REPORT & ACCOUNTS 2017

EST. 1833
BANCO CARREGOSA

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Index

Summary of Indicators

SEPARATE ACCOUNTS

	2017	2016 [*]	2016
Financial margin	5 067 579	4 981 821	4 981 821
Net commissions	4 202 294	3 290 785	3 290 785
Gains from financial transactions (net)	1 511 087	2 741 014	2 741 014
Other operating income	(445 409)	(610 384)	(610 384)
Net operating revenue	10 335 551	10 403 234	10 403 234
Staff costs	(4 095 526)	(3 842 764)	(3 842 764)
Other administrative costs	(4 104 189)	(3 968 782)	(3 968 782)
Structure costs	(8 199 715)	(7 811 546)	(7 811 546)
Amortisations	(622 153)	(556 957)	(556 957)
Provisions	(3 466)	37 767	37 767
Impairments	(385 992)	(2 587 196)	(2 549 396)
Pre-tax profit	1 124 224	(514 697)	(476 897)
Taxes	(323 571)	125 872	125 872
Net result	800 654	(388 825)	(351 025)

	2017	2016 [*]	2016
Total net assets	274 589 280	211 494 672	214 796 037
Equity	35 371 327	34 558 195	34 558 195
Own funds	34 552 025	34 284 389	34 284 389
Client deposits	195 775 894	142 478 359	142 478 359
Loans granted / Client deposits	48.94%	46.40%	46.40%
Overdue loans / Loans granted	1.45%	0.09%	0.09%
Return on assets (ROA)	0.32%	-0.16%	-0.16%
Return on equity (ROE)	2.29%	-1.11%	-1.08%
Solvency ratio	20.81%	21.80%	21.80%
Financial Margin / Interest-bearing asset	2.70%	3.42%	3.27%
Structure Costs / Net operating revenue	79.34%	75.09%	75.09%

[*] Restated amounts.

01 Shareholding Structure and Governing Bodies

BANCO L. J. CARREGOSA, S.A.

PRESIDING GENERAL BOARD MEMBERS	Luís Manuel de Faria Neiva dos Santos	CHAIRMAN
	Maria Manuela Pereira Antunes Matias	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
	João Pedro Portugal da Cunha	Voting member
	Francisco Miguel Melhorado de Oliveira Fernandes	CEO
	Paulo Armando Morais Mendes	Voting member [EC]
	Paulo Martins de Sena Esteves	Voting member [EC]
SUPERVISORY COMMITTEE	Álvaro José Barrigas do Nascimento	CHAIRMAN
	Ricardo Jorge Mendes Fidalgo Moreira da Cruz	Voting member
	Maria da Graça Alves Carvalho	Voting member
	André de Castro Amorim	Voting member [Alternate]
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	

02 Message from the Chairwoman of the Board of Directors

Mr. Chairman of the Presiding General Board,
Dear Shareholders,

This is the ninth time that the Board of Directors of Banco Carregosa and I submit the year's accounts to the Shareholders.

2017 was a year of growth, quite evident in the assets under management, clients' deposits and loans granted, all of which have recorded growth rates above 30%. This was also the year for achieving, once again, positive results, even though they weren't exactly what we had hoped for. We are nevertheless sure that the progress of the aforementioned metrics will, in time, provide adequate returns to our Shareholders.

Banco Carregosa has continued its efforts to further improve its organisation and to refine what is required of its staff and of new employees recruited for the various business areas the Bank is pursuing.

The overwhelming rush of regulations issued by European and Portuguese supervising authorities in an understandable spirit of preventing tragedies from happening again, but forgetting the principle of proportionality, is still one of our main difficulties. The reason is that it requires large investments in IT and human resources so that we can properly deal with such regulations. We will therefore continue to focus on growth so that these added costs can be diluted.

Following my announcement in last year's report and accounts of the acquisition of a facility in Porto, at Rua Guerra Junqueiro, to accommodate the affluent clients department, we were most pleased to officially open these facilities on 7 July 2017, without any pomp or circumstance but with the sense of satisfaction that the refurbishment of this facility was exactly what we had expected and perfectly suit its purpose.

To strengthen our presence in this customer segment in Lisbon also, the refurbishment of our facilities at Rua Latino Coelho is practically finished.

The results of these investments are already being felt.

On a personal note, for which I must apologise, I would like to share with you some information we received from the Bishop of Porto when he came to the inauguration of the new facilities. We were told that he had found in the archives of the Episcopal Palace information that Casa Carregosa had been of great help to the Diocese of Porto when Portugal was declared a Republic and laws on the expropriation of the Church's assets were established.

We are deeply grateful to the immensely generous spirit of the Most Reverend Dom António Francisco dos Santos.

My apologies once again for this personal digression. Although I am aware that reports contain results, indicators, and strategies, it will be interesting for you to learn a bit about Banco Carregosa's good heritage.

I will conclude this message by reaffirming our most profound commitment to continuing our work so that we can achieve more and perform better. Only then can we hope that you will continue to trust in us.

Thank you,
Maria Cândida Rocha e Silva
Chairwoman of the Board of Directors

Main Events in 2017

JANUARY TO MARCH

- GoBulling, Banco Carregosa's online trading brand, launched a series of 29 online seminars (webinars) held throughout the year, with a trading session on «Technical Analysis».
- Launch of the indexed deposit «Carregosa Cabaz Telecomunicações» maturing in March 2019.
- Banco Carregosa leads a client's commercial paper issue.
- GoBulling was once again considered as «the best choice for trading on the stock exchange», in the market test carried out by DECO Proteste Investe.
- Banco Carregosa was visited by students from the Faculty of Economics of the University of Porto, as part of the initiative «FFC – FEP FIRST Connection», where they attended the seminar «Banco Carregosa's activity and business model and Financial Markets».
- Banco Carregosa ranked 5th among 26 entities analysed in the «Bank Satisfaction Survey» conducted by DECO and the magazine «Dinheiro e Direitos».
- Launch of the Public Subscription Offer for the structured product «USD – Participation Note STOXX® EUROPE 600».
- The Bank became the depository of the 10th investment fund of a new management company.

APRIL TO JUNE

- Banco Carregosa organised the conference «Financial Markets, Trading and Investment Funds» at ISCTE-IUL, in Lisbon.
- One more edition of «Conversas Carregosa» held in Porto, intended for the reflection and discussion of topical issues, with two guest speakers.
- Launch of the indexed deposit «Carregosa Cabaz Retalho», maturing in May 2019.
- Products and services available in the digital channel are expanded to include term deposits in US dollars.

- The Bank assisted in a capital increase and private subscription of shares operation representing the total shareholding of a Portuguese company in the insurance industry, worth 17 million euro, including the organisation and offering for sale thereof. Under this operation, the Bank also assessed the company's equity capital and assisted in the preparation of the company's business plan and governance policy.

JULY TO SEPTEMBER

- Inauguration of Banco Carregosa's new facilities in Porto, refurbished to accommodate the teams dedicated to a new market segment and also some departments, as a result of the expansion of activity and internal organisation.

- Applications for the Research Award Banco Carregosa/ Secção Regional do Norte da Ordem dos Médicos –2017 edition are now opened. The winners will be announced in early 2018.

- The GoBulling PRO online trading platform now offers a new tool to detect signs of purchases and sales. This tool can be useful in the clients' decision making process: the «autochartist».

- Launch of the indexed product «Carregosa Cabaz Ações Banca», maturing in July 2019.

- A new protocol is signed with DECO Proteste offering the DECO Proteste and Proteste Investe subscribers special conditions in Investment Funds marketed by Banco Carregosa.

- Presentation of internship projects by students of Católica Porto Business School who attended the summer internships at Banco Carregosa.

- Start of the «Jogo da Bolsa 2017» (Stock Exchange Game) in a partnership involving Banco Carregosa/GoBulling, Jornal de Negócios and ISCTE-IUL. The Game is to last until November.

- Lisbon and Porto host two more editions of «Conversas Carregosa».

- One more service provided on the Banco Carregosa online platform – «Seleção de Fundos de Investimento» [Selection of Investment Funds] where clients can subscribe three investment fund portfolios selected according to different investment purposes and risk profile.

- The indexed deposit «Carregosa Cabaz Ações Autos», maturing in September 2019, is made available to clients.

OCTOBER TO DECEMBER

- Start of the subscription of the indexed deposit «Carregosa Cabaz Ações MEDIA», maturing in October 2019.

- Two seminars called «*Outlook* 2018» were held in Lisbon and Porto to anticipate the development of economies and global financial markets in 2018, with the presence of internal and external speakers.

- Start of the subscription of a Christmas promotional deposit.

- The Bank launched the subscription of «Note Autocallable Eurotoxx50», maturing in December 2022.

- Banco Carregosa is in charge of a commercial paper programme for an amount up to 30 million euro.

03 Management Report

In compliance with legal and statutory provisions, the Board of Directors of Banco L. J. Carregosa S.A. presents the 2017 Report 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).

3.1. BANCO CARREGOSA

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.

Nine years later, we are pleased to see that Banco Carregosa has succeeded in establishing itself as an indisputable provider of savings and investment services in Portugal, earning great recognition for its reputation and respectability.

3.2. INTERNAL ORGANISATION AND BUSINESS SEGMENTS

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;
- Additionally, to act in segments and/or specific services, where the Bank currently maintains a significant activity, ensuring an appropriate return consistent with its position and expertise;
- Adoption of a single brand for the banking business, centred on the corporate identity of Banco Carregosa;
- Use of the GoBulling brand exclusively on trading platforms;

- To assert itself more and more as a reference in the target segments, special attention is given to the following aspects:

  · Development and availability of cutting-edge technological solutions;
  · Differentiation through innovation and service excellence;
  · Greater depth in advice and asset management.

To support these lines of action, the functional organisation of the Bank consists of three core areas as described below.

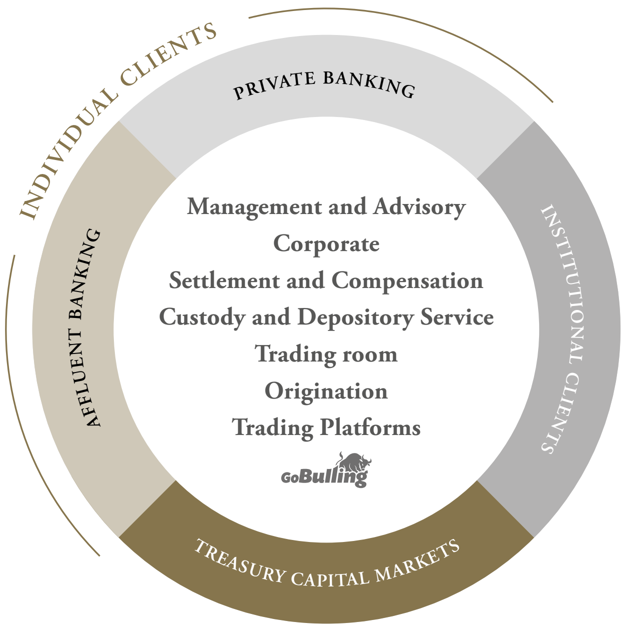
Business areas

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 (private banking, affluent banking and corporate business) 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.



The bases for the new business area specifically targeted to affluent clients having been established in 2016, relying on the commercial team that was previously dedicated to GoBulling, and strengthened through the hiring of new staff and supported by the RAI team, in 2017 another step was taken with the formal opening of the first facility dedicated to care especially for the new segment, in Porto, anchored in a concept and image to be adopted in a similar space in Lisbon.

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;
- 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

Finally, the third core area includes all departments that support the Bank's activity, including the three internal control areas that do not establish or generate commercial relationships, or generate products as such, even though they have a major part to play in their materialisation.

Despite the still adverse environment in the sector, once this model is consolidated we believe it is possible to obtain significant market share to sustain the activity, hence why we will continue to prioritise the growth of commercial networks and the development of systematic approaches targeted to specific segments, in particular those of the small and medium-sized quality companies.

