other resources	6 747 711	21 439 290
Client deposits		
Deposits		
Of residents		
Demand	89 312 194	83 960 568
Term	125 667 407	87 401 772
Of non-residents		
Demand	7 965 961	15 220 933
Term	10 516 147	8 793 258
	233 461 710	195 376 530
TOTAL	263 749 736	235 521 071

The heading Other deposits is broken down according to the information shown in the table below. In the item "Miscellaneous deposits", the reported amount refers to the financial balances of clients arising from transactions in derivatives and from deposits invested in the liquidity of portfolio management contracts.

	31/12/2018	31/12/2017
Miscellaneous deposits	6 120 605	20 225 824
Creditors - transactions in securities	104 202	132 211
Suppliers	144 398	713 669
Other creditors	378 505	367 585
	6 747 711	21 439 290

4.14 Provisions — Note 14

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Other provisions		
Guarantees and other commitments	6 081	13 513
	6 081	13 513

4.15 Current tax liabilities — Note 15

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Current tax liabilities		
Corporate income tax payable	122 585	0
Other	14 805	72 834
	137 390	72 834

4.16 Other liabilities — Note 16

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
VAT payable	101 553	121 666
Withholding and other taxes payable to the State	375 569	440 269
Contributions to Social Security	75 636	75 137
Third party collections	721	788
Contributions to other health systems	3 841	4 200
Other revenue with deferred income	3 655	79
Operations to be regularised	2 437 092	2 968 397
	2 998 066	3 610 535

"Operations to be regularised" include securities transactions made at the end of the period, pending settlement at the beginning of the following financial year.

4.17 Equity — Note 17

The "Statement of changes in equity" annex presents a positive change compared to 2017 in the amount of €946 138, mainly justified by the actual result for the period.

Breakdown of equity:

i) Paid-in capital: the Bank's share capital is represented by 200 million registered book-entry shares, each with a par value of €0.10, fully subscribed and paid;
ii) Issue premiums: these refer to the premiums paid by shareholders in capital increases;
iii) Reserves: the amount of profit generated over the financial years but retained in the company as legal reserve, other reserves and/or retained earnings, excluding positive reserves arising from unrealised gains in sovereign bonds.

4.18 Fair value of financial assets and liabilities Note 18

The fair value of financial assets and liabilities is estimated in accordance with IFRS 13.

The fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in a transaction made in the principal (or more favourable) market at measurement date, under prevailing market conditions (i.e., exit price), irrespective of whether this price is directly observable or estimated using another valuation technique.

Financial instruments recorded in the balance sheet at fair value were classified into three levels, in accordance with IFRS 13:

i) Level 1 – quoted prices in active markets;
ii) Level 2 – indirect valuation techniques based on market data;
iii) Level 3 – valuation techniques using mostly unobservable inputs.

The fair value of the Bank's financial assets and liabilities as at 31 December is as follows:

2018	AMORTISED COST	MEASURED AT FAIR VALUE				CARRYING AMOUNT	FAIR VALUE
		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL		
FINANCIAL ASSETS							
Cash and liquid assets in central banks	87 123 442					87 123 442	87 123 442
Liquid assets in other credit institutions:							
Financial assets held for trading		3 412 385	23 545 015		26 957 400	26 957 400	26 957 400
Financial assets not held for trading compulsorily at fair value through profit or loss			8 101 664		8 101 664	8 101 664	8 101 664
Other financial assets at fair value through profit or loss	13 380					13 380	13 380
Available for sale financial assets		2 920 066	40 655 366	442 299	44 017 731	44 017 731	44 017 731
Financial assets at amortized cost	118 888 950					118 888 950	118 940 655
Hedging derivatives	26 133					26 133	26 133
Other assets	3 866 032					3 866 032	3 866 032
	209 917 937	6 332 451	72 302 045	442 299	79 076 795	288 994 732	289 046 437
FINANCIAL LIABILITIES							
Financial liabilities held for trading			9 798		9 798	9 798	9 798
Financial liabilities measured at amortized cost	263 749 736					263 749 736	263 749 736
Other liabilities	2 998 066					2 998 066	2 998 066
	266 747 802		9 798		9 798	266 757 600	266 757 600

2017	AMORTISED COST	MEASURED AT FAIR VALUE				CARRYING AMOUNT	FAIR VALUE
		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL		
FINANCIAL ASSETS							
Cash and liquid assets in central banks	102 625 677					102 625 677	102 625 677
Liquid assets in other credit institutions:							
Financial assets held for trading		691 448	15 138 631		15 830 079	15 830 079	15 830 079
Other financial assets at fair value through profit or loss	9 201					9 201	9 201
Available for sale financial assets		6 215 473	16 135 971	551 750	22 903 194	22 903 194	22 903 194
Financial assets at amortized cost	119 562 715					119 562 715	119 915 629
Hedging derivatives	53 480					53 480	53 480
Other assets	4 308 663					4 308 663	4 308 663
	226 559 736	6 906 921	31 274 602	551 750	38 733 273	265 293 009	265 645 923
FINANCIAL LIABILITIES							
Financial liabilities held for trading							
Financial liabilities measured at amortized cost	235 521 071					235 521 071	235 521 071
Other liabilities	3 610 535					3 610 535	3 610 535
	239 131 606					239 131 606	239 131 606

Fair value hierarchy

IFRS 13 categorises the inputs used to measure fair value into three levels:

i) Level 1 – assets or liabilities are measured based on quoted prices (unadjusted) in active markets that the Bank can access. This level includes government bonds, company bonds and shares and derivatives listed and traded in regulated markets.
ii) Level 2 – assets or liabilities are measured based on inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly. To determine the fair value with level 2 inputs, the Bank uses valuation techniques based on inputs that are observable on the market (quoted prices in active markets of similar assets or liabilities and based on quoted prices that are not assets or net, interest rates, exchange rates, risk ratings given by external entities, others). This level includes bonds, non complex OTC derivatives and gross shares.
iii) Level 3 – assets or liabilities are measured based on non observable inputs on the market for the assets or liabilities. To determine the fair value with level 3 inputs, valuation techniques are used based on inputs that are not observable on the market and that do not fulfil the Level 1 or level 2 classification requirements.

In the 2017 and 2016 financial years, no transfers of assets or liabilities occurred between level 1 and level 2.

In the 2018 and 2017, the changes in Level 3 class of assets or liabilities in the fair value hierarchy are as follows:

	AVAILABLE FOR SALE FINANCIAL ASSETS	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Balance on 1 January de 2018			551 750
Gains/(losses) recognised in profit and loss			
Income from assets and liabilities measured at fair value through profit or loss			
Income from available for sale financial assets			
Impairment recognised in the year			(21 851)
Gains/(losses) recognised in fair value reserves			
Acquisitions			
Disposals			(87 600)
Transfers from other levels			
Transfers to other levels			
Exchange differences			
Other			
Balance on 31 December 2018			442 300
Balance on 1 January de 2017			572 900
Gains/(losses) recognised in profit and loss			
Income from assets and liabilities measured at fair value through profit or loss			
Income from available for sale financial assets			
Impairment recognised in the year			
Gains/(losses) recognised in fair value reserves			
Acquisitions			
Disposals			(108 750)
Transfers from other levels			87 600
Transfers to other levels			
Exchange differences			
Other			
Balance on 31 December 2017			551 750

Interest rates

The short term interest rates presented reflect the indicative values of deposit rates and/or futures, while for the long term swap rates are used[13]:

	2018		2017	
	EUR	USD	EUR	USD
1 week	- 0.373	2.411	- 0.378	1.480
1 month	- 0.363	2.503	- 0.368	1.564
2 months	- 0.336	2.614	- 0.340	1.622
3 months	- 0.309	2.808	- 0.329	1.694
6 months	- 0.237	2.876	- 0.271	1.837
1 year	- 0.233	2.758	- 0.257	1.881
2 years	- 0.174	2.657	- 0.150	2.060
3 years	- 0.077	2.590	0.013	2.147
4 years	0.059	2.598	0.172	2.191
5 years	0.198	2.570	0.316	2.226
7 years	0.469	2.624	0.565	2.291
10 years	0.812	2.709	0.886	2.375
30 years	1.380	2.838	1.501	2.518

Exchange rates

The fixing values of the Central Bank[14] are used for exchange rates. The table below shows the exchange rates of some of the relevant currency pairs as at 31 December 2018 and 2017:

2018	EUR	USD	GBP	CHF	SEK	NOK	AUD	CAD	NZD	BRL
EUR		1.1467	0.89908	1.1261	10.152	9.9084	1.6269	1.5637	1.7066	4.4505
USD	0.87207		0.78406	0.98207	8.8533	8.6409	1.4187	1.3637	1.4883	3.8812
GBP	1.1122	1.2754		1.2525	11.292	11.021	1.8095	1.7393	1.8982	4.9501
CHF	0.88799	1.0183	0.79837		9.0149	8.7986	1.4446	1.3886	1.5155	3.952
SEK	0.0985	0.11295	0.08856	0.11093		0.97601	0.16025	0.15403	0.16811	0.43839
NOK	0.10092	0.11573	0.09074	0.11365	1.0246		0.16419	0.15782	0.17224	0.44917
AUD	0.61468	0.70485	0.55265	0.69222	6.2403	6.0905		0.9612	1.049	2.7357
CAD	0.6395	0.73331	0.57496	0.72016	6.4922	6.3364	1.0404		1.0914	2.8461
NZD	0.58595	0.67191	0.52682	0.65987	5.9486	5.8059	0.95326	0.91627		2.6078
BRL	0.22469	0.25765	0.20202	0.25303	2.2811	2.2263	0.36554	0.35136	0.38346	

[13] The above amounts were obtained from *Bloomberg*.