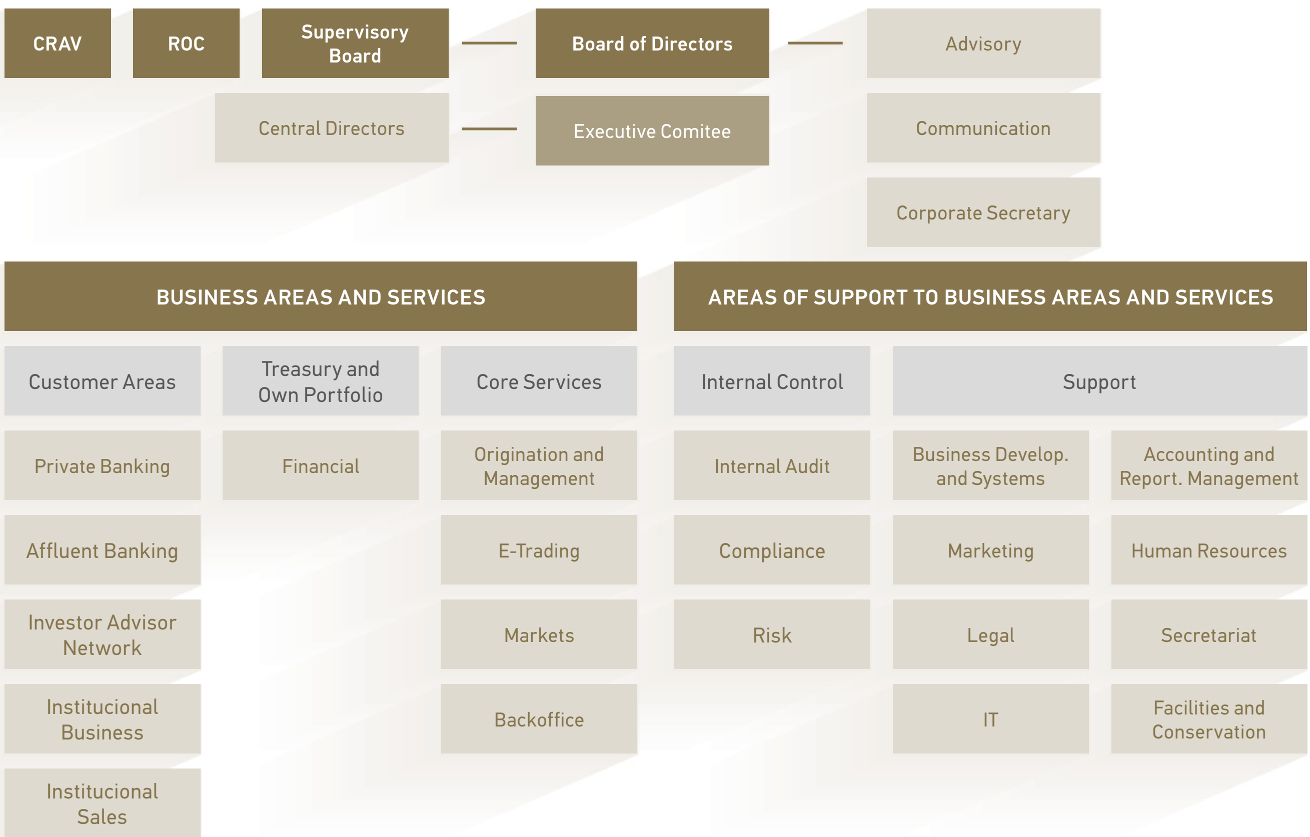
Internal organisation

The Bank's organisation and composition of the Management and Supervisory Bodies consist 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.

Besides the management structure, which is coordinated by the Board of Directors, the two aforementioned bodies directly appointed by the shareholders at the General Meeting are also responsible for monitoring the Bank's activity and to represent its interests on sensitive issues.

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



3.3. ECONOMIC BACKGROUND AND STATE OF FINANCIAL MARKETS

World economy

The global economic activity in 2017 is estimated to have accelerated compared to 2016, with world GDP having increased 3.7% compared to 3.2% in the preceding year. All the major areas of the world positively contributed to this growth in 2017, especially Europe and Asia. GDP in the Eurozone (+2.4%) grew more than in the United States for the second consecutive year (+2.3%). Note should be made of Japan, for its growth was double than that of the preceding year (+1.8% in 2017 *vs.* 0.9% in 2016). Emerging economies, Asia in particular, continued to show the highest growth rates at global level. GDP in Latin American countries continued to increase, with a mean positive variation of 1.3%, after shrinking 0.7% in 2016.

This global synchronised economic expansion cycle reflects well on the sound economy. Growth is now expected to pick up again to 3.9% in 2018 and 2019, in part supported by the growth spurt in the USA boosted by the tax measures approved in late 2017, which are also likely to help its main trading partners.

There are nevertheless some distinct moments in terms of monetary policy between the USA and the Eurozone. While interest rates were driven upwards by the Federal Reserve in December 2017, accompanied by the divestiture in its balance sheet, the ECB continues to maintain non-conventional monetary policies based, in particular, on a debt assets purchase programme, including corporate debt, at the rate of EUR 30 billion per month, which is not expected to end before September 2018. It should be recalled that after this date, the ECB will continue to reinvest the interest proceeds and the amortisation of portfolio securities in the acquisition of new assets, at a rate of about EUR 10 billion per month.

A reflection of the unsynchronised monetary policies is that while in the USA the two-year sovereign debt yields were amply positive (1.90% at year end), in the Eurozone the yield of the German debt with an identical maturity stood at -0.60%. Nonetheless, the continuous rise in the value of the EUR of 14.1% compared to the USD in 2017 has kept inflation from returning to the Eurozone. On the other hand, the USA are experiencing the first signs of pressure on wage costs, which could indicate a resurgence of inflation in 2018.

Portugal

The Portuguese GDP is estimated to have grown 2.6% in 2017, by 0.2 p.p., outstripping the Eurozone growth. The greatest contribution to economic performance in 2017 was investment, which rose from a drop in 2016 to an 8.3% growth in 2017. The contributions from private consumption (+2.2%) and net exports (+0.1%) were also marginally positive. The Portuguese GDP benefitted from a supportive external environment and from the already mentioned accommodative monetary conditions.

Similarly to other peripheral economies of the Eurozone, the historically low level of sovereign yields in Portugal came as a bonus, largely benefitting countries with higher public debt to GDP ratios. The artificially low public debt interest helped those countries lower the costs of sovereign debt and to expand the average maturity of debts without adding up to the rates demanded by the market, even in countries such as Portugal, where the total outstanding debt increased.

Growth was accompanied by a drop in the unemployment rate (by 2.2 p.p., to 8.9%) and an increase in the annual average inflation from 0.6% to 1.6%. Note that the unemployment rate returned to the pre-crisis levels and domestic inflation is now in line with the Eurozone average.

The Portuguese Republic handled the sovereign debt by making use of thje domestic and external framework to introduce well-intentioned changes in the public debt structure. First, it wrote off more than 10 million euro in debt to the IMF in advance; then it obtained 3.5 billion euro in funds through new issues of Floating Rate Treasury Bonds (OTRV) and placed more than 2.8 billion euro, in net increase, of government savings products. Similarly, Portugal reduced the new MLT debt amount issued in the market for the third consecutive year, making more use of private savings and of Treasury Bills, in this case benefiting from primary placements at negative interest rates. Overall, the Portuguese Republic lowered the average cost of debt to 3.0%, with an average maturity of 6.4 years, compared to the 3.2% and 6.3 years in late 2016.

The revised debt ratings throughout the year were particularly important for this process to succeed. In September, Moody's and Standard & Poor's revised the credit rating of the Republic, with S&P increasing the sovereign rating from BB+ to BBB-. Fitch, in turn, increased the rating by two notches in December, from BB+ to BBB. Consequently, the Portuguese sovereign debt was rated with an *investment grade* level by three rating agencies (those mentioned above, plus DBRS). In late 2017, the direct public debt, as a percentage of GDP, stabilised at a level close to that recorded in late 2016 (130%).

Financial markets

In 2017, the correlation between markets and financial instruments worldwide increased. Significant positive returns were achieved in shares and bonds, above the average in recent years, especially if measured in USD. However, to a significant extent these returns were counteracted by the relative weakness of the USD, which yielded 10% against a basket of currencies of the main trading partners of the US. In particular against the EUR, the USD lost 14.1% in value over 2017.

The fact that global economic growth rates were more in sync contributed to the performance of financial markets. Expectations for measures taken by the US government concerning tax review and expansion of investment in infrastructures also helped fuel the feeling of optimism about corporate performance. Moreover, as global economy projections improved so did the perception of risk regarding companies and sovereign issuers decrease. However, while central banks expanded their balance sheets through asset acquisitions, traditional debt savers were penalised by low yields, causing investors in traditional asset classes to withdraw and look for higher yields. So, as a number of investors rose on the risk scale, overvalued assets were upgraded.

In terms of shares, the MSCI AC World index, valued in USD, increased in value by 24%, mainly driven by the emerging markets, which rose by 37% (in USD) profiting from a weak USD and from the pick-up in commodity prices. The S&P500 index was up 21.1%, reflecting the access to the stock market and the good performance of US companies.

However, the multiple set of corporate results increased once again, as the return on equity increased only 6.1%. Results in Europe were more modest, although positive overall and above the recent historical average, with the Stoxx Europe 600 index increased by 10.1%. Attention is also drawn to the Portuguese index PSI20, which increased more than 19%, benefiting from improved country-risk perceptions on Portugal.

As regards bonds, the highest risk issues were those with a better performance in 2017. Profitability indicators of high yield bonds increased by 7.5% in the USA and 6.2% in Europe, where the increase in emerging markets stood at 8.2%. Overall, all categories of bonds performed well.

Another consequence of the high correlation between markets was the unexpected downward volatility of financial instruments that did much to nurture the idea that markets were robust, perhaps not sustainable in the long term.

Outlook for 2018

The good performance of global economy in 2017 enables us to anticipate an even more positive performance in 2018, in that a more robust and sustained growth can absorb the surplus installed production capacity at global level. However, this positive short term feeling poses the following medium term risks:

1) The US economy may react adversely to strong stimuli, as the tax expansion plan comes at a time when the unused capacity still available is scarce. On the one hand, unemployment is already at historical low levels and it is not clear whether the companies wish to proceed with plans to expand the manufacturing base in US soil if they foresee difficulties in hiring qualified professionals. On the other hand, the tax plan will cause the US budget deficit to increase, at a time when the Federal Reserve advocates a reduction in its balance sheet and increases, albeit gradual, in the key monetary policy interest rates.

2) Inflation in the US may well become the greatest immediate risk, as the intensifying inflation pressures, particularly due to labour costs, may imply that the Federal Reserve will increase the more aggressive interest rates, putting pressure on more leveraged companies and forcing consumers to retract.

3) The introduction of protectionist measures at global level, through unilateral initiatives and inevitable retaliations, can make global supply chains more expensive and have a negative impact on the price of end products, increasing the pressure on the business fabric.

4) The ECB faces a tough challenge in managing the withdrawal of monetary stimuli to the Eurozone in such a way that economic recovery is not jeopardised, which is largely due to the ECB's activity. Managing the expectations is a demanding process and if there is no cohesion on the part of the ECB's Council of Governors this doesn't seem an easy task. The almost zero inflation and a single currency with a leaning towards valorisation make this an even more complex process.

5) The Chinese economy is, as always, the great unknown. At the moment political leaders seem to be successful in managing the change in the domestic economic model and the always difficult relations with the wider world, in particular with the Trump administration.

6) The war in Syria, other conflicts in the Middle East and the North Korean issue remain as potential areas of instability in 2018.

As for Portugal, projections point to a real growth in GDP of about 2.3%, mostly supported by domestic demand, especially due to the companies' investment momentum. If this growth rate continues, 2018 will be the fourth consecutive year of real convergence with the Eurozone.

3.4. OVERVIEW OF THE ACTIVITY

Below is a brief overview of the activity in 2017 and of what is expected for the next financial year, presented sequentially according to the Bank's internal organisation: business areas, key services and support to business areas and services.

3.4.1. PRIVATE BANKING

The primary business area of Banco Carregosa is private banking, which profits from the Bank's experience, reputation and century-old history in defending clients' asset management. This activity is guided by values of independence, innovation, transparency, customisation and specialisation in the services provided.

This position has been recognised by clients, who, year after year rely on Banco Carregosa, and this reflects on the positive growth in the number of clients, the number of accounts opened, and in the increase in the average balance of clients' accounts. In fact, in 2017 these three indicators reached record levels.

Assets under the supervision of Banco Carregosa rose by over 40%, with Private Banking accounting for about a half of that growth, helped by the above three components: deposits, custody and asset management, the latter having increased more than 30%. The net balance of loans to clients came close to 100 million euro, thus increasingly contributing to the activity's operating revenues. The success of private banking is based on the «Wealth Management» concept, which seeks to monitor the clients' financial, asset and tax matters in a way that meets their needs.

In this context, specialised advisory services, support to the structuring of investment and divestiture operations, assistance in debt and/or capital issuance and the development of financing solutions tailored to clients' specific investment opportunities remain an important priority for the Bank.

Last but not least, the Bank's staff training programme held at the end of the year, which aims to provide the commercial team with the proper qualifications required under the new financial market regulation (DMIF II) which should fully enter into effect in 2018.

The growth trend is expected to continue in 2018, supported by the planned expansion of the commercial team in Porto and in Lisbon, and the continued improvement of investment products and services.

3.4.2. AFFLUENT BANKING

After entirely one decade of dedication to private banking, while securing a strong position in online trading through the GoBulling brand, Banco Carregosa decided that it made sense to expand the activity to another segment of clients who were scattered over online platforms and private banking services.

This segmentation enables us to more easily identify Banco Carregosa as the first choice for clients with a high savings and investment potential, prioritising close contacts but still maintaining all the distance banking potential. As a result of this expansion, the affluent client business was put together in 2016 and became fully operational in e 2017.

The changes involved creating a specific trade identity, the expansion of the facilities in Porto and the refurbishment of the Lisbon office. The Private and Business Department, which manages this business area, is staffed by highly specialised employees and the Network of Investment Advisors was strengthened to increase the commercial teams' capacity and geographical scope.

As regards products on offer, they include the selection and marketing of investment funds, management models for the allocation of assets adjusted to the investment objectives and risk profiles, term deposits in euro and foreign currency, indexed deposits and other structured products, in addition to trading in various financial instruments (shares, bonds, derivatives), through e-platforms and/or trading rooms.

The affluent segment consolidated its activity in 2017, enjoying a growth that enabled the Bank to exceed the amount of clients' deposits set for the year. To back this growth, in 2018 the team will continue to grow both in Porto and in Lisbon.

The Private and Business Department hopes to increase the close relationship with its clients through the relation management team, ensure quick, specialised support to clients who use remote banking services to contact the Bank, and provide a wide range of solutions and savings and investment products, both online and offline.

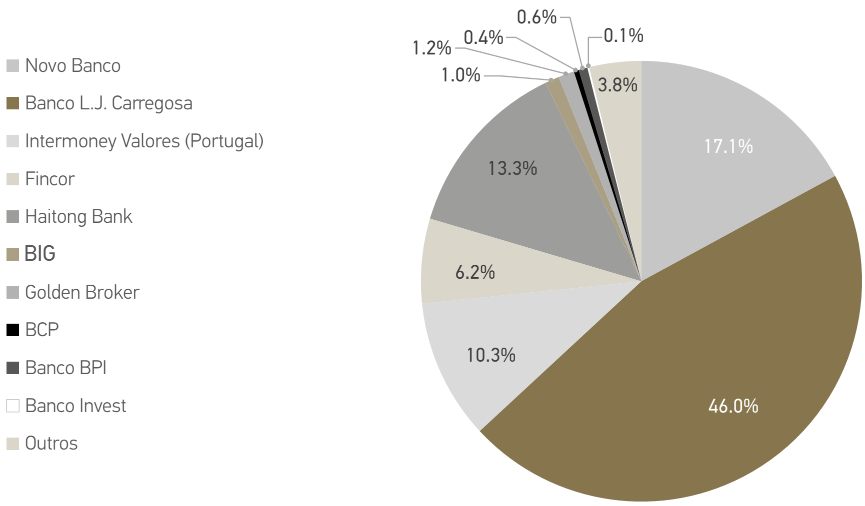
To ensure that the relationship between clients and the Bank is also supported in digital channels, the bank will continue to provide its products and services through various applications accessible to clients, without neglecting the relevant security issues. To that end, the Bank will strengthen current solutions, launch new platforms and increase product offers available online.

3.4.3. CORPORATE BUSINESS

Following the changes in its structure in 2015 and 2016, Banco Carregosa's corporate business reached it objectives set for 2017. Results are visible in the «fixed income» segment, reflecting an increase in national and international clients.

According to statistics issued by the Portuguese Securities Market Commission (Comissão de Mercado de Valores Mobiliários), Banco Carregosa not only increased its market share in 2017, but also achieved a leading position in the debt trading market.

Debt market share in 2017



Source: CMVM

The market share in bond trading stood at 46%, at a distance of 29 p.p. from the second institution with the highest share, which amounts to a difference of 22 billion euro.

The main objectives for 2018 include maintaining the leading position in the debt segment and the significant increase in the share segment, which will necessarily imply more additions to the team.

3.4.4. CASH AND PORTFOLIO MANAGEMENT

Although the year was characterised by a stimulated economic growth worldwide, the markets were still influenced by the intervention of central banks. Nevertheless, both the ECB and the US Federal Reserve gave clear signals of their intention to reduce this intervention: the ECB reduced the volume of asset purchases in the 4Q and the Federal Reserve raised reference rates as early as the 1Q of the year.

Overall, markets performed well, especially high yield bonds, compared to the *investment grade* bonds.

Keeping the short-term reference interest rates in the negative (e.g., Euribor) put pressure on the banks' cash management, as using the surplus liquidity continued to prove difficult, while before it did help towards the operating results, with reduced risk. In this framework, the balance between the cost of liquidity and the need to keep it at the appropriate levels has made this extra challenging.

The Bank continued to focus on loan granting as an alternative to investing in debt securities, which, in general, were still not an attractive risk/return option. As a consequence, the Bank searched for the best economic use for the surplus liquidity and chose to first acquire floating rate public debt securities and short-term applications, in particular issues of commercial paper. It was therefore possible to improve the yield of treasury investments, without prejudice to a prudent policy on the exposure to interest rate risk.

Nevertheless, in the last quarter of the year a project was initiated to reformulate the Bank's own portfolio, which, together with a new organisational model, aims to provide a more efficient treasury management, strengthen the monitoring of investments and enhance the contribution of this business area to generate income.

3.4.5. MAIN SERVICES

Sourcing and management

In 2017 the Sourcing and Management Department achieved its overall goals for the year. The offer of products according to investment objectives[1], was consolidated, we launched the new channel for the affluent segment and continued to launch investment products.

The performance of some management products, however, was less positive over the year, in particular the strategy of Active Value shares (+2.23% in the year) – driven by value – which in comparison terms was penalised by the strong valuation of companies with greater weight in market indices. Note that the investment process according to this strategy could lead to less positive performances in short periods (1 to 2 years) while still creating value in longer periods, as its history shows. Since it began in 2012, the Active Value strategy has had a cumulative relative performance 15 p.p. higher than its reference index.

The Bank also began to prepare for the coming into force of the new regulation – DMIF II and PRIIP's – which introduces significant changes in the processes and calls for the reformulation of some products.

The Department continued to provide portfolio management solutions based on an asset allocation approach, to support the activity of the commercial areas, helping in the preparation of investment propositions, and to create new products to attract the investment opportunities found by the team.

Sourcing faced some challenges in 2017, due to low volatility and extraordinarily low interest rates in Europe. Nevertheless, we launched five indexed deposits and marketed two notes on public offer, with the volume put up for sale going up by some 60% compared to 2016.

In 2018, the Sourcing and Management Department will continue to improve the products offered and to show consistent results, which is the key factor of success in the long run.

1 An increase of almost 100 accounts managed according to an investment objectives model.

The Bank will reorganise its products on offer, by closing some of its strategies, launching new discretionary management products, and introducing the investment advice service in coordination with Private Banking.

E-trading and markets

The mission of Banco Carregosa´s trading department is to provide support to investors who use the various digital channels to trade in financial assets.

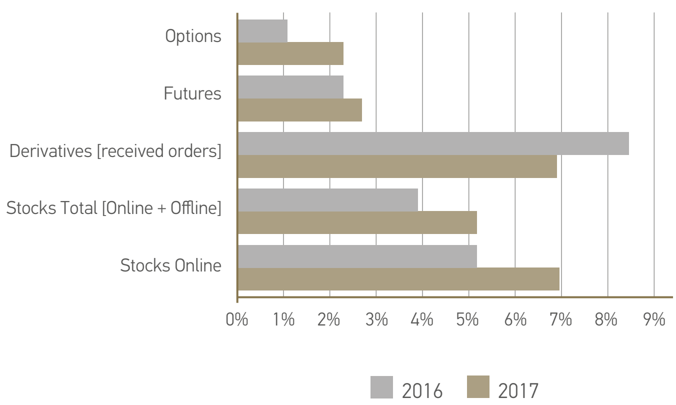
There are two trading platforms available to clients, depending on the technological device they use: GoBulling PRO, an application running on the client's computer, and GoBulling PRO GO, accessible online through mobile devices. About 45% of clients prefer the first platform and 55% the GoBulling PRO GO platform.

The service is complemented by a trading room located in Lisbon, designed to monitor the evolution of exchanges and to provide clients – by telephone, e-mail or chat – information about order execution, procedures and market events in real time, besides training in technical topics.

In 2017 the trading room held 29 online seminars for clients, 2 more than in the previous year, on a variety of topics that include topical subjects with impact on prices and specific matters relating to financial instruments, technical analysis and market operation.

With regard to this business area, the various segments enjoyed an overall increase in market share in 2017 compared to 2016, the greatest increase being in shares traded online, with a 6.0% in market share. If we add offline trading to these figures, Banco Carregosa's position in the share segment reached 5.2% in 2017. The only segment with a loss of share was the forward market (which includes options, futures and other derivatives), totalling 6.9% in 2017 in this segment, while the share in the options market reached 2.3% and 2.7% in the futures market.

GoBulling/Banco Carregosa market share in financial product trading



Source: CMVM

Clearing, settlement and custody

The change initiated in 2016 to BNP Paribas Securities Services as principal custodian and clearing member for international markets was secured in 2017. Consequently, the Bank is now able to reach a larger number of markets in a more direct and specialised way.

Depositary of investment funds

At the end of 2017 Banco Carregosa provided depositary services to seven real estate investment funds and six venture capital firms. The total net value of these funds amounted to 256M€, of which 207,7M€ relate to real estate investment funds and 48.5M€ to venture capital funds.

Compared to 2016, these figures represent a growth of more than 150%, a trend that should be maintained in the coming year, albeit at a more moderate rate.

Clearing and settlement in the Iberian Electricy Market [MIBEL]

Over the coming decades, the energy markets will need a tremendous amount of investment and funding, taking into account, in particular, the «decarbonisation» goal of the economy, despite the signs given off by the Trump administration.

Aware of the crucial role of energy on the political and economic agenda, reflected in the impact that oil prices have had on world economy, and making the best use of its ability to embody various market realities, Banco Carregosa began to work in 2013 as a clearing member of the Iberian Electricity Derivatives Market.

In 2017 this market was characterised by a sharp increase in prices, with the annual reference Iberian Electricy contract price always above 40 €/MWh, reaching a maximum of about 53 €/MWh at year-end, as shown in the figure below.

Annual contract price 2017 (€MWh)

As regards developments in the Iberian market, two new trading members were admitted to the Electricy market and new members are expected to be admitted to the natural gas market.

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

Moreover, in 2017 the volumes traded by the Bank increased by about 59% compared to the previous year, largely due to the greater experience gained by the clients admitted in 2016

3.4.6. 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.

Risk

The Risk Department ensures the implementation of the risk management system, assessing the type and number of all the business risks to which the Bank is exposed. It is also responsible for preparing and presenting the periodical reports to keep the competent governing bodies and regulatory authorities informed about risk management issues.

Compliance

The Compliance Department monitors the compliance of legal obligations and duties, internal and external, to which the Bank is subject, either by taking part in the development of new procedures or revising and monitoring them. To that end, Compliance regularly monitors the rules and regulations published, disseminating them to the relevant departments.

In 2017, the establishment of a framework for the sphere of action of the institution and of its employees guided by stringent ethical standards required the review of the Bank's Code of Conduct, the knowledge of which was disclosed in the organisation's training programme.

Regarding the prevention of money laundering and terrorist funding, Compliance has a critical role in that it is responsible for defining the mechanisms to monitor and detect suspicious transactions.

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.

In recent years increasing regulation has become more and more relevant in the financial sector, as well as the increase in the information exchanged with the supervisory authorities on prudential and behavioural matters. Because of the functions of the units that make up Internal Control, changes in regulation have substantially impacted on the activity of departments.

As for the information sent to the supervisors, note should be made of the information required by Banco de Portugal in 2017 under the SREP – *Supervisory Review and Evaluation Process*.