[14] Source of exchange rates: https://www.bportugal.pt/taxas-cambio

2017	EUR	USD	GBP	CHF	SEK	NOK	AUD	CAD	NZD	BRL
EUR		1.2005	0.88809	1.17029	9.8342	9.8432	1.53722	1.50886	1.69160	3.9785
USD	0.83299		0.73977	0.97484	8.19175	8.19925	1.28048	1.25686	1.40908	3.1404
GBP	1.12601	1.35178		1.31776	11.0734	11.0836	1.73093	1.69899	1.90476	4.47984
CHF	0.85449	1.02581	0.75886		8.4032	8.41091	1.31354	1.2893	1.44545	3.39959
SEK	0.10169	0.12207	0.09031	0.11900		1.00092	0.15631	0.15343	0.17201	0.40456
NOK	0.10159	0.12196	0.09022	0.11889	0.99908		0.15617	0.15329	0.17186	0.40419
AUD	0.65053	0.78096	0.57772	0.76130	6.39739	6.40325		0.98155	1.10043	2.58811
CAD	0.66275	0.79563	0.58858	0.77561	6.51764	6.52360	1.01880		1.12111	2.63676
NZD	0.59116	0.70968	0.52500	0.69182	5.81355	5.81887	0.90874	0.89197		2.35192
BRL	0.25135	0.30175	0.22322	0.29415	2.47184	2.47410	0.38638	0.37925	0.42519	

4.19 Financial margin — Note 19

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Interest and similar income de:		
Interest on deposits in other credit institutions	26 551	14 173
Interest on investments in credit institutions	549	47 678
Interest on loans to clients	4 758 822	4 127 983
Interest on overdue loans	172 359	83 450
Interest and similar income from other financial assets	1 597 517	1 659 820
Commissions received associated to amortised cost	124 592	27 246
	6 680 390	5 960 350
Interest and similar costs on:		
Deposits from Banco de Portugal	(47 596)	(67 032)
Deposits from other credit institutions	(109 499)	(131 730)
Interest from creditors and other deposits		
Interest on deposits from clients	(713 122)	(624 000)
Interest on trading liabilities	(353)	(1 257)
Other interest and similar costs	(50 188)	(68 751)
Interest on loans	(9 969)	
	(930 728)	(892 771)
TOTAL	5 749 662	5 067 579

4.20. Income from equity instruments — Note 20

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Available for sale financial assets		
Issued by residents		
Investment units	225 749	126 981
	225 749	126 981

These result from the payment of the distribution of income, at two different times, of the Retail Properties real estate investment fund, corresponding to €0.0263/€0.050 and €0.0156/€0.0430 respectively, in 2018 and 2017, per investment unit held.

4.21 Revenue and charges from and with commission services — Note 21

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Income from services and commissions from:		
Guarantees and commitments	77 199	101 959
Deposits and securities under custody	37 135	27 619
Collection of securities	105 202	118 942
Administration of securities	1 080 241	1 011 077
Collective investment undertakings	351 357	248 528
Other services provided	859 430	1 694 748
Transactions carried out on behalf of third parties	1 892 925	2 410 662
Other commissions received	981 167	864 116
	5 384 657	6 477 651
Charges - services and commissions for:		
Deposits and securities under custody	(45 179)	(66 759)
Other banking services provided by third parties	(42 793)	(45 754)
Transactions carried out by third parties	(1 780 265)	(2 162 843)
	(1 868 237)	(2 275 357)
	3 516 421	4 202 294

4.22 Income from assets and liabilities evaluated at fair value — Note 22

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Available for sale financial assets		
Securities	4 457 905	2 756 539
Derivative instruments	205 068	630 211
	4 662 972	3 386 750
Losses from:		
Financial assets held for trading		
Securities	(4 334 691)	(1 820 304)
Derivative instruments	(113 795)	(460 306)
	(4 448 486)	(2 280 610)
	214 487	1 106 140

In accordance with the applicable standards, this heading included the amount relating to the derecognition of financial assets usually done through their sale. Given the normally extended time in which investments in this portfolio are made, the disposal of securities results from taking advantage of particularly favourable opportunities for their sale. In 2018, as a result of the implementation of Notice 1/2019 of Banco de Portugal, income from Retail and Arquimedes transactions were recorded under "Income from non-negotiable financial assets mandatorily at fair value through profit or loss" (note 5.24).

4.23 Income from financial assets at fair value through other comprehensive income

Note 23

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments		1 527
Equity instruments	909 580	300 000
Other	270 287	
Issued by non-residents		
Debt instruments	286 490	437 482
Equity instruments		176
	1 466 357	739 184
Losses from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	(173 600)	(5 714)
Issued by non-residents		
Debt instruments	(2 880)	(270 198)
	(176 480)	(275 912)
	1 289 876	463 272

Under the implementation of IFRS 9, replacing IAS 39 - Financial instruments, in 2018 this note was renamed from Income from available for sale financial assets (net) to Income from financial assets at fair value through other comprehensive income.

4.24 Income from non-negotiable financial assets mandatorily at fair value through profit or loss

Note 24

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Non-negotiable financial assets mandatorily at fair value through profit or loss		
Equity instruments	1 528 807	
Losses from:		
Non-negotiable financial assets mandatorily at fair value through profit or loss		
Equity instruments	(900 055)	
	628 752	

In 2018, as a result of the implementation of Notice 1/2019 of Banco de Portugal, Income from portfolio funds are now recorded in "Income from non-trading financial assets mandatorily carried at fair value through profit or loss", in accordance with the structure set out in Annex III of the Implementation Regulation (EU) 680/2014 of the Commissions, of 16 April 2014 (FINREP).

4.25 Income from financial assets at amortised cost — Note 25

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Assets held to maturity		
Debt instruments	42 200	
	42 200	

4.26 Income from currency revaluation — Note 26

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Exchange differences		
Other items in foreign currency - foreign currencies	176 250	245 567
Losses from:		
Exchange differences		
Other items in foreign currency - foreign currencies	(193 168)	(468 735)
	(16 917)	(223 167)

4.27 Income from the disposal of other assets — Note 27

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Gains from inv. in subsidiaries in the countries	9 734	
Non-financial assets	50 696	37 862
Losses from:		
Losses from inv. in subsidiaries in the countries	(50 000)	
Non-financial assets	(920)	(27 838)
	9 510	10 024

This note includes the result of the calculation with MEP in portfolio investments, in particular €9 734 relating to gains and €50 000 to losses.

4.28 Other operating income

Note 28

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Other gains and operating income	137 963	53 414
	137 963	53 414
Losses from:		
Other taxes	(297 831)	(251 710)
Donations and membership fees	(82 917)	(71 235)
Contributions to the Deposit Guarantee Fund (FGD)	(235)	(110)
Contributions to the Investor Compensation Scheme	(5 000)	(5 000)
Failure of computer systems or telecommunications	(1 268)	(1 058)
Other costs and operating expenses	(158 768)	(141 872)
	(546 018)	(470 985)
	(408 055)	(417 571)

4.29 Staff costs

Note 29

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Remuneration		
Management and supervisory bodies	(369 609)	(346 919)
Employees	(2 853 570)	(2 711 576)
Mandatory social security contributions		
Remuneration-related charges	(781 683)	(738 285)
Other mandatory social security contributions		
Pension fund	(48 107)	(61 565)
Insurance against accidents at work	(16 136)	(14 899)
Other staff costs	(222 366)	(222 282)
	(4 291 470)	(4 095 526)

In December 2018, the Bank had 96 employees in Portugal, as shown below in the professional categories.

DISTRIBUTION BY PROFESSIONAL CATEGORY	31/12/2018	31/12/2017
Management Board	4	4
Management	19	19
Technical staff	19	20
Admin. staff	13	15
Commercial/Operations	31	22
Other	10	8
Banco Carregosa	96	88

Retirement and survivors' pension liabilities

Banco Carregosa provides a defined Pension Plan to its employees. For the purpose thereof, beneficiaries of this pension plan are current and former workers of the Bank who, having been admitted to the banking sector up to 3 March 2009, were not registered with social security until that date.

The Pension Plan of Banco Carregosa is a defined benefit plan that follows the provisions of the Collective Labour Agreement for the Banking Sector (ACT/V) and is subject to the requirements set by Banco de Portugal. Amounts paid depend on the number of years worked by the Employee and the salary table stipulated by the ACTV.

Benefits granted by the Pension Plan of Banco Carregosa:

i) Old-age retirement or presumable disability pension;
ii) Deferred survivors' pension;
iii) Immediate survivors' pensions;
iv) Post-retirement contributions to SAMS
(medical-social aid assistance for bank employees);
v) Death grant (*).