We note the following in respect of the new regulation:

- The incorporation into national law of the new obligations in respect of money laundering, with greater emphasis on a risk-based approach and a reinforcement of the obligation of having knowledge about the final beneficiaries of business relations and one-off transactions. Subsidiary regulations associated to these duties are expected to be published in 2018, therefore they will continue to be implemented in this financial year.

- The International Financial Reporting Standard 9 (IFRS 9) came into effect on 1 January 2018. This standard represents the most significant change in accounting since the *international accounting standards* were adopted in 2005. It contains new concepts and amends the provisions of the previous standards, with potential impact on results, balance sheet and processes, and in terms of reporting and accounts and other disclosures. It also introduces changes in several areas, with emphasis on Risk, for impairments, especially the change from a model of losses incurred to a model based on expected losses, with financial impact.

- Other significant changes will also take place in 2018 that will affect the trading of financial products and how financial brokers are organised, within the framework of the legislative package linked to the Second Directive on Markets and Financial Instruments (DMIF II). As such, the end of 2017 was marked by the implementation of these regulations, which included the preparation of new reports to the supervisory entities and to the public, the revision of policies and internal procedures, and the definition of a comprehensive training plan.

- Banco Carregosa took the first steps to prepare for complying with the New General Data Protection Regulation (GDPR), which will come into effect in May 2018. A similar situation will take place in 2018, with the coming into effect of the new regulation on the Central Credit Register (CCR).

- The first report under the *Common Reporting Standard* (CRS) was prepared in 2017. This is a global initiative led by the OECD to increase fiscal transparency.

- Finally, a note on the start of the project to comply with the legal change required by Banco de Portugal within the Central Credit Register, which aims to meet the requirements of the ECB, through the AnaCredit model (*Analytical Credit Dataset*). This is a challenging report system in that the requirements have to be integrated in the information systems with the proper level of granularity and quality. System testing began in early 2018, and the regulatory report was prepared in the second half year.

3.4.7. 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.

The Human Resource policy of Banco Carregosa has, over the years, been based on the prudent and sustained growth of its staff, but also on the development, valuation and diversification of the existing skills in the organisations.

The number of staff maintained the upward trend seen since 2013, with 88 employees at the end of 2017.

Staffing development

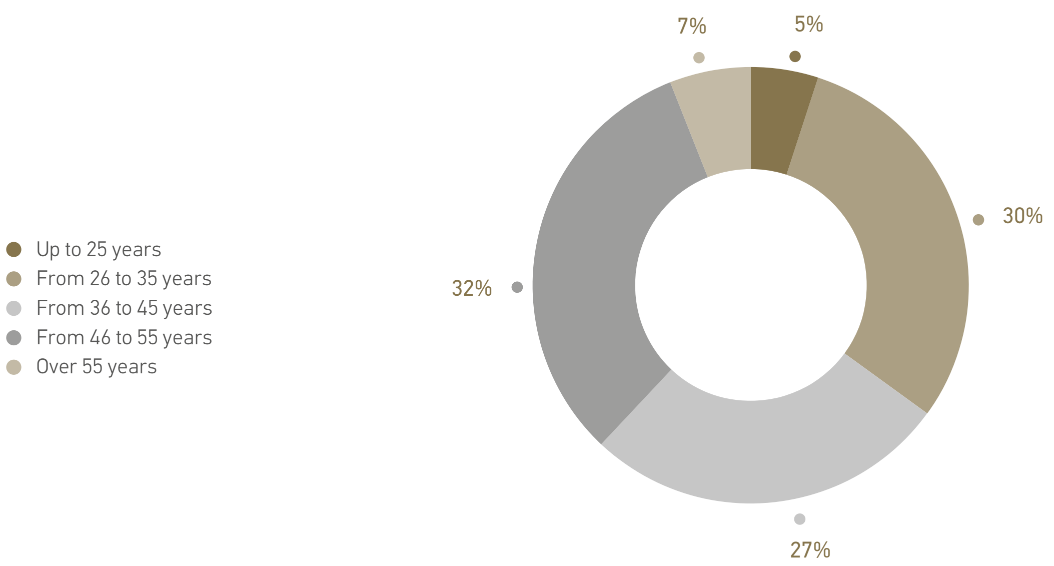
	DEZ. 2017	DEZ. 2016
Head-office	70	68
Lisbon	18	16
Total	88	84

A summer internship was organised for the third year in a row. Its purpose is to position Banco Carregosa as an employer with the most important faculties of Economics and Management in the country, and to give students a relevant on-the-job training experience.

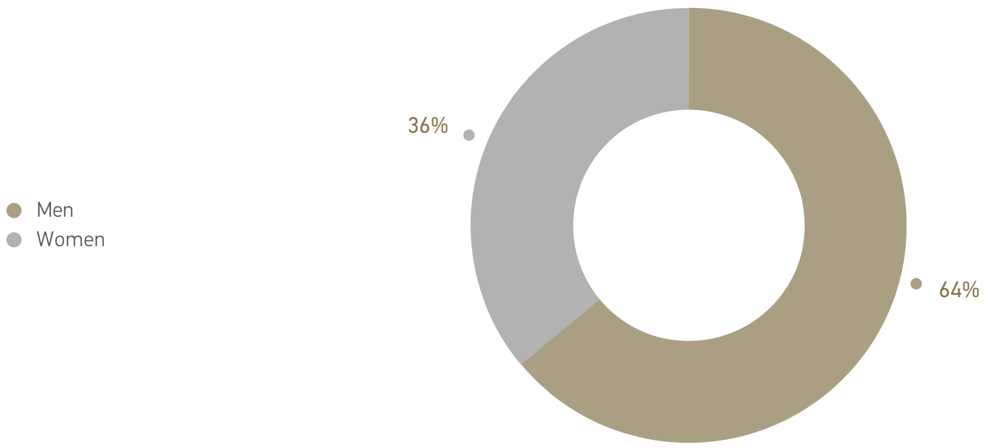
External recruitment was based on the identification of qualified professionals with development potential and skills suited to the Bank's needs. This growth was reflected in the commercial areas, in particular in the affluent and corporate business segments and their support areas.

The distribution of employees by gender compared to previous years has remained stable. At the end of 2017, the average age of employees was 42.

Distribution by Age Bracket

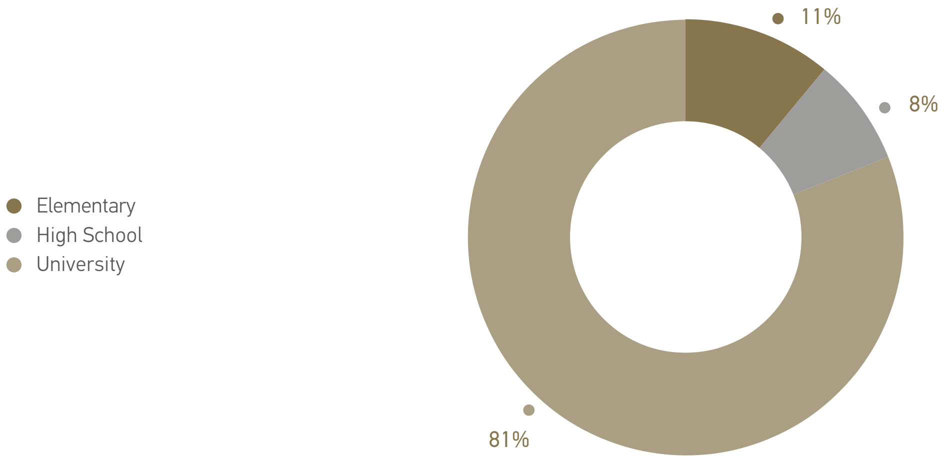


Distribution by Gender

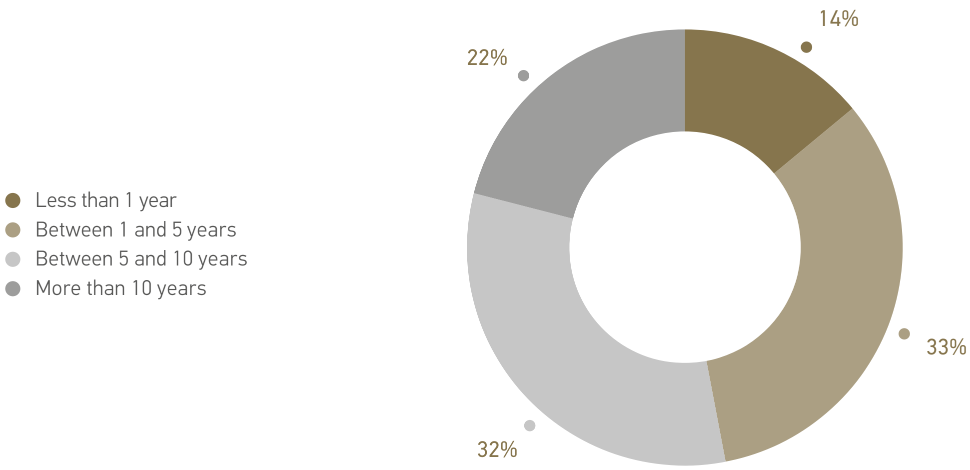


The employees of Banco Carregosa have great potential, skills suited to their functions, experience in the banking sector, and high qualifications (81% of employees have higher education).

Distribution by Qualifications



Distribution by Seniority



As part of knowledge management, Banco Carregosa continued with the training programme adapted to its strategic lines of activity, which consisted of a number of training initiatives that involved all employees, focusing on regulatory matters, products, processes and internal procedures and information systems implemented at the Bank.

In this area, note should be taken of the projects to support the achievement of the CFA certification and post-graduations in several areas, as well as the certification of Internal control heads and employees.

The good results in terms of return on investment in staff training in recent years and the new requirements on the financial sector led to the increment of training actions in 2017, in coordination with the IFB (Bank Training Institute), covering the commercial structure and areas with core tasks and in support of business, among which the following relevant actions:

- AML&CTF – Continuous training activities for all staff;
- DMIF II – Certified course with face-to-face exam involving more than half of the employees (53%);
- IFRS9 – Workshop on Impairments.

Last but not least, performance assessment in 2017 was strengthened and implemented, resulting in the materialisation of proposed objectives.

In 2017, the Bank consolidated the model of functions, establishing the functional structure of the organisation based on the skills profile, in order to clarify responsibilities and competences and to maximise performance excellence, in line with the Bank's strategy. This project should be concluded in the first half of 2018.

3.5. COMMUNICATION AND MARKETING POLICY

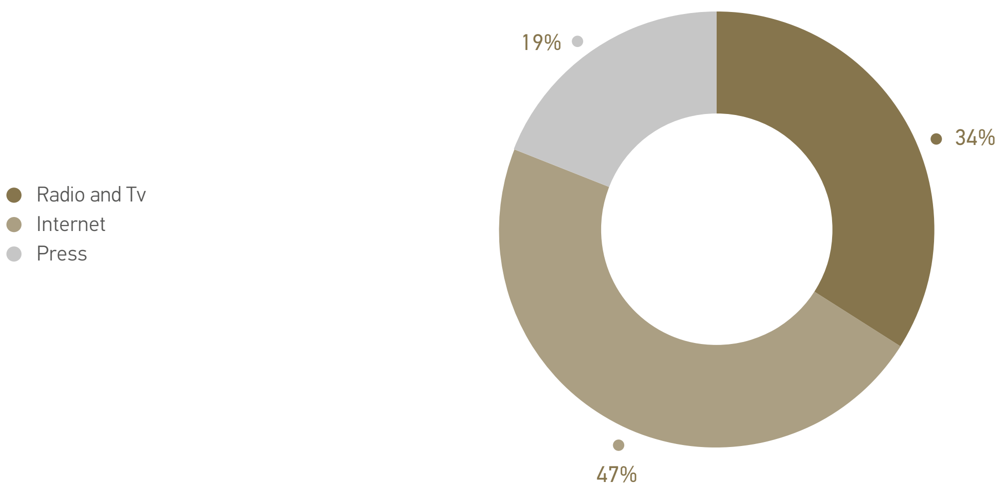
Banco Carregosa is not a typical bank for wide market segments, offering a large number of products and services, or an investment bank exclusively for companies.

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.

The communication policy aims to publicise what the Bank has to offer to these target segments, and also to help increase financial literacy among the general public. It 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 2017, Banco Carregosa was cited in 1,210 news articles published in 78 Portuguese media agencies. The television channel with the most news on Banco Carregosa was the television channel RTP3, with 148 news items aired.

Distribution of news on Banco Carregosa by type of media



Source: Manchete, Media Report 2017

The online media were responsible for the largest Advertising Value Equivalent, or AVE, with a weight of 60%. The generalist media were the preferred channels, with 79% of the total news. As regards AVE, the generalist media stood out, contribution with 78% to the total value.

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

COMPANHIA NACIONAL

DE

CAMINHOS DE FERRO

Sociedade anonyma — Responsabilidade limitada

CAPITAL RS. 1.534:365$000

Emissão de 23:000 obrigações numeradas de 29:401 a 52:400, do capital de Rs. 90$000

Amortisaveis ao par por sorteios semestraes em 99 annos

FOI ENTREGUE UMA FOLHA COM OS COUPS N.os 121 A 159

Vencendo o juro annual de 4 ½ % ou Rs. 4$050

DESTINADA Á CONSTRUCÇÃO DA LINHA DE MIRANDELLA A BRAGANÇA

Auctorisada por portaria de 2 de julho de 1903

OBRIGAÇÕES DE COUPON N.os 35661 a 35665

RS. 450$000

Estas obrigações teem como garantias, além das receitas liquidas geraes da Companhia, a garantia do Governo Portuguez de 4 ½ %, sobre 25:990$000 réis por cada kilometro construido da linha ferrea de Mirandella a Bragança, nos termos do contracto definitivo de concessão de 24 de outubro de 1902 e da portaria de 30 de junho de 1903. Estas garantias serão devidamente consignadas ás obrigações da presente emissão, fazendo-se opportunamente as devidas inscripções hypothecarias nas competentes conservatorias de registo predial.

O pagamento dos juros vencidos e o reembolso das obrigações sorteadas terão logar nos dias 2 de janeiro e 1 de julho de cada anno na séde da Companhia Nacional.

Lisboa 15 de julho de 1903

Os Directores

COMPANHIA NACIONAL CAMINHOS DE FERRO MIRANDELLA A BRAGANÇA

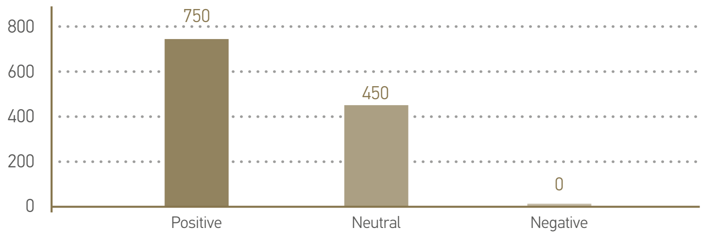
COMPANHIA NACIONAL DE CAMINHOS DE FERRO

Pela Companhia Nacional de Caminhos de Ferro

35661 a 35665

Continuação dos coupons do titulo de cinco obrigações

Qualitative analysis of news about Banco Carregosa – 2017



Source: Manchete, Media Report 2017

In 2017, the Bank reached a total of 1 756 784 413 people and the news referring to Banco Carregosa was responsible for a total of 6 503 617 € in AVE.

Although the number of news items dropped compared to 2016 (1,210 in 2017 compared to 1,614 in 2016), the space taken up by the news was greater, resulting in a higher AVE than that of the same period in 2016 (6.5 million euro in 2017 against a little over 4.5 million euro in 2016)[2].

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.

In social networks, Banco Carregosa posts two-page informative contents as texts, audio and video, on an almost daily basis, one under the Banco Carregosa brand (about 2,500 followers) and the other under the GoBulling brand (more than 3,600 followers).

The Bank organised about thirty online seminars (webinars) under the GoBulling brand targeted at clients, but open to other interested parties, on various relevant practical topics for investors. The topics chosen often took into account pedagogical objectives, thus helping towards improving the financial literacy levels of participants.

Direct communication also involved the joint organisation of various sports and cultural events and sponsoring of conferences, for example, the APGEI conference or the support given to a series of international conferences on «What really matters», which organised two such events in Porto and Lisbon.

Marketing in 2017 saw an increase in its budget to cope with the expansion of the bank's activities for the new affluent banking segment. The creation of this business area meant that more investments were needed in image, advertising, events and marketing materials.

2 All data cited are collected, checked and provided by an external, independent company from Banco Carregosa: Manchete.

Unlike the Banco Carregosa brand, which does not base its reputation on publicity campaigns, GoBulling – the Bank's brand for the online trading platforms – maintains a strong presence in the digital media, through campaigns or events meant to project its image. This is the case of the already famous «Stock Exchange Game», which the Bank organises together with Jornal de Negócios and ISCTE-IUL continuously for 15 years.

Given the role of these initiatives in learning how financial markets operate, in 2017 the Bank partnered with Católica Porto Business School to create a stock exchange game for university students. In this game and through their virtual Investment Club, these students can come into contact with the trading and management of an investment portfolio on the GoBulling platforms.

With a markedly academic profile, the 2nd edition of «The Economy and the Future» was held in 2017. This academic essay contest supported by the Bank is jointly organised by the Portuguese Association of Economists and the Faculty of Economics of the University of Porto.

3.6. 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 2017 the Bank supported various forms of arts through the following initiatives:

- In music, Banco Carregosa sponsored the national tour of singer Teresa Salgueiro, the Porto music festival «In Spiritum», and the concert «Opera Gala» by the Youth Symphony Orchestra.

- In painting, the Bank supported the project «Guest work» of the National Museum of Ancient Art, enabling the exhibition, in Lisbon, of a painting by Velasquez from the Museo Nacional del Prado, in Madrid. Although Velasquez is one of the greatest geniuses of Western painting, he was not represented in national collections, which is why this loan from the Prado Museum was the perfect occasion for showcasing his work in Portugal, an event that coincided with the «Mostra España» event, which usually takes place at the National Museum of Ancient Art.

- The Bank also sponsored the travelling exhibition «Leonardo Da Vinci: the inventions of a genius», on show at Alfândega do Porto for about four months. This opulent exhibition on the life and work of the man who ingeniously anticipated some of the greatest scientific and technological discoveries of mankind showcased prototypes of helicopters, battle tanks, calculators and even the use of solar energy. The exhibition showed 64 models of machines and inventions by Da Vinci, as well as reproductions of manuscripts and paintings.

- The Bank sponsored a TV show part of the series «Guided Tours», broadcasted by the Portuguese TV channel RTP2, designed to disseminate cultural heritage.

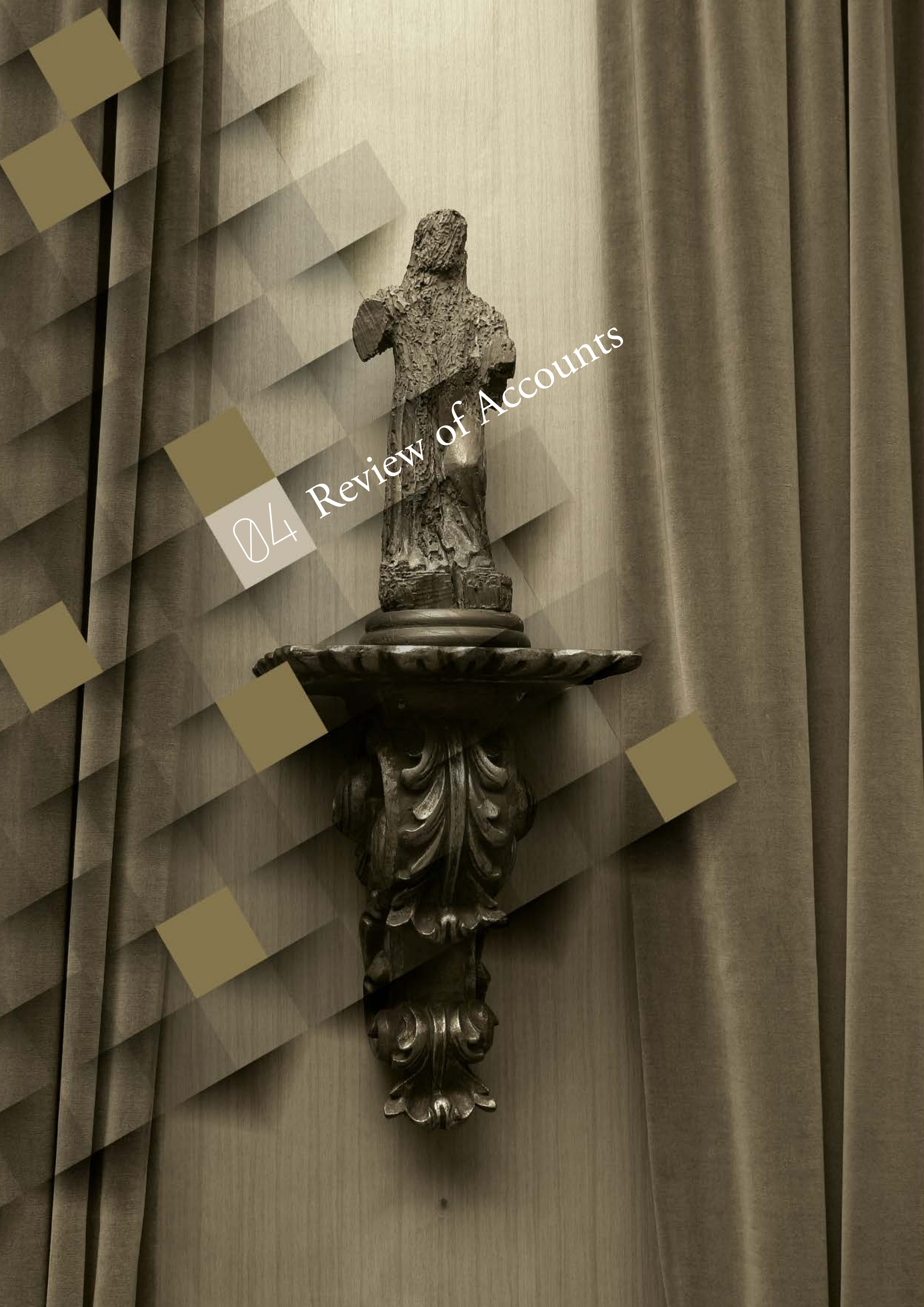
- Still in the arts, the bank signed a protocol with Santa Casa da Misericórdia do Porto, with the purpose of showcasing the works from the SCMP collection at the Banco Carregosa facilities. This exhibition is already ongoing.

- In health-related areas, the Bank continued to back its support granted in previous years: sponsoring the Congress of the faculty of Medicine, University of Porto, the «12º YES Meeting», various contributions given to the non-profit organisation «Mama Help», a centre that helps breast cancer patients and their families, and the support given to the AMI Foundation for humanitarian relief projects.

- In education, the Bank offered financial support to the Youth Symphony Orchestra for a Study Grant, the purpose of which is to support the training and professionalisation of the Youth Symphony Orchestra musicians of high artistic value.

- The Bank sponsored a number of sports initiatives, covering different audiences and age groups. Support was granted to several events, among which the Arouca Tennis Tournament, Portugal Padel Masters, Estoril Open 2017, Golf Challenge VI Porsche, III Banco Carregosa Miramar Open and the Porto and Matosinhos Horse Riding Centre, in the national equestrian show jumping competition of the Iberian Cup Guilherme Pinto Trophy. The Bank continued to provide support to rugby at Colégio Pedro Arrupe, sponsored the sports career of the young golf player João Maria Pontes, and football at the German School of Porto in support of the «Schulfest – Torneio Hernâni Gonçalves» event. It also provided support to a sports project for disadvantaged youth through União Académica António Aroso, and sponsored the «Juniores da Pasteleira» football team.

- Following the tragic fires that broke out in October in the Beira Alta region, that resulted in loss of human life, property, agricultural crops and animals, the directors and staff of Banco Carregosa spontaneously collected donations to help the most affected populations. Personal donations were given to village residents in Eirinha, Malhadouro, Selores, Albitelhe, Ramalhal, Santa Comba/Cambra and Vermilhas, all in the Vouzela area. On 14 November 2017, nearly one month after the tragedy struck, the Bank delivered 62 zinc sheets, with an area of about 400 m2, to repair the shelters of animal that survived the fire but were left without any protection. Door-to-door delivery was supervised by a representative of the Bank, under the coordination of the local veterinarian.



04 Review of Accounts

SEPARATE ACCOUNTS

2017 ended with a positive net result of **800 654€**, compared to the negative **388 825€** in 2016.