(*) In the event of death of a participant or beneficiary (due to disability or presumed disability) an allowance will be paid – a death grant will be paid – as defined in Clause 102 of the ACT.

In addition, the Bank also has health care responsibilities and costs with its employees. The employees who as at 31 December 2010 were integrated in CAFEB can benefit from the Medical-Social Aid Services (SAMS) of their unions. The remaining employees' benefits are covered by the ADVANCECARE health insurance, which offers similar terms and conditions to the SAMS medical aid services.

Responsibilities for retirement and survivors' pensions and their costs arising from the Bank's pension plan have been prepared through an actuarial evaluation performed by an actuary. The Bank's pension plan is a defined benefit plan in line with the ACTV – Collective Vertical Labour Agreement for the Banking Sector. As at 31 December 2018, Banco Carregosa's pension plan included 14 active participants, 49 with acquired rights and 3 pensioners.

Decree-law no. 1-A/2011, of 3 January, provided for changes in the calculation of responsibilities in pension funds. From the date when banking employees integrated in CAFEB changed to the General Social Security Scheme on 31 December 2010, the fund will no longer be responsible for the full ACT pension; from that date on, only the supplemental pension resulting from the difference between the ACT pension and the Social Security pension will be taken into consideration.

Number of participants in the plan

As at 31 December of every year, the participants in the pension plan are as follows:

	2018	2017
Active participants	14	14
Former participants with acquired rights	49	49
Pensioners	3	4
TOTAL	66	67

Assumptions

The liabilities of the pension scheme were assessed on the basis of the following assumptions:

	2018	2017
ACTUARIAL EVALUATION METHOD	PROJECT UNIT CREDIT METHOD	PROJECT UNIT CREDIT METHOD
Demographic assumptions		
Mortality tables	TV88/90	TV88/90
Invalidity tables	SR88	SR88
Turnover tables		
Financial assumptions		
Fund yield	2.00%	2.00%
Wage growth rate	0.75%	1.25%
Pension adjustment rate	2.00%	2.00%
Pension growth rate	0.75%	1.00%
General information		
Number of benefit payments	14	14

Fund yield – The discount rate that reflects the economic reality to meet the requirements of International Accounting Standard IAS 19 is up to date. The discount rate of 2.00% is adjusted to the interest rate on private debt bonds with a high credit rating (AA) and a maturity similar to the liabilities.

The comparison between actuarial and financial assumptions used in the 2018 and 2017 financial years and values actually recorded is shown below:

	2018		2017	
	FORECAST	VERIFIED	FORECAST	VERIFIED
Mortality	0.34%	0.00%	0.31%	0.00%
Wage growth rate	1.25%	0.00%	1.25%	0.75%
Pension growth rate	1.00%	20.22%	1.00%	11.12%
Yield rate	2.00%	-5.86%	2.00%	3.10%

Mortality table – In view of the history of death rate, the TV88_90 mortality table is maintained.

Yield rate – As in recent years, the yield rate in 2018 was much lower than the planned rate. 10-year projections until 2028, in a best estimate scenario, point to an average annual yield rate of 3.0%. This expected rate in line with the portfolio potential and with the discount rate used to measure liabilities. So, if the necessary contributions are made, solvency ratios are expected to improve. The development of the fund's assets and liabilities should be carefully analysed.

Pension growth rate – The pension growth in respect of the number of pensioners in the period reflects:

- the application of the ACT table in effect for the year (Pension Table and Employer Costs);
- the loss of the right to a survivors' pension by an orphan, which reverted to the remaining beneficiaries, as provided for in the pension plan in question.

The increase seen in the last 2 years is due to the orphan pensions that were reverted to the surviving spouse.

Pension liabilities

Pension liabilities as at 31 December are as follows:

	2018	2017
Pension payment liabilities	687 304	727 740
Asset liabilities	2 633 783	2 863 223
TOTAL	3 321 087	3 590 963

Pension payment liabilities

The current value of pension liabilities as at 31 December 2018 is as follows:

	CURRENT VALUE OF PENSIONS UNDER PAYMENT	SAMS	DEATH GRANT	TOTAL
Old-age pensions	175 406	18 023	1 102	194 531
Invalidity pensions				
Survivors' pensions	480 878	11 956		492 773
Orphans' pensions				
TOTAL	656 224	29 979	1 102	687 304

The current value of pension liabilities as at 31 December 2017 is as follows:

	CURRENT VALUE OF PENSIONS UNDER PAYMENT	SAMS	DEATH GRANT	TOTAL
Old-age pensions	187 890	19 285	1 144	208 320
Invalidity pensions				
Survivors' pensions	500 910	12 533		513 444
Orphans' pensions	5 777	200		5 977
TOTAL	694 577	32 018	1 144	727 740

Asset liabilities

The current value of asset liabilities as at 31 December 2018 is as follows:

CURRENT VALUE OF LIABILITIES FOR PAST SERVICE LIABILITIES	ASSETS	ACQUIRED RIGHTS	SAMS ASSETS	DEATH GRANT ASSETS	TOTAL
<65 years	1 336 669	936 146	156 817	13 659	2 444 663
≥ 65 years	151 112	19 806	18 380	1 071	189 120
TOTAL	1 487 781	955 952	175 321	15 789	2 633 783

The current value of asset liabilities as at 31 December 2017 is as follows:

CURRENT VALUE OF LIABILITIES FOR PAST SERVICE LIABILITIES	ASSETS	ACQUIRED RIGHTS	SAMS ASSETS	DEATH GRANT ASSETS	TOTAL
<65 years	1 438 508	1 051 083	156 817	14 664	2 661 073
≥ 65 years	179 700	2 945	18 380	1 125	202 150
TOTAL	1 618 209	1 054 028	175 197	15 789	2 863 223

Plan assets

Benefit liabilities are financed through collective subscription no. 1 to the Open-end Funds Optimize Capital Equilibrado (FP OCP Equilibrado), Optimize Capital Moderado (FP OCP Moderado) and Optimize Capital Ações (FP OCP Ações) and collective subscription no.4 to the Real Reforma Garantida Pension Fund.

The above pension funds subscribed collectively are open-end funds whose risk profile varies according to their investment policies. The FP OCP Equilibrado for participants 10 or more years away from retirement age leaves some room for manoeuvre in terms of investment values, the FP OCP Moderado is for participants averse to risk or under 5 years away from retirement age, and the FP OCP Ações for long-term investments or for participants 15 or more years away from retirement age. The FP Real Reforma Garantida pension fund is intended for participants averse to risk or under 5 years away from retirement age, who would rather sacrifice profitability to protect their capital.

The value of each fund as at 31 December is detailed below:

	2018	2017
FP OCP Equilibrado	821 880	885 259
FP OCP Moderado	1 387 597	1 403 490
FP OCP Ações	1 069 939	1 128 880
TOTAL	3 279 416	3 417 628

In 2018 and 2017, the three funds developed as follows:

	2018			2017		
	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE
Opening balance		482 338.9640	3 417 628	6.8723	480 387.8095	3 301 366
Pensions + Costs		(6 991.4506)	(49 180)		(15 839.9366)	(111 113)
Contributions + Other receipts		16 278.9114	113 151		17 791.0911	123 683
Total movements		9 287.4248	63 970		1 951.1545	12 570
Fund yield rate	-5.86%		(202 183)	3.10%		103 693
Closing Balance	6.6705	491 626.4248	3 279 416	7.0855	482 338.9640	3 417 628

Below is an analysis of the differences in each financial year:

	2018			2017		
	ESTIMATED	REAL	DIFF.	ESTIMATED	REAL	DIFF.
Pensions + Costs	(109 932)	(49 180)	60 751	(69 297)	(111 113)	(41 815)
Contributions + Other receipts		113 151	113 151		123 683	123 683
Total movements	(109 932)	63 970	173 902	(69 297)	12 570	81 867
Fund yield rate	67 253	(202 183)	(269 436)	65 334	103 693	38 359
Closing Balance	3 374 950	3 279 416	(95 534)	3 297 402	3 417 628	120 226

Pensions and yield rate estimated for the previous year were considered in this estimate. The negative difference is justified by the fact that the fund's yield was lower than expected.