The results under analysis reflect a number of year-on-year changes which, given their importance, are shown below in detail:

- Financial leeway increased by 1.73%, in line with the similar variation of net commissions, albeit felt more strongly, of 27.70%. Assets and liabilities evaluated at fair value and financial assets available for sale, as a whole, also recorded a negative variation of 41.22%. Currency revaluation followed the trend seen in 2016, with an equally negative year-on-year rate of 476.70%. Structure costs, as a whole, increase by 4.97%, in line with projections for the year.

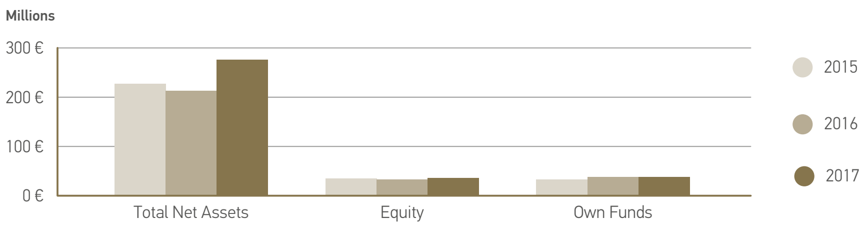
- The main performance indicators are shown in the table «Summary of indicators», which summarises the Bank's growth in 2017.

Compared to 2016, **net assets** increased 29.83% to **275 M€** as a result of an increase in the liquid assets in central banks and other credit institutions (+99.76%), loans to clients (+43.18%), hand in hand with the Bank's securities portfolio, which remained relatively stable (+5.56%), and by the investment in property, plant and equipment (+27.23%). On the other hand, investments in credit institutions decreased (-96.87%) as well as in other assets (20.51%). At the same time, **Equity** increased slightly, amounting now to **35.4 M€** as a result of the positive change in the net result for the financial year. The regulatory **Own funds** (CET1) have followed this trend, standing at **34.6 M€** in 2017.

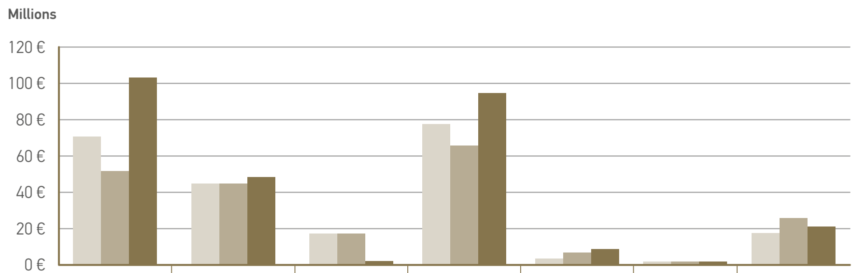
Financial health remained high, the solvency ratio (CET1) reaching 20.15%, well above the required minimum level.

	2017	VAR%	2016(*)	VAR%	2015 (*)
Total net assets	€ 274 589 280	29.83%	€ 211 494 672	-5.67%	€ 224 214 666
Equity	€ 35 371 327	2.35%	€ 34 558 195	13.19%	€ 30 530 931
Own funds [CET1]	€ 34 552 025	0.78%	€ 34 284 389	8.13%	€ 31 706 753

* restated.



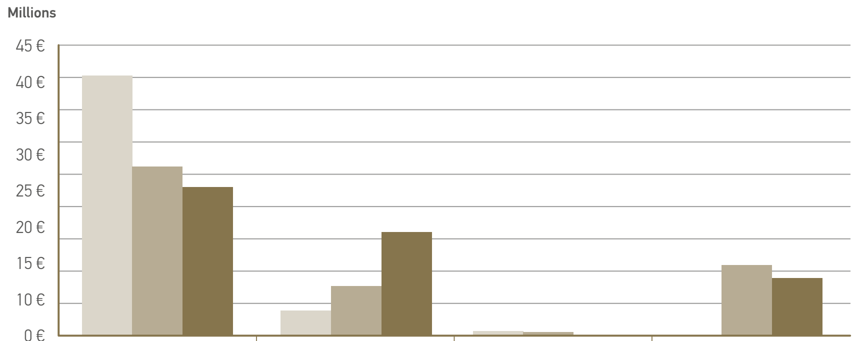
Composition of assets



	Cash and Cash Equivalents	Own Portfolio	Own Deposits	Loans	Tangible Assets	Inv. In Assoc. Companies	Other Assets
2015	71 032 813 €	44 191 393 €	17 004 583 €	76 845 037 €	1 985 471 €	25 000 €	17 140 615 €
2016	51 375 380 €	45 280 493 €	16 004 888 €	66 113 462 €	6 825 393 €	25 000 €	25 166 415 €
2017	102 625 677 €	47 711 893 €	500 172 €	94 536 614 €	8 571 652 €	25 000 €	20 004 334 €

Evolution of the securities portfolio

At the end of 2017, the Bank's securities portfolio, as a whole, accounted for 17.32% of net assets, o compared to 21.31% at the end of 2016. In absolute value, this aggregated totalled about 48 M€ and 45 M€, in 2017 and 2016 respectively, excluding liabilities held for trading.

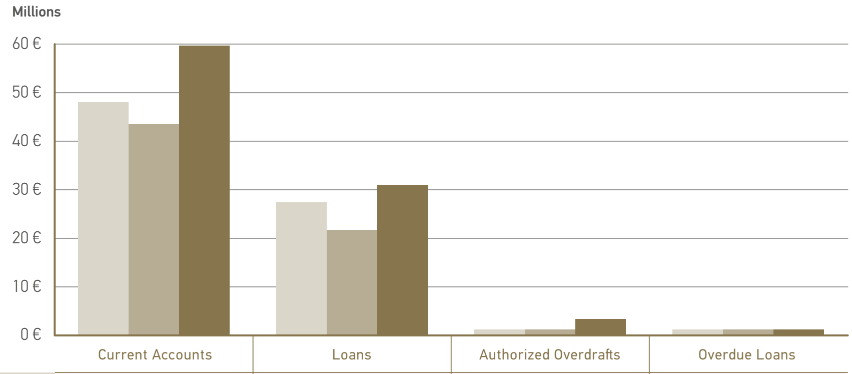


	Available - for Sale Investments	Trading - Assets	Trading - Liabilities	Investments held until Maturity
2015	40 331 185 €	3 858 017 €	470 404 €	0 €
2016	26 411 328 €	7 637 076 €	39 256 €	11 011 818 €
2017	22 903 194 €	15 830 080 €	0 €	8 830 258 €

Loan portfolio development

The loan portfolio (net of impairments) grew by about 43% in 2017, in line with the objectives set for the year. This activity is becoming more and more relevant to the Bank and its growth is expected to reach close to 25% in 2018, in particular as a result of the boost in special loan granting for the acquisition of financial instruments and to support corporate investment, in the framework of a policy on the requirement of adequate collateral.

This portfolio, which has particular characteristics and is for specific purposes, represents the contracts validated by a notary, most of which have to be registered in the land register, even though the Bank does not grant «housing credit». The Bank does not grant consumer credit. Moreover, the Bank holds, in most operations, personal guarantees from debtors or guarantors.



	Current Accounts	Loans	Authorized Overdrafts	Overdue Loans
2015	48 107 065 €	27 831 222 €	299 140 €	612 208 €
2016	44 147 769 €	22 477 530 €	182 968 €	168 512 €
2017	59 788 736 €	31 089 488 €	3 565 331 €	1 372 715 €

Note: Credit impairments are not included.

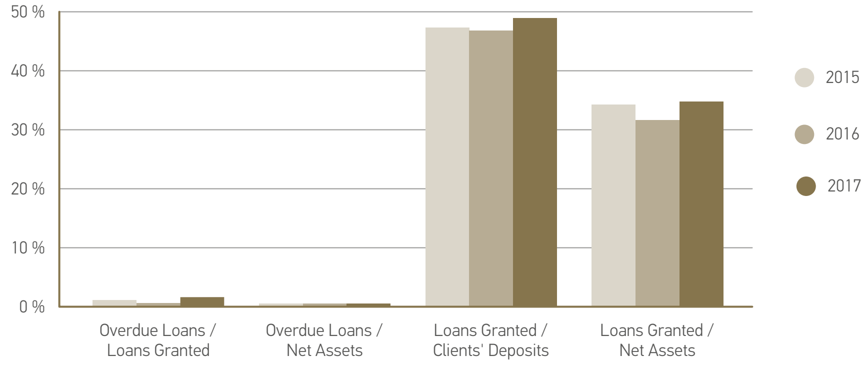
	31/12/2017		31/12/2016	
LOAN CONTRACTS	NO. OF CONTRACTS	LOAN	NO. OF CONTRACTS	LOAN
Loans	26	31 089 488 €	28	22 477 530 €
Acquisition of securities	1	1 150 000 €	2	2 600 000 €
Cash-flow support	20	22 001 189 €	23	18 992 115 €
Miscellaneous investments	5	7 938 299 €	3	885 415 €
Escrow accounts	47	59 788 736 €	35	44 147 769 €
Acquisition of securities	8	4 215 685 €	6	3 864 234 €
Cash-flow support	24	30 868 192 €	18	25 666 254 €
Miscellaneous investments	15	24 704 859 €	11	14 617 281 €
Authorised bank overdrafts	3	3 565 331 €	2	182 968 €
TOTAL	**76**	**94 443 556 €**	**65**	**66 808 267 €**

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.

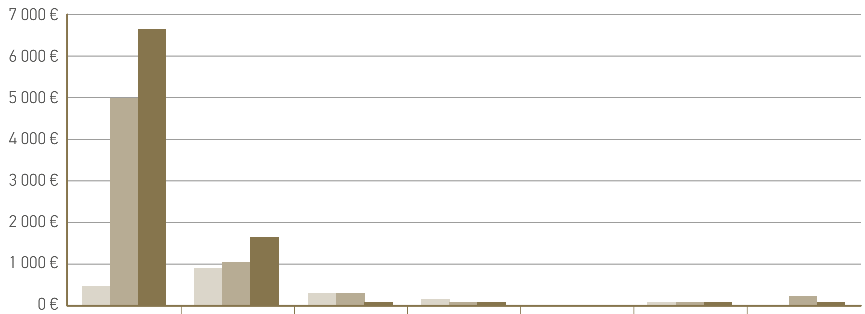
The Bank has not changed its loan granting policy, both in terms of type, purpose and associated guarantees. At year-end, overdue loans and their provisioning remained at the same level, although slightly higher than in 2016.

	2017	2016*	2015*
Overdue loans / Loans granted	1.45%	0.41%	0.80%
Overdue loans / Net assets	0.61%	0.13%	0.27%
Loans granted / Clients' deposits	49.10%	47.08%	47.65%
Loans granted / Net assets	35.01%	31.72%	34.28%



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

Thousands

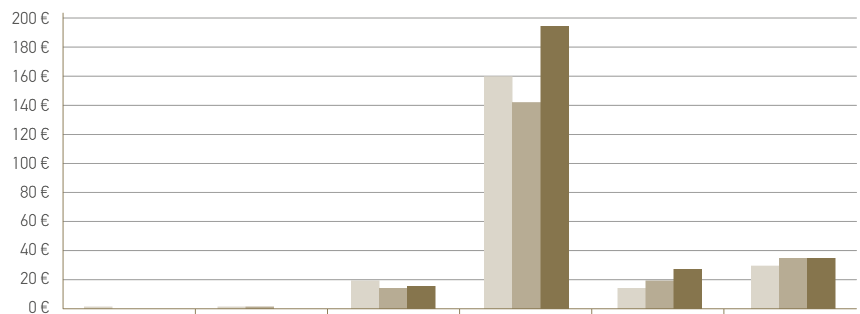


	Tangible Assets Buildings	Tangible Assets Equipment	Tangible Assets Finance Lease Assets	Intangible Assets Software	Intangible Assets Assets in Progress	Other Intangible Assets	Tangible Assets in Progress
2015	480 320 €	963 239 €	338 163 €	162 223 €	0 €	41 527 €	0 €
2016	5 019 730 €	1 092 040 €	332 634 €	105 900 €	0 €	51 134 €	223 953 €
2017	6 686 302 €	1 658 519 €	56 539 €	64 905 €	0 €	22 785 €	82 602 €

In 2017, net fixed assets recorded an annual growth of 27.23%, justified by the acquisition of one more building, the exchange of another building and refurbishment works done in the building at Rua Guerra Junqueiro, in Porto, which had been purchased in 2016.

Composition of liability and equity

Millions



	Central Banks	Liabilities Held for Trading	Receivables Other Credit Institutions	Clients and Other Loans	Other Liabilities	Equity
2015	2 013 878 €	470 404 €	19 682 386 €	161 267 872 €	14 259 443 €	30 530 931 €
2016	0 €	39 256 €	14 800 312 €	142 478 359 €	19 618 550 €	34 558 195 €
2017	0 €	0 €	15 738 163 €	195 775 894 €	27 703 896 €	35 371 327 €

Liabilities have registered an overall increase of 35.20% compared to the 177M€ in 2016, deposits from central banks are practically nil, deposits from other credit institutions increased by 6.34%, clients' deposits and other loans increased 37.41%, and other liabilities increased 41.21%.

Regarding **net worth**, equity showed a positive development of 813 132€, directly and essentially related to the net result for the year.

EQUITY MANAGEMENT

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

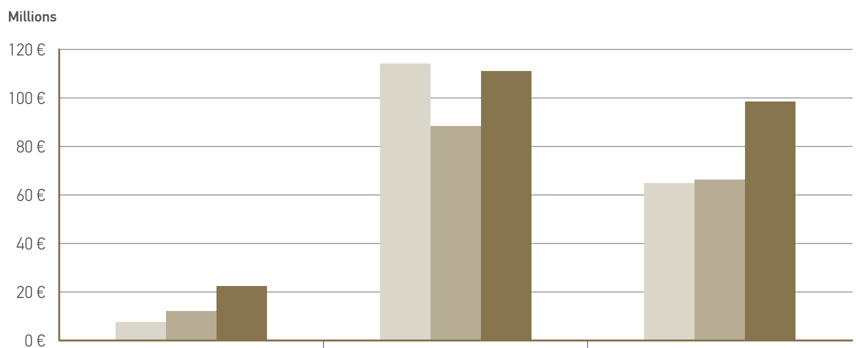
- Ongoing monitoring of regulatory capital requirements;
- Anual review of risk appetite;
- Setting business objectives properly quantified in equity planning.

In addition to the regulatory requirements, Banco performs, on a yearly basis, an internal and prospective self-assessment of all material risks to which the institution is exposed (ICAAP). As an integral part of the equity management process, the Bank also has a Recovery Plan in place, which establishes the decision-making protocol applicable to crisis management and identifies the pre-defined actions and strategies to respond to events with an adverse impact on equity.

Evolution of clients' deposits

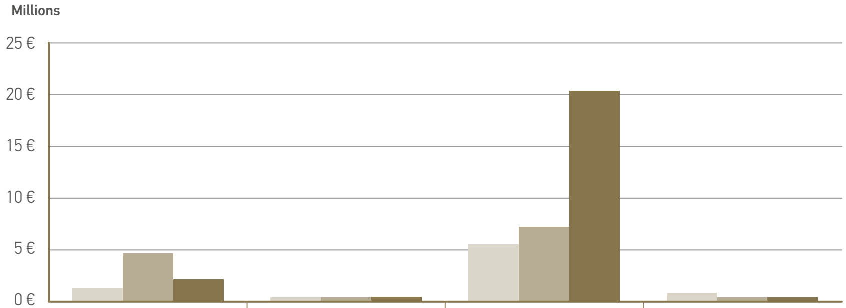
The overall result of **clients' deposits** rose sharply by 39.38%, as a result of the successful activity of the Bank's commercial structure in attracting such deposits, even against the lower interest rates. As regards Other creditors, a similar trend was found in the asset management accounts, with a year-on-year variation of +195%, the remaining ones declining by 59.66%.

Clients' deposits



	Creditors	Clients' Term Deposits	Demand Deposits
2015	7 523 347 €	115 187 909 €	65 194 116 €
2016	11 735 776 €	89 260 572 €	66 292 977 €
2017	22 142 667 €	111 801 029 €	99 231 246 €

Other creditors

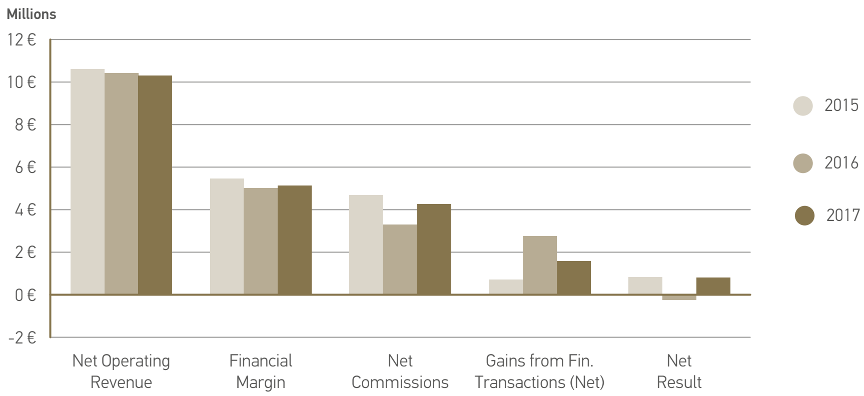


	Operations on Derivatives	GoBullingPro	Managed Documents	Sight Deposit Accounts
2015	1 211 854 €	226 502 €	5 515 603 €	569 389 €
2016	4 631 817 €	91 871 €	6 835 496 €	176 592 €
2017	1 784 836 €	59 891 €	20 165 729 €	132 211 €

	2017	VAR%	2016*	VAR%	2015*
Net operating revenue	10 335 551€	-0.65%	10 403 234€	-2.20%	10 637 661€
Financial margin	5 067 579€	1.72%	4 981 821€	-8.98%	5 473 493€
Net fees	4 202 294€	27.70%	3 290 785€	-29.95%	4 697 611€
Gains from financial transactions (Net)	1 511 087€	-44.87%	2 741 013€	431.37%	635 414€
Net result	800 654€	328.09%	-388 825€	0.95%	-392 543€

* reexpresso.

Net operating revenue amounted to 10.4M€, which is slightly lower than in 2016 (-0.65%). The breakdown shows a positive variation in financial margin of 1.72%, accompanied by the same growth in net fees, standing at 27.70%, largely offset by the **net results** of financial transaction, which reached a negative 1.2M€ year-on-year, this achieving a positive net result in 2017 of 801 thousand euro.



An overall drop of 27.7% was recorded for **net fees/commissions**, as a result of the 20.8% increase in commissions received, which exceeded the 9.9% increase in commissions paid. Note that for revenues, the difference between the two periods under analysis represents a 1.1 M€ increase, while the increase in commissions paid was only of 205 k€.

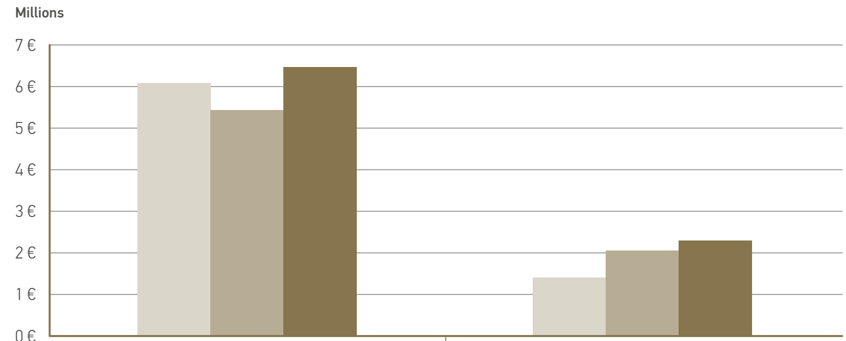
In net terms, platform trading fees available to clients decreased by 9.3%, *i.e.*, 321m€. Individually:

- On the other hand, fees/commissions received from portfolio management increased substantially by 22.8%, *i.e.*, a 205 k€ increase.
- Event processing fees followed the same positive trend, increasing 72.2%, *i.e.*, 49 k€.
- OTC trading accompanied this same trend increasing 210.4%, *i.e.*, 182 k€.
- In share trading, the performance of fees received was also positive, representing an increase of 5.8%, *i.e.*, 46 k€.

Other fees/commissions, including credit commissions, placement services and financial consulting services together recorded a 61% increase, in almost 930 k€.

Fees/commissions paid recorded a total growth of 133.5%, especially those related to the execution and settlement of operations, due to the increase in business revenues, representing about 222 k€.

Evolution of fees/commissions



	Gains from Commissions	Charges with Commissions
2015	6 065 862 €	1 368 251 €
2016	5 361 619 €	2 070 834 €
2017	6 477 651 €	2 275 357 €

Net operating revenue

The 2017 financial year showed a negative performance in the aggregate net revenue of the Bank's own portfolio, with a negative variation of 41.22%, equivalent to 1.1 M€, compared to 2016.

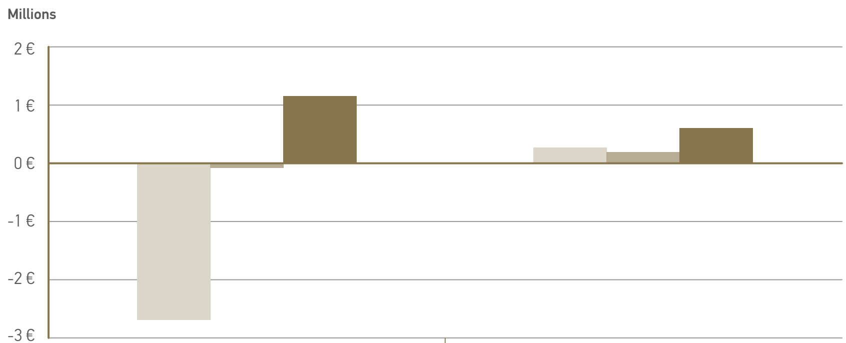
More specifically, other financial assets at fair value through profit or loss showed a positive performance of 1.2 M€ compared to 2016, while the performance of Available for sale financial assets dropped about 2.3 M€.

As regards the interest on bonds received from the positions in each of these two portfolios, compared to 2016 revenues dropped 521 k€, partly offset by a positive variation of 59 k€ of the Held-to-maturity investments portfolio.

The fair value reserves of the Available for sale financial assets also showed a year-on-year negative variation of 16 k€, when taking into account the restatement of values of o the 2016 financial year.

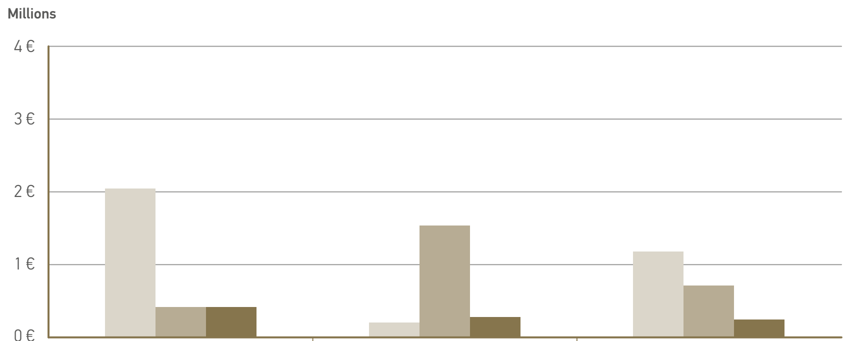
In 2017 the revaluation of currency position recorded a negative result of 223 k€.

Gains and losses – Financial assets and liabilities held for trading



	Gains/Losses (Results)	Interests
2015	-2 707 533 €	266 072 €
2016	-113 754 €	200 543 €
2017	1 106 140 €	565 247 €

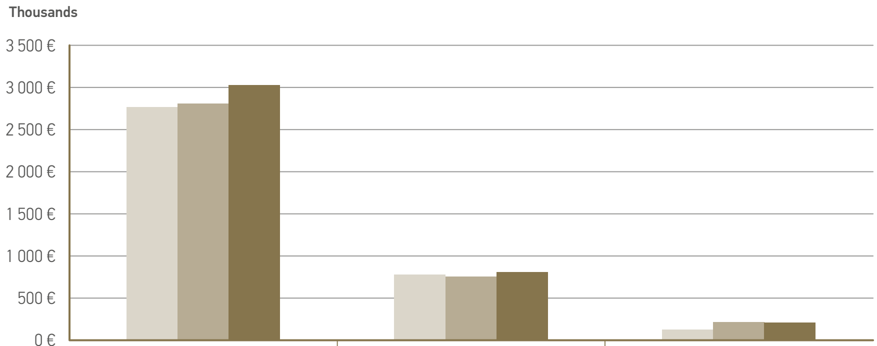
Gains and losses – Financial assets and liabilities held for sale



	Gains/Losses (Reserves)	Gains/Losses (Results)	Interests
2015	3 673 781 €	345 303 €	2 144 577 €
2016	741 743 €	2 783 775 €	1 263 016 €
2017	725 244 €	463 272 €	377 607 €

Staff costs

In 2017 staff costs showed a moderate growth of 6.58%, justified by the need to strengthen the Bank with the recruitment of 4 new employees, while the salary level remained stable. During the year, performance bonuses were not granted.