Defined benefit liability

As at 31 December 2018 and 2017, the Bank's past service liabilities and their hedges are broken down as follows:

	2018	2017
Liabilities as at 31 December		
Pensions under payment	687 304	727 740
Assets	2 633 783	2 863 223
	3 321 087	3 590 963
Value of funds	3 279 416	3 417 628
Net asset/(Liabilities) in the balance sheet	(41 672)	(173 335)
Actuarial differences recognised in other comprehensive income	77 944	28 978

As at 31 December 2018 and 2017, past service liabilities developed as follows:

	2018	2017
Opening liabilities	3 590 963	3 492 230
Current service cost	43 541	57 055
Interest cost	71 819	69 844
Actuarial losses/(gains)	(347 380)	9 381
Payments	(37 856)	(37 547)
Closing liabilities	3 321 087	3 590 964

The development of the pension funds value in the years ended 31 December 2018 and 2017 is broken down as follows:

	2018	2017
Opening balance	3 417 628	3 301 366
Net yield	(138 212)	57 300
Contributions	113 150	96 510
Pensions paid	(49 180)	(37 547)
Closing balance	3 279 416	3 417 628

As at 31 December 2018 and 2017, the weight by class of financial asset for each of the 3 funds is shown below:

	2018		
ASSET CLASS	FP OCP EQUILIBRADO	FP OCP MODERADO	FP OCP AÇÕES
Shares	21.8%	11.0%	31.0%
Liquidity	8.9%	7.4%	7.4%
Real estate			
Bonds	68.5%	79.7%	60.8%
Other	0.8%	1.8%	0.8%

	2017		
ASSET CLASS	FP OCP EQUILIBRADO	FP OCP MODERADO	FP OCP AÇÕES
Shares	32.61%	14.60%	46.27%
Liquidity	2.85%	2.47%	3.48%
Real estate			
Bonds	64.54%	82.92%	50.24%
Other			

The financing level of pension payment liabilities as at 31 December is as follows:

	2018	2017
Liabilities (VAPP+VASP)	3 321 088	3 590 963
Fund value	3 279 416	3 417 628
Overall funding level	98. 75%	95. 17%

The fund value on which the financing level is calculated is its net value, already minus the costs and expenses attributable to it. As the financing of the current pension fund is subject to a minimum amount established by Banco de Portugal, i.e., the full financing of pensions under payment and acquired rights liabilities, and 95% of past service liabilities relating to current workers, it does not fulfil the requirement.

According to the method used, as at 31 December 2018 the Current Value of Past Service Liabilities totals €3 321 088, of which €687 304 correspond to the Current Value of Pensions under Payment. At the same date, the fund is worth €3 279 416, which means an overall financing hedge of 98.75%.

As at 31 December 2018, the sensitivity analysis of changes in the main actuarial assumptions would result in the following impacts on the current value of past service liabilities:

	IMPACT ON LIABILITIES
Discount rate	
+ 0.5 bp	(306 657)
- 0.5 bp	349 796
Wage growth rate	
+ 0.5 bp	188 959
- 0.5 bp	(165 900)
Pension growth rate	
+ 0.5 bp	185 547
- 0.5 bp	(170 587)
Mortality	
Up 1 year	119 860

The maturity of defined benefit obligation as at 31 December 2018 and 2017 is as follows:

	31/12/2018	31/12/2017
Duration of defined benefit obligation	19.74	21.56
Maturity of defined benefit obligation		
up to 12 months	43 858	38 033
between 1 and 3 years	89 477	78 515
between 3 and 6 years	158 426	135 998
between 6 and 11 years	363 184	291 688
between 11 and 16 years	574 607	541 893
> more than 16 years	2 548 486	3 157 047

The actuarial report is available at the Bank's head-office for consultation.

4.30 General administrative costs

Note 30

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Supplies:		
Water, electricity and fuel	(204 702)	(196 696)
Consumables	(7 276)	(10 633)
Publications	(8 928)	(7 533)
Hygiene and cleaning products	(16 118)	(17 771)
Other third party supplies	(203 163)	(205 490)
	(440 187)	(438 123)
Services:		
Leases and rentals	(139 188)	(133 191)
Communications	(235 999)	(230 576)
Travel, hotel and entertainment expenses	(257 088)	(269 778)
Advertising and publishing	(668 791)	(591 167)
Repairs and maintenance	(153 704)	(121 369)
Insurance	(63 721)	(57 877)
Specialised services		
Retainers and fees	(84 528)	(78 207)
Legal, litigation and notaries	(24 407)	(10 753)
IT services	(999 893)	(1 033 674)
Security and surveillance	(19 817)	(19 221)
Cleaning services	(3 617)	(2 598)
Information	(570 496)	(485 363)
Databases	(56 871)	(48 385)
Other specialised services		
Studies and consultations	(6 273)	(1 068)
Advisors and external auditors	(605 649)	(495 849)
Other third party services		
Public relations and advisory services	(38 982)	(41 666)
Banco de Portugal - Bpnet Service	(2 397)	(3 939)
Housekeeping services	(10 069)	(7 409)
Temporary manpower		(1 650)
Other	(29 601)	(32 325)
	(3 971 089)	(3 666 066)
	(4 411 277)	(4 104 189)

Advisors and external auditors

In compliance with Chapter VI Article 66-A(1)(b) of the C.S.C. (Companies Code), the following fees were posted for Banco Carregosa and its subsidiary, there being no other type of service provision:

STATUTORY AUDITORS	
Legal Certification of Accounts	38 200
Assurance and reliability services	11 750
	49 950

4.31 Depreciation and amortisations Note 31

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Property, plant and equipment		
Of property	(110 002)	(87 439)
Of equipment	(617 599)	(432 012)
Of financial lease assets	(956)	(956)
	(728 557)	(520 407)
Intangible assets	(90 232)	(101 746)
	(818 790)	(622 153)

As mentioned in Notes 7 and 8, the movements and balances of the headings 'Other property, plant and equipment' and 'Intangible assets', including amortizations and impairment adjustments, are shown in the table related to these notes.

4.32 Provisions net of write-offs Note 32

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Gains from:		
Provisions for guarantees and commitments made	6 498	19 604
Losses from:		
Provisions for guarantees and commitments made	(9 831)	(23 071)
	(3 333)	(3 466)

4.33 Impairment of financial assets at amortised cost Note 33

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Investments held to maturity		
Debt instruments	82 621	
Loans		
Normal loans	1 526 754	781 898
Overdue loans (includes other debtors)	(1 674 639)	(1 171 338)
	(147 885)	(389 440)
	(65 264)	(389 440)

4.34 Impairment of financial assets at fair value through other comprehensive income — Note 34

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Available for sale financial assets		
Debt instruments	(164 479)	5 248
Equity instruments	(426)	(1 800)
	(164 904)	3 448

4.35 Impairment of investments in subsidiaries, joint ventures and associates — Note 35

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Invest. in subsidiaries, joint ventures and associates	99 109	
	99 109	

4.36 Taxes — Note 36

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Current	(185 726)	(234 978)
Deferred	(65 071)	(88 593)
	(250 797)	(323 571)

Impact of postings in the table and note below:

Current taxes

The difference between taxes calculated at the legal rate and taxes calculated at the effective rate in the 2018 and 2017 financial years may explained as shown below:

		2018	2017
1	Pre-tax results	1 397 537	1 124 224
2	Legal tax rate(corporate income tax+municipal tax)	22,50%	22,50%
3	Normal tax load (1x2)	314 446	252 950
4	Tax effect of non-deductible expenses	590 394	675 703
5	Tax effect of non-taxable income	(559 206)	(830 715)
6	Variations in assets	(811 048)	405 780
7	Taxable income / Reportable tax loss (1+4+5+6)	617 677	1 374 992
8	Reportable tax loss	(3 139 350)	(3 877 841)
9	Tax (corporate income tax + municipal tax)	48 179	107 249
10	Autonomous taxation	137 547	127 729
11	Total tax (9+10)	185 726	234 978
12	Effective rate (11/1)	13,29%	20,90%

In accordance with the law in force, tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security).

In addition, and in accordance with Article 63 of the Corporate Income Tax Code, the tax and customs authority may make whatever corrections it deems necessary to determine the taxable income whenever, due to special relations between the taxpayer and another person, whether or not subject to corporate income tax, different conditions are agreed other than the ones usually agreed between independent individuals, leading to a result other than the one that would have otherwise been calculated had such a relationship not existed. However, the Board considers that any corrections arising from the different interpretations of the law in force by the tax authorities should not have a significant effect on the financial statements in attachment.

Deferred taxes

Deferred taxes recognised in 2018 in the amount of €65 071 result from the impact of temporary differences in income tax on both property, plant and equipment and intangible assets, and on impairments.

4.37 Off-balance sheet accounts

Note 37

This group is broken down as follows for comparable reporting periods:

	31/12/2018	31/12/2017
Commitments to third parties:		
Irrevocable commitments		
Potential commitments to SII	598 778	442 626
Revocable commitments		
Credit lines	9 960 726	9 674 698
Account overdraft facilities		2 510 168
	10 559 504	12 627 493
Liability for service provision:		
Of deposits and values under custody	795 660 770	588 443 217
Administrative amounts of the institution	137 919 974	166 464 320
	933 580 744	754 907 537
Services provided by third parties:		
For deposits and values under custody	523 948 297	351 862 830
	523 948 297	351 862 830
Foreign exchange transactions and derivative instruments:		
Trading instruments		
Foreign exchange forward transactions	125 873	
Options	756	12 647
Hedge instruments		
Options	7 103	50 851
	133 733	63 498
Guarantees provided and any other services:		
Personal guarantees	10 339 662	10 215 994
Real guarantees	12 515 000	5 586 000
	22 854 662	15 801 994
Guarantees received:		
Personal guarantees	99 131 332	71 167 797
Real guarantees	333 804 896	334 661 434
	432 936 229	405 829 231
Other off-balance sheet items:		
Write-offs	1 340 261	1 340 261
Accrued interest	92 690	71 477
Miscellaneous accounts	(1 925 446 120)	(1 542 504 321)
	(1 924 013 169)	(1 541 092 582)

4.38 Contingent liabilities originated by the Resolution Fund

In accordance with Decree-law 24/2013, establishing the operation of the Resolution Fund (hereinafter referred to as "RF"), the Bank has since 2013 made an initial contribution followed by the mandatory annual contributions, as stated in articles 3 and 4 of said diploma.

In a circular letter in 2015, Banco de Portugal explained that the periodic contribution to the RF should be regarded as a cost in the year in which it is paid, that is, in late April of each year.

In a press release issued in 2015, the Resolution Fund clarified that a special contribution to finance the resolution measure applied to BES is unlikely to happen. As such, and as mentioned in the press release, the possibility of a special contribution seems quite remote.

The uncertainty as to the future contributions to the Resolution Fund (RF), considering the commitments to repay the debt contracted by the RF with the State (€3.9 bn) and other banks (€500 M) for the capital increase of Novo Banco after the resolution of Bank BES seems to be overcome with the definition of a 30-year period for that reimbursement.

This period should be ample enough for banks not to be required to make additional significant contributions to the Resolution Fund, in order to allow the said reimbursement, despite the high risks assumed by the Resolution Fund under the framework of the agreement to sell 75% of Novo Banco equity to the Lone Star Fund, which may entail a considerable additional financial effort for the Resolution Fund in 2019 and in subsequent years.

The contribution payable in 2018 was set at €50 811.78, compared to €29 282.31 paid in 2017, as a result of the change in the rate applied.

These contributions were recognised as a cost in each financial year, in accordance with IFRIC 21 – Taxes.

4.39 Assets given as collateral

These assets are broken down as follows:

PLEDGED FINANCIAL ASSETS	31/12/2018	31/12/2017
Available for sale financial assets		
Debt securities	12 475 851	6 010 705
Other assets		
Receivables from futures and options transactions – margins	3 041 743	3 791 170
Various investments – uncleared values	10 163 477	10 395 180
	25 681 071	20 197 055

4.40 Related parties

As at 31 December 2018 and 2017, the Bank is controlled by the following shareholders with a holding of more than 2%:

31/12/2018			
SHAREHOLDING COMPOSITION	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649.00
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768.00
Projeto Inverso, S.G.P.S, S.A.	15 880 743	7.94	15 880.00
Groupe Norwich S.A.	9 999 990	5.00	9 999.00
Mauricio Zlatkin	9 999 000	5.00	9 999.00
Sophia Capital - Fundo de Capital de Risco	8 510 000	4.26	8 510.00
Imocarregosa - Gestão e Comercialização Imobiliária, S.A.	8 186 751	4.09	8 186.00
António José Paixão Pinto Marante	7 500 000	3.75	7 500.00
Ruasgest, S.G.P.S, S.A.	4 764 223	2.38	4 764.00

31/12/2017			
SHAREHOLDING COMPOSITION	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649.00
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768.00
Amorim Projetos, S.G.P.S, S.A.	15 880 743	7.94	15 880.00
Groupe Norwich S.A.	9 999 990	5.00	9 999.00
Mauricio Zlatkin	9 999 000	5.00	9 999.00
Sophia Capital - Fundo de Capital de Risco	8 510 000	4.26	8 510.00
António José Paixão Pinto Marante	8 200 000	4.10	8 200.00
Imocarregosa - Gestão e Comercialização Imobiliária, S.A.	7 358 751	3.68	7 358.00
Ruasgest, S.G.P.S, S.A.	4 764 223	2.38	4 764.00

Remuneration of the Board of Directors

The members of Board of Directors of the Bank were considered, in accordance with IAS 24, as the only 'key' management members of the Bank. The remunerations earned by the Board of Directors during the years ended 31 December 2018 and 2017 are shown in Note 29 to this annex.

Transactions and balances between related parties

At the end of the 2018 reporting period, the balances resulting from transactions with related parties are as follows:

	ASSETS	PASSIVO		
	SUPPLEMENTARY CONTRIBUTIONS	RECURSOS DE CLIENTES		OTHER SUPPLIERS
		DEMAND DEPOSITS	TERM DEPOSITS	
Participated companies				
CoolLink, Lda		149		
Circuitos e traçados	4 954 000	1 439 864		
	4 954 000	1 440 013		

At the end of the 2017 reporting period, the balances resulting from transactions with related parties are as follows:

	ASSETS	LIABILITIES		
	MISCELLANEOUS DEBTORS	CLIENT DEPOSITS		OTHER SUPPLIERS
		DEMAND DEPOSITS	TERM DEPOSITS	
Participated companies				
CoolLink, Lda	308	3		
FII Arquimedes		5 979 000		
	308	5 979 003		

At the end of the 2018 reporting year, the bank made the following transactions with the related parties:

	INTEREST ON TERM DEPOSITS	COMMISSIONS RECEIVED	INCOME FROM EQUITY INST.	SERVICE PROVISION	SERVICES RECEIVED
Participated companies					
CoolLink, Lda				3 000	857 488
Circuitos e Traçados, SA		54			
		54		3 000	857 488

During the 2017 reporting year, the Bank made the following transactions with the related parties:

	INTEREST ON TERM DEPOSITS	COMMISSIONS RECEIVED	INCOME FROM EQUITY INST.	SERVICE PROVISION	SERVIÇOS OBTIDOS
Participated companies					
CoolLink, Lda				3 000	660 629
FII Arquimedes		6 054			
		6 054		3 000	660 629

Porto, 07 May 2019

The Certified Accountant
Pedro Manuel Ferreira da Rocha

The Board of Directors
Chairwoman: Maria Cândida Cadeco Rocha e Silva

Jorge Manuel Conceição Freitas Gonçalves
António José Paixão Pinto Marante
Francisco Miguel Melhorado de Oliveira Fernandes
Paulo Armando Morais Mendes
Paulo Martins de Sena Esteves

17

Legal Certification of Accounts

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Banco L. J. Carregosa, S.A. (the Group), which comprise the balance sheet as at 31 December 2018 (showing a total of €301 995 173 and total equity of €36 388 295, including a net result of €1 151 725), the consolidated statement of profit and loss by nature, the consolidated statement of comprehensive income, the consolidated statements of changes in equity and the consolidated statement of cash flows for the year then ended, and the consolidated notes to the financial statements, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements in attachment give a true and fair view, in all material aspects, of the financial position of Banco L. J. Carregosa, S.A. as at 31 December 2018, of its financial performance, and of the cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

Bases for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other technical nd ethical standards and guidelines of *Ordem dos Revisores Oficiais de Contas* (Register of Auditors). Our responsibilities under these standards are described in "Responsibilities of the auditor for the audit of the financial statements" below. Under the law in force, we are independent of the Bank and comply with other ethical requirements under the terms of the code of ethics of *Ordem dos Revisores Oficiais de Contas*.

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

Areas relevant to the audit

The areas relevant to the audit are those that, according to our professional judgement, were the most important for the auditing of consolidated financial statements for the current period. These areas were considered in the auditing of consolidated financial statements as a whole, and in the formation of our opinion, and we do not give a separate opinion thereon.

Description of the most significant risks of material misstatements found

Impairments on loans to clients

As at 31 December 2018, "Loans to Clients" granted by the Bank amounted to a gross sum of €103 454 102 and its net amount to €101 901 308€, representing an accumulated impairment of €1 552 794, i.e., 1.5% of the loan amount. Details of the loan amount and impairment, and of the accounting policies, methodologies and related assumptions are disclosed in the accompanying notes to the financial statements (items 1.2.8, 1.2.25, 1.3.1, 2.4, 3.04.1 and 3.32).

Impairment relating to "loans to Clients", estimated through a separate analysis, based on the Bank's Impairment Manual, represents the best estimate of the management body of the losses expected for this heading, as at 31 December 2018.

Additionally, the International Financial Reporting Standard 9 – Financial Instruments (IFRS9) was applied for the first time on 1 January 2018, with the impairment calculation reflecting the expected loss and introducing two new concepts: the concept of "significant increase in credit risk" and the concept of "forecasts of future economic conditions".

The impacts of transitioning to IFRS 9 are disclosed in the notes to the financial statements (item 1.2.25).

Using new approaches, models or assumptions may result in a material impact on the impairment value of the estimated "Loans to Clients".

Since the estimate of impairment and its material relevance is a highly subjective and complex matter, and also due to the difficulty in implementing a new accounting standards in this heading, we have considered this as a relevant area in our audit.

Summary of the response to the risks of material misstatements analysed

Impairments on loans to clients

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses on its "Loans to Clients" portfolio.

We have carried out analytical review tests on the growth of the balances of "Loans to Clients" and related impairments.

We have assessed the method for calculating formal impairment and its effective application, in particular with regard to the reasonableness of parameters and assumptions used in impairment calculation. From this analysis we reached our own opinion and assessed the design of the model for calculating the expected loss.

We questioned the Bank's experts responsible for the impairment models, in particular those in charge of the Risk Department.

To obtain a significant sample of clients, we analysed the reasonableness of the estimate recorded for impairment losses based on the opinion of the entity on the economic and financial standing of those clients, the appreciation of existing collateral and the rationale for the impairment performed.

Based on the model for calculating the expected loss, we tested he calculations done and compared the results with the figures shown in the financial statements.

We have reviewed the disclosures on Client Loans and loan impairments, taking into consideration the applicable accounting rules, in particular the transition to IFRS9.

Responsibilities of the management body and supervisory body for the financial statements

The management body is responsible for:

- preparing financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

- preparing the management report in compliance with the applicable legal and regulatory provisions;

- creating and maintaining an appropriate internal control system with a view to preparing financial statements free from material misstatements due to fraud or error;

- adopting accounting policies and criteria appropriate to the circumstances; and

- assessing the Group's capacity to maintain continuity, disclosing, where applicable, any matters likely to raise significant doubts as to the continuity of its activities.

The supervisory body is responsible for supervising the preparation and disclosure of the Bank's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to be reasonably assured that the financial statements, as a whole, are free from material misstatements due to fraud or error, and to issue a report with our opinion. Reasonable assurance means a high level of safety, but it is does not guarantee that an audit carried out in accordance with the ISA will always detect a material misstatement, if there is one. Misstatements may arise from fraud or error and are considered material if, alone or jointly, it can be reasonably expected that they will influence the economic decisions of users made on the basis of those financial statements.

As part of an ISA audit, our judgments are professional and our attitude is one of professional scepticism during the audit. We also:

- identify and assess the material risks of misstatement in the consolidated financial statements, due to fraud or error, establish and execute auditing procedures that respond to such risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting a material misstatement due to error, as the fraud may involve collusion, forgery, intentional omissions, misrepresentations or overlap of internal control;

- obtain a relevant understanding of internal control for the purpose of auditing with a view to establishing auditing procedures suited to the circumstances, but not to express an opinion on the efficacy of the Group's internal control;

- assess the adequacy of the accounting policies used and the fairness of accounting estimates and their disclosures by the management body;

- ascertain how the management body considers the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related with events or conditions likely to raise significant doubts about the Group's ability to continue its activities. If we do conclude that a material uncertainty exists, we must refer in our report the related disclosures included in the financial statements or, if such disclosures are not appropriate, change our opinion. Our conclusions are based on the audit evidence obtained as of the date of our report. Nonetheless, future events or conditions may cause the Group to discontinue its activities;

- assess the presentation, structure and overall content of the consolidated financial statements, including disclosures, and whether they represent the underlying transactions and events in such a way that the presentation is fair;

- obtain sufficient and appropriate audit evidence on the financial information of the Group's entities or activities to express an opinion on the consolidated financial statements. We are responsible for guiding, supervising and performing the Group's audit and are ultimately responsible for our audit opinion;

- inform the persons in charge of governance, including the supervisory body, inter alia, the scope and planned timetable of the audit, and the significant conclusions thereof, including any significant internal control deficiency identified during the audit;

- determine which matters reported to the persons in charge of governance, including the supervisory body, were the most important when auditing the consolidated financial statements of the current year and what the relevant audit matters were. Our report describes such matters, except where their public disclosure is prohibited by law or regulation;

- declare to the supervisory body that we have complied with the relevant ethical requirements on independence, and report any an all relationships and other matters that may be perceived as threats to our independence and, where applicable, the existing safeguards approaches.

We are also responsible for ensuring that the information in the management report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

In compliance with Article 451(3)(e) of the Companies Code, we are of the opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements in force, that the information contained therein is consistent with the audited financial statements, and that, taking into account our knowledge and assessment of the Bank, we have not identified any material misstatements.

On the additional information foreseen under Article 10 of Regulation (EU) No 537/2014

In compliance with Article 10 of Regulation (EU) no 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the relevant audit matters, we also inform that:

- We have been appointed auditors of Banco L. J. Carregosa, S.A. for the first time at the General Shareholders' Meeting of 27 May 2015, for a term between 2015 and 2017. We were appointed at the General Shareholders' Meeting of 30 May 2018 for a second term of office between 2018 and 2020.

- The management body has confirmed that it is not aware of any fraud or suspicion of fraud having a material effect on the financial statements. When planning and executing our audit in accordance with the ISA, we have maintained an attitude of professional scepticism and established audit procedures to respond to possible material misstatements in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material fraud-related misstatements therein.

- We confirm that our audit opinion is consistent with the additional report we have prepared and submitted to the Bank's supervisory body on 16 May 2019.

- We hereby declare that we have not rendered any services prohibited under Article 77(8) of the Articles of Association of *Ordem dos Revisores Oficiais de Contas* and that we have remained independent of the Group during the course of the audit.

Porto, 16 May 2019.

Marques da Cunha, Arlindo Duarte & Associados – S.R.O.C., Lda., SROC no. 52
represented by Dr. Joaquim Manuel Martins da Cunha, ROC no. 859

AUDIT REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco L. J. Carregosa, S.A. (the Bank), which comprise the balance sheet as at 31 December 2018 (showing a total of €303 218 538 and total equity of €36 317 465, including a net result of €1 146 740), the statement of profit and loss by nature, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of the significant accounting policies.

In our opinion, the financial statements in attachment give a true and fair view, in all material aspects, of the financial position of Banco L. J. Carregosa, S.A. as at 31 December 2018, of its financial performance, and of the cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

Bases for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other technical and ethical standards and guidelines of *Ordem dos Revisores Oficiais de Contas* (Register of Auditors). Our responsibilities under these standards are described in "Responsibilities of the auditor for the audit of the financial statements" below. Under the law in force, we are independent of the Bank and comply with other ethical requirements under the terms of the code of ethics of *Ordem dos Revisores Oficiais de Contas*.

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

Areas relevant to the audit

The areas relevant to the audit are those that, according to our professional judgement, were the most important for the auditing of financial statements for the current period. These areas were considered in the auditing of financial statements as a whole, and in the formation of our opinion, and we do not give a separate opinion thereon.

Description of the most significant risks of material misstatements found

Impairments on loans to clients

As at 31 December 2018, "Loans to Clients" granted by the Bank amounted to a gross sum of €103 454 102 and its net amount to €101 901 308, representing an accumulated impairment of €1 552 794, i.e., 1.5% of the loan amount. Details of the loan amount and impairment, and of the accounting policies, methodologies and related assumptions are disclosed in the accompanying notes to the financial statements (items 2.2.8, 2.2.25, 2.3.1, 3.4, 4.04.1 and 4.33).

Impairment relating to "loans to Clients", estimated through a separate analysis, based on the Bank's Impairment Manual, represents the best estimate of the management body of the losses expected for this heading, as at 31 December 2018.

Additionally, the International Financial Reporting Standard 9 – Financial Instruments (IFRS9) was applied for the first time on 1 January 2018, with the impairment calculation reflecting the expected loss and introducing two new concepts: the concept of "significant increase in credit risk" and the concept of "forecasts of future economic conditions".

The impacts of transitioning to IFRS 9 are disclosed in the notes to the financial statements (item 2.2.25).

Using new approaches, models or assumptions may result in a material impact on the impairment value of the estimated "Loans to Clients".

Since the estimate of impairment and its material relevance is a highly subjective and complex matter, and also due to the difficulty in implementing a new accounting standards in this heading, we have considered this as a relevant area in our audit..

Summary of the response to the risks of material misstatements analysed

Impairments on loans to clients

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses on its "Loans to Clients" portfolio.

We have carried out analytical review tests on the growth of the balances of "Loans to Clients" and related impairments.

We have assessed the method for calculating formal impairment and its effective application, in particular with regard to the reasonableness of parameters and assumptions used in impairment calculation. From this analysis we reached our own opinion and assessed the design of the model for calculating the expected loss.

We questioned the Bank's experts responsible for the impairment models, in particular those in charge of the Risk Department.

To obtain a significant sample of clients, we analysed the reasonableness of the estimate recorded for impairment losses based on the opinion of the entity on the economic and financial standing of those clients, the appreciation of existing collateral and the rationale for the impairment performed.

Based on the model for calculating the expected loss, we tested he calculations done and compared the results with the figures shown in the financial statements.

We have reviewed the disclosures on Client Loans and loan impairments, taking into consideration the applicable accounting rules, in particular the transition to IFRS9.

Responsibilities of the management body and supervisory body for the financial statements

The management body is responsible for:

- preparing financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

- preparing the management report in compliance with the applicable legal and regulatory provisions;

- creating and maintaining an appropriate internal control system with a view to preparing financial statements free from material misstatements due to fraud or error;

- adopting accounting policies and criteria appropriate to the circumstances; and

- assessing the Group's capacity to maintain continuity, disclosing, where applicable, any matters likely to raise significant doubts as to the continuity of its activities.

The supervisory body is responsible for supervising the preparation and disclosure of the Bank's financial information.

Responsibilities of the auditor for the audit of the financial statements

Our responsibility is to be reasonably assured that the financial statements, as a whole, are free from material misstatements due to fraud or error, and to issue a report with our opinion. Reasonable assurance means a high level of safety, but it is does not guarantee that an audit carried out in accordance with the ISA will always detect a material misstatement, if there is one. Misstatements may arise from fraud or error and are considered material if, alone or jointly, it can be reasonably expected that they will influence the economic decisions of users made on the basis of those financial statements.

As part of an ISA audit, our judgments are professional and our attitude is one of professional scepticism during the audit. We also:

- identify and assess the material risks of misstatement in the financial statements, due to fraud or error, establish and execute auditing procedures that respond to such risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting a material misstatement due to error, as the fraud may involve collusion, forgery, intentional omissions, misrepresentations or overlap of internal control;

- obtain a relevant understanding of internal control for the purpose of auditing with a view to establishing auditing procedures suited to the circumstances, but not to express an opinion on the efficacy of the Group's internal control;

- assess the adequacy of the accounting policies used and the fairness of accounting estimates and their disclosures by the management body;

- ascertain how the management body considers the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related with events or conditions likely to raise significant doubts about the Group's ability to continue its activities. If we do conclude that a material uncertainty exists, we must refer in our report the related disclosures included in the financial statements or, if such disclosures are not appropriate, change our opinion. Our conclusions are based on the audit evidence obtained as of the date of our report. Nonetheless, future events or conditions may cause the Group to discontinue its activities;

- assess the presentation, structure and overall content of the financial statements, including disclosures, and whether they represent the underlying transactions and events in such a way that the presentation is fair;

- inform the persons in charge of governance, including the supervisory body, inter alia, the scope and planned timetable of the audit, and the significant conclusions thereof, including any significant internal control deficiency identified during the audit;

- determine which matters reported to the persons in charge of governance, including the supervisory body, were the most important when auditing the financial statements of the current year and what the relevant audit matters were. Our report describes such matters, except where their public disclosure is prohibited by law or regulation;

- declare to the supervisory body that we have complied with the relevant ethical requirements on independence, and report any an all relationships and other matters that may be perceived as threats to our independence and, where applicable, the existing safeguards approaches.

We are also responsible for ensuring that the information in the management report is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

In compliance with Article 451(3)(e) of the Companies Code, we are of the opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements in force, that the information contained therein is consistent with the audited financial statements, and that, taking into account our knowledge and assessment of the Bank, we have not identified any material misstatements.

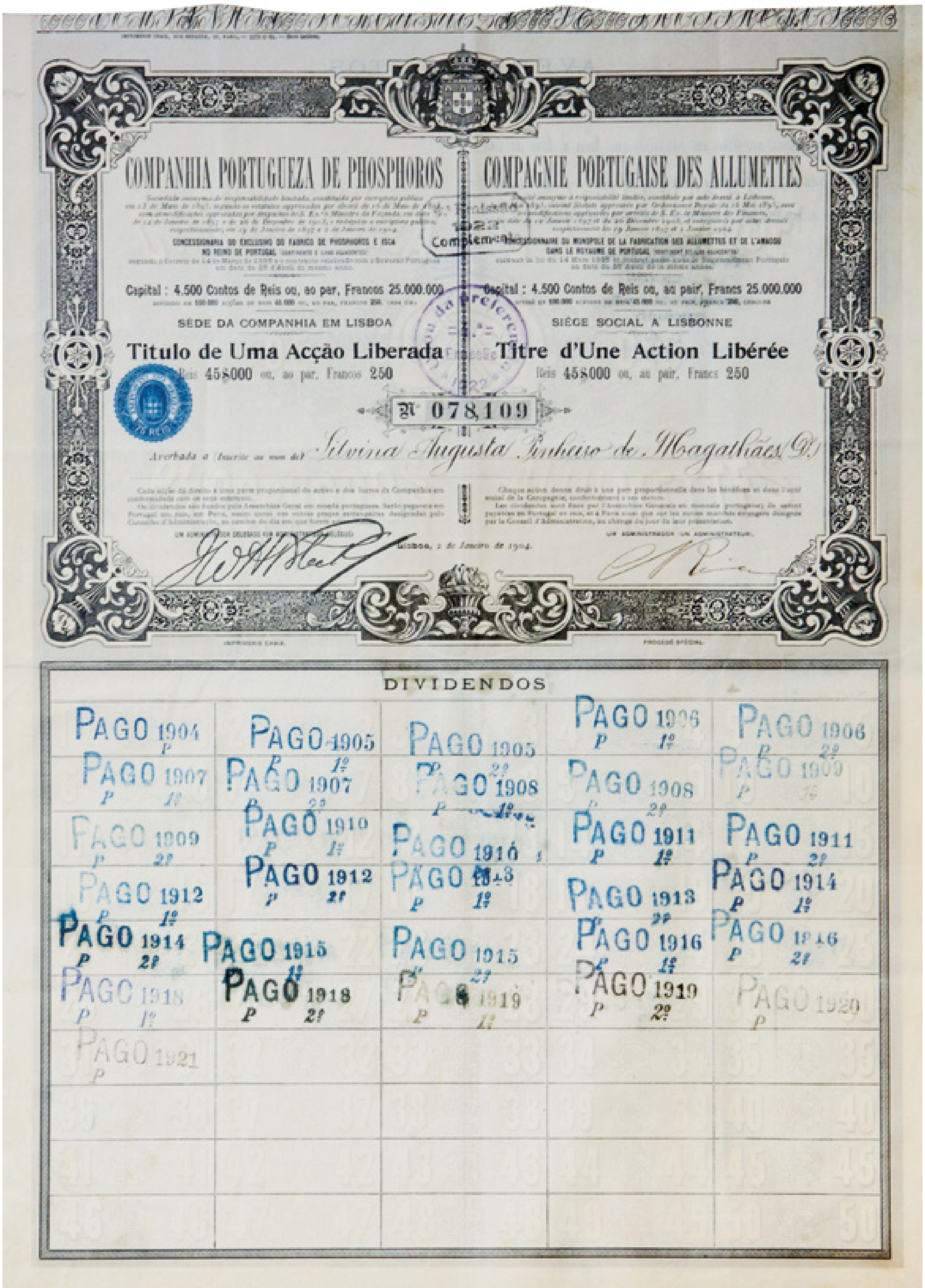
On the additional information foreseen under Article 10 of Regulation (EU) No 537/2014

In compliance with Article 10 of Regulation (EU) no 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the relevant audit matters, we also inform that:

- We have been appointed auditors of Banco L. J. Carregosa, S.A. for the first time at the General Shareholders' Meeting of 27 May 2015, for a term between 2015 and 2017. We were appointed at the General Shareholders' Meeting of 30 May 2018 for a second term of office between 2018 and 2020.

- The management body has confirmed that it is not aware of any fraud or suspicion of fraud having a material effect on the financial statements. When planning and executing our audit in accordance with the ISA, we have maintained an attitude of professional scepticism and established audit procedures to respond to possible material misstatements in the financial statements due to fraud. As a result of our work, we have not identified any material fraud-related misstatements therein.

- We confirm that our audit opinion is consistent with the additional report we have prepared and submitted to the Bank's supervisory body on 16 May 2019.


COMPANHIA PORTUGUEZA DE PHOSPHOROS
COMPAGNIE PORTUGAISE DES ALLUMETTES
Capital: 4.500 Contos de Reis ou, ao par, Francos 25.000.000
Capital: 4.500 Contos de Reis ou, au pair, Francs 25.000.000
SÉDE DA COMPANHIA EM LISBOA
SIÈGE SOCIAL A LISBONNE
Titulo de Uma Acção Liberada
Titre d'Une Action Libérée
Reis 45$000 ou, ao par, Francos 250
Reis 45$000 ou, au pair, Francs 250
Nº 078,109
Lisboa, 2 de Janeiro de 1904.
DIVIDENDOS

- We hereby declare that we have not rendered any services prohibited under Article 77(8) of the Articles of Association of *Ordem dos Revisores Oficiais de Contas* and that we have remained independent of the Group during the course of the audit.

Porto, 16 May 2019.

Marques da Cunha, Arlindo Duarte & Associados – S.R.O.C., Lda., SROC no. 52
represented by Dr. Joaquim Manuel Martins da Cunha, ROC no. 859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Report and Opinion of the Supervisory Committee

To the Shareholders,

1. The Supervisory Committee presents its report and opinion on the accounting documents of the Bank and of the Group, submitted by the Board of Directors of **Banco L. J. Carregosa, S.A.**, for the year 2018, in compliance with legal requirements – Article 420(1)(g) and Article 508-D of the Companies Code – and applicable statutory requirements.

2. It needs to be emphasised that the list of members part of this Committee as at 31 December 2018 is the result of the reorganisation of its members, following the resignation of its Chairman, Doutor Álvaro José Barrigas do Nascimento, in July 2018, who left office on 31 August 2018. At the Shareholders' Meeting of 11 December 2018, the Shareholders elected Dr. Homero José de Pinho Coutinho as Chairman of the Supervisory Committee. The authorisation for this appointment by Banco de Portugal is still pending. Despite this, between 1 September and 31 December 2018 the Committee's activities were ensured by the two acting members, a situation that has prevailed hitherto.

3. Throughout 2018, the Committee monitored the various aspects of the Bank's activity, although greater emphasis was placed on monitoring the internal governance and risk management systems, in aprticular the organisation and efficacy of the internal control system. To this end, the Committee promoted the necessary contacts with the Board of Directors, the Executive Committee, the Statutory Auditor and several of the Bank's departments, notably the areas part of the Internal Control System, to collect and analyse information and issue specific recommendations. As part of its duties, the Committee held eighteen meetings in 2018.

4. The following activities are part of the Committees duties:

a. Monitor the Bank's operation, duty of care being owed in complying with the law and supplementary provisions and with the Company's articles of association, namely by having its members take part in meetings with the Board of Directors and the Executive Committee and other contacts, where necessary and appropriate, in particular with the department heads of Accounting and Information Management, Compliance, Risk and Internal Audit. In performing its activities, the Committee analysed the regulations, standards and internal procedures in force, obtaining information and further clarifications, having found no constraints in its work;

b. The relationship with the supervisory authorities of the financing system, in particular taking note of the correspondence exchanged with the Bank and those entities; still in this respect, we note the participation of the Committee's members in various meetings requested by Banco de Portugal's Prudential Supervision body.

c. Supervise the Bank's Internal Control System, by continuously monitoring the activity performed by the Statutory Auditor and by the internal Departments in charge of *Compliance*, Risk Management and Internal Audit; specifically, in this regard, the Committee:

- issued an opinion on the Internal Control System in force at the Bank, pursuant to Article 25(a)(5) of Banco de Portugal's Notice no. 5/2008, under the reporting procedure of the Board of Directors to Banco de Portugal;

- monitored the Bank's participation in the 'Supervisory Review and Evaluation Process' (SREP), led by Banco de Portugal for the purpose of assessing, in a holistic perspective, the adequacy of the business strategy, the governance and internal risk control systems, and of the Bank's equity and liquidity levels, given the risks to which it is exposed, or may be exposed;

- monitored the preparation of the 'Self-Assessment of Internal Capital' (ICAAP) and of the 'Self-assessment Process for the Adequacy of Internal Liquidity' (ILAAP), both part of the aforementioned SREP process, in accordance with the guidelines from the European Banking Authority, in particular through regulation EBA/GL/2016/10 (*Guidelines on ICAAP and ILAAP Information Collected for SREP Purposes*); in this scope, it appraised the evaluation by Banco de Portugal and monitored the specification and programming of measures to implement the recommendations made by the Supervisor;

- after hearing the Officer of the General Assembly, the Board of Directors and the Statutory Auditor, prepared and approved the 'Regulation for the Selection of the ROC/SROC and the Contracting of non-Audit Services', formulated under Law 148/2015, of 9 September, which establishes the Legal Regime of Audit Supervision, Law 140/2015, of 7 September, which approves the Articles of Association of *Ordem dos Revisores Oficiais de Contas* (Register of Audits), and of CMVM Regulation 4/2015 (Audit Supervision), amended by CMVM Regulation 2/2017, among other regulations with a significant impact on this matter;

- pursuant to the law and in light of the aforementioned 'Regulation for the Selection of the ROC/SROC and the Contracting of non-Audit Services', gave its opinion on the assessment of the conformity and adequacy of applications submitted to the Shareholders at the Annual General Meeting of 30 May 2018, in which the standing Statutory Auditor and the alternate Statutory Auditor of the Bank were elected for the 2018-2020 three-year period;

- supervised the work of the Statutory Auditor, in particular with respect to the supervision of its independence. In this context, the Committee informs that between 1 January 31 December 2018 it did not receive a request for a prior opinion with a view to contracting services for the provision of different national audit services between the Bank and the Statutory Auditor;

- monitored the implementation of the Annual Internal Audit Plan approved by the Board of Directors for 2018 (PAINT 2018), and analysed the proposed Internal Audit Regulation of the Bank and the Annual Internal Audit Plan for 2019 (PAINT 2019);

- issued recommendations on internal regulations to be in effect at the Bank on 'Conflict of Interest Policy', 'Personal Transactions Policy' and 'Reporting of Irregularities, issued by the Board of Directors;

- reviewed the external audit procedures regarding the performance and security of information systems supporting the Bank's activity;

- prepared a comprehensive proposal for internal regulations on the duties and responsibilities of the Bank's Internal Control Functions and the regime applicable to employees assigned to those functions, adopted under the legal and regulatory framework in force and adapted to the Bank's internal organisation, submitting it to the Board of Directors;

- approved the objectives of a cross-cutting and holistic evaluation of the Bank's credit policy and of the internal control procedures inherent to the management of the credit cycle, to be performed by the Committee throughout 2019.

d. Supervise the quality and integrity of the information in accounting documents, monitoring the preparation and disclosure thereof, the application of current accounting policies and standards, and monitoring the relevant financial, operational and prudential indicators. In this regard, the Committee met, where appropriate, with the Statutory Auditor, to take note of criteria, methods and other external audit procedures to the Bank's accounts.

5. The Committee has not learned of any situation that did not comply with the Bank's articles of association or the applicable conditions laid down by law and regulation.

6. All clarifications were always provided by the Board of Directors, the services and departments at the Bank and by the Statutory Auditor.

7. Pursuant to Article 452 of the Portuguese Companies Code, the Committee examined the Report of the Board of Directors and the separate and consolidated financial statements of the Bank as at 31 December 2018 and their legal certification of accounts issued by the Statutory Auditor, unconditional and without remarks, with which the Supervisory Committee agrees, having for that purpose made the appropriate and timely verifications.


FABRICA DE LANIFICIOS EM ARROIOS
SOCIEDADE ANONYMA DE
RESPONSABILIDADE LIMITADA
CAPITAL Rs 200:000$000
1a EMISSÃO Rs 70:000$000
Nº 734 Titulo de Uma Acção Rs 50$000
O Snr portador
fica interessado n'esta Companhia pela quantia de
CINCOENTA MIL reis, valor d'este titulo, e n'esta proporção
tem direito a haver a parte que lhe pertencer dos fundos
e lucros em conformidade dos Estatutos.
Lisboa 30 de Dezembro de 1899
Os Directores

8. During the year and in performing its duties, the Supervisory Committee was able to take note of the professionalism, dedication and strong commitment of the Board of Directors, Executive Committee, Statutory Auditor and other employees of the Bank and of the Group.

9. The members of the Committee would like to thank Professor Doutor Álvaro José Barrigas do Nascimento, who ceased left office on 31 August 2018 following his resignation as Chairman of the Bank's Supervisory Committee, for his loyalty, competence, dedication and solidarity in the exercise of his mandate.

10. All things considered, the Supervisory Committee is of the opinion that the Annual General Meeting should:

    a) Approve the Report of the Board of Directors and the Accounts of the Bank, consolidated and separate for the year ended 31 December;

    b) Approve the proposal for the appropriation of profits presented in the Report of the Board of Directors;

    c) Perform a general assessment of the management and supervision of **Banco L. J. Carregosa, S.A.**, pursuant to Article 455 of the Companies Code.

Porto, 16 May 2019

The Supervisory Committee,

Maria da Graça Alves Carvalho
(Voting member)

Ricardo Jorge Mendes Fidalgo Moreira da Cruz
(Voting member)


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Minutes of the Annual general meeting of Shareholders held on the 31st of May 2019

THE UNDERSIGNED HEREBY CERTIFIES THAT, based on the Minutes of the General Annual Shareholders' Meeting of "Banco L. J. Carregosa, S.A.", held on 31 May 2019, that the following decisions were taken:

1) The Management Report and Accounts and Consolidated Accounts for the 2018 financial year were unanimously approved.

2) The decision to appropriate the net profit for the year (positive), in the amount of €1 146 740.22 as Legal Reserve (€114 674.03) and as Retained Earnings (€1 032 066.19) was unanimously approved.

3) A motion praising the Board of Directors, the Company's Supervisory Committee, each and every member thereof in office for their work in the 2018 financial year.

4) The proposal to increase the number of the members of the current Board of Directors from seven to eight was unanimously approved.

5) Unanimous approval of the election:
(i) of Dr. Homero José de Pinho Coutinho as a member of the Board of Directors;
(ii) of Professor Daniel Bessa Fernandes Coelho, PhD, as voting member of the Supervisory Committee.

5-A) The appointment of Dr. Ricardo Jorge Mendes Fidalgo Moreira da Cruz as Chairman of the Supervisory Committee was unanimously approved

6) The proposal for the amendment of the Policy for the Selection and Assessment of the Suitability of the Members of the Management and Supervisory Bodies and Key Function Holders was unanimously approved.

7) The proposal for the amendment of the Policy on Conflicts of Interest was unanimously approved.

8) The report of the Remuneration and Assessment Committee was unanimously approved.

9) The proposal for the acquisition and disposal of own shares, in accordance with articles 319 and 320 of the Portuguese Companies Code.

10) The election of Dra. Andreia Belisa Gomes Júnior de Araújo Lima as member of the Remuneration and Assessment Committee was unanimously approved.

Porto, 31 May 2019.

The Chairman of the Presiding Board to the General Meeting,

(Luís Neiva dos Santos)

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Year of Edition 2019

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