	Remuneration	Social Charges	Other Charges
2015	2 789 056 €	802 207 €	153 395 €
2016	2 819 594 €	779 075 €	244 095 €
2017	3 058 945 €	814 749 €	222 282 €

In 2017, **General administrative costs** grew moderately by 3.4%, *i.e.*, an increase of 135m€, due to the cuts in some of the items, in particular:

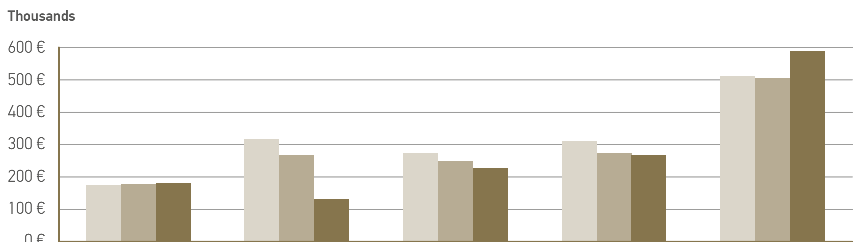
- A cut of 127.7% in the acquisition of various materials, corresponding to 57m€;
- A cut of 50.2% in rents and leases, equivalent to 135 k€, justified by the acquisition of buildings that were previously under lease.

Although the Bank continued to be concerned about cost containment, some increases did occur:

- in the development of business-related digital computer solutions, justified by the Bank's intention to keep digital solutions in line with the recent strategic definitions, which alone represented a 10% increase, equivalent to 101 k€;

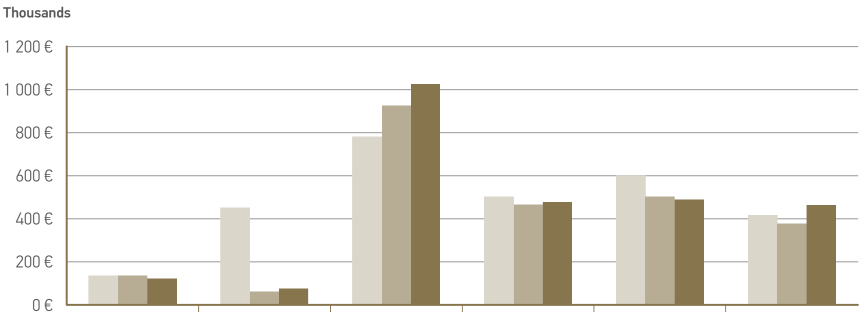
- an increase of 16.8% in advertising, in the amount of 85 k€, justified by the launch of the new affluent segment identity.

General administrative costs



	Water Electricity Fuel	Rents and Leases	Communications	Travel, Accomodation and Rep. Costs	Advertising
2015	198 789 €	314 984 €	277 472 €	310 553 €	510 827 €
2016	182 335 €	267 688 €	253 062 €	272 321 €	506 166 €
2017	196 696 €	133 191 €	230 576 €	269 778 €	591 167 €

L. J. CARREGOSA & C.ª, L.ᵈᵃ



	Repair & Maintenance	Retainers & Fees	IT	Informations	External Auditors and Consultants	Other General Costs
2015	140 235 €	460 240 €	784 756 €	501 155 €	600 526 €	416 178 €
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 €

4.1. CONSOLIDATED ACCOUNTS

Due to the incipient financial statements of the sole related entity, considered in the scope of consolidation in 2016, and to the share in the Arquimedes Real Estate Fund, in 2017, with limited influence on results, the following notes are of particular relevance:

- Consolidated net assets, compared to 2016, increased 27.21%, amounting to 269 M€, in line with the evolution of the Bank's separate balance sheet;
- Consolidated net results in 2017 totalled 774 119€ (positive) with the contributions of the two consolidated entities and of the Bank, after the cancellation of transactions and positions between the entities to be consolidated. The Bank alone closed with a positive net result of 800 654€.

These variations are reflected in Consolidated Financial Statements and in their corresponding annexes.


05
Accounting Policies

BASIS OF PRESENTATION

Banco L. J. Carregosa, S.A. (the «Bank») 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, 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.

06 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 **04 May 2018**.

The management report faithfully describes the evolution of businesses, performance and financial position of Banco Carregosa in the 2017 financial year.

07 Information in Accordance with Article 66 of the Companies Code

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

The Bank did not acquire, nor dispose of, nor does it hold any own shares.

As at December 2017, two loan agreements and one guarantee agreement were entered into with Director Dr. António Marante and/or entities related to him, for a debt amount of 1 830 000€ under the two first agreements, 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 (notes 35) contains the fees for the financial year charged by the statutory auditor or audit firm 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.

08 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, valuing the effective performance of Banco Carregosa's employees.

8.1. 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. The CRAV members do 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, Dr.ª Maria Cândida Rocha e Silva and Prof. Dr. Álvaro Nascimento.

In 2017, the CRAV met once in September, while the previous Remuneration Committee had met twice, in April and in May.

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 2017, financial year, the monthly fixed remunerations for the members of the management bodies were determined as follows:

	2017
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.

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

The remuneration setting process 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 segment earn, in addition to a fixed salary, a variable supplement, objective and proportional to the income generated by the clients they monitor. 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 new employees were hired in 2017. The table below shows the remaining requirements related to said article.

AREA OF ACTIVITY	TOTAL REMUNERATIONS	
	Fixed	Variable (*)
Management and Supervisory Bodies		
Board of Directors	62 048.21 €	0.00 €
Executive Committee	256 952.29 €	0.00 €
Supervisory Committee	27 880.00 €	0.00 €
Central Management and BoD Advisors		
Central Management and BoD Advisors	172 529.90 €	0.00 €
Business Areas and Services		
Business areas	686 508.16 €	30 406.56 €
Services	839 738.67 €	14 151.39 €
Support Areas		
Internal control	206 736.12 €	0.00 €
Areas supporting the business areas and services	593 617.48 €	0.00 €
Other administrative areas	200 123.10 €	0.00 €
Overall Total	3 046 133.93 €	44 557.95 €

EMPLOYEES WHO CEASED THEIR FUNCTIONS IN 2017	
No. of employees	11
Consideration for non-renewal of contract	671.25 €
Total consideration (*)	31 000.00 €

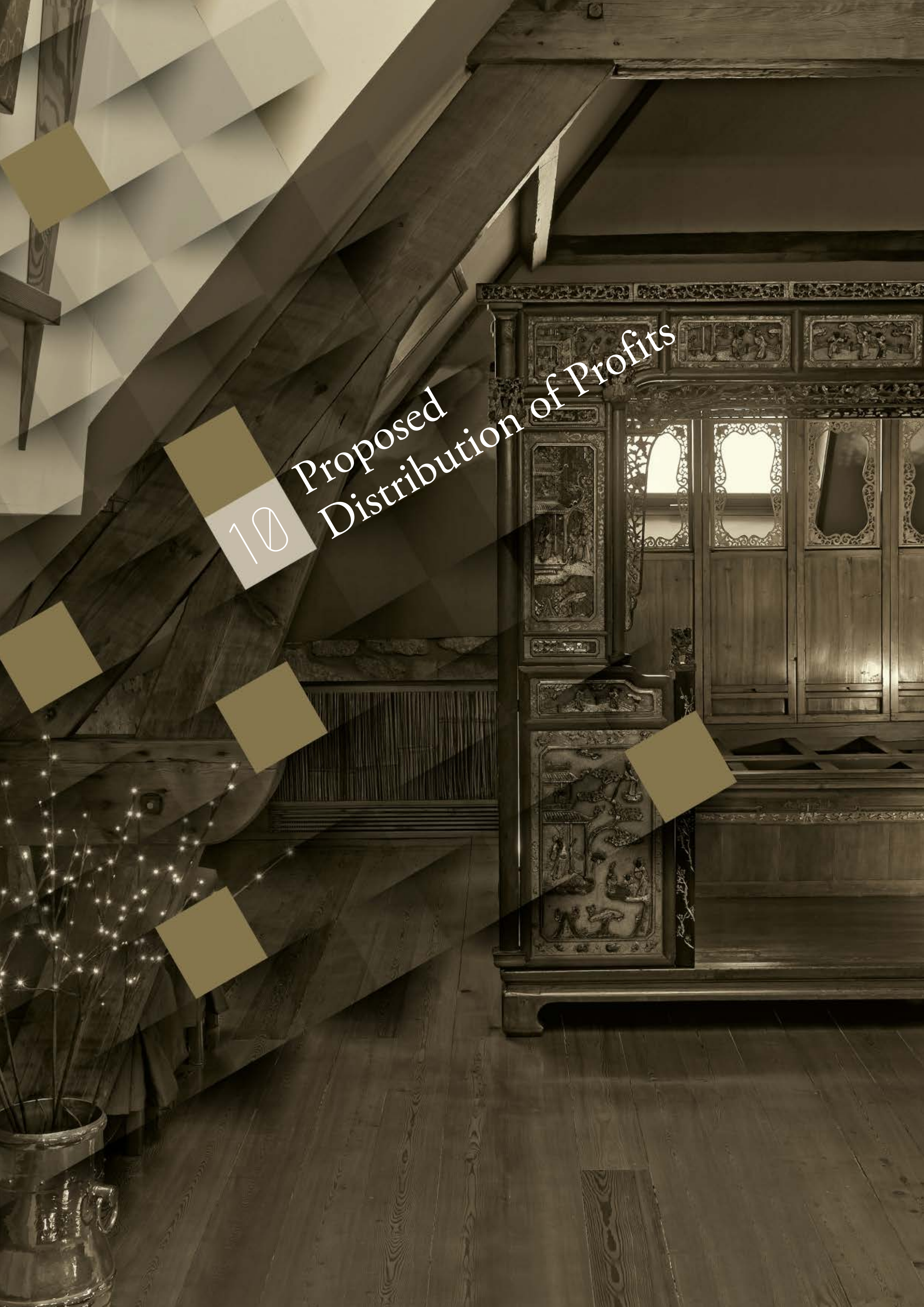
(*) Consideration paid to one single employee – 22 000.00.

09 Accumulation of Offices Held by the Members of the Board of Directors

DECEMBER 2017

DIRECTOR	COMPANY	OFFICE
Maria Cândida Cadeco da Rocha e Silva	IMOCARREGOSA, S.A.	Chairwoman of the Board of Directors
	GORDIO, S.A.	Chairwoman of the Board of Directors
	PARADIGMAXIS Arquitectura e Engenharia de Software S.A.	Director
Jorge Manuel da Conceição Freitas Gonçalves	IMOCARREGOSA, S.A.	Director
	GORDIO, S.A.	Director
	PARADIGMAXIS Arquitectura e Engenharia de Software S.A.	Director
António Jose 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
	SUGESTION POWER, Lda.	Manager
	PATUR Construções e Hotelaria do Pátio, Lda.	Manager
	PORTO ANTIGO Sociedade Turística, Lda.	Manager
	CONSNOBA Construção e Compra e Venda Imóveis, S.A.	Director
João Pedro Portugal da Cunha	GEVISAR, SGPS, S.A.	Director
	BANCO ÚNICO, S.A. (Soc. Direito Moçambicano)	Director
	PORTAL DO SOL Soc. Imobiliária Amorim, SA	Director
	REBELDOCEAN – IMÓVEIS, SA	Manager
Francisco Miguel Melhorado de Oliveira Fernandes	PAGAQUI, Pagamentos e Carregamentos, S.A.	Director
Paulo Armando Morais Mendes	FUNDAÇÃO DR. ERNESTO MORAIS	Chairman of the Supervisory Board

10 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 25 of the Company's articles of association, it is hereby proposed that the net profit for the year in the amount of **800.653,58 €** (positive), be recorded in Retained Earnings.

11 Acknowledgments

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:

Banco de Portugal and CMVM – Comissão de Mercado de Valores Mobiliários – for the understanding and constant productive dialogue throughout this financial year;

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.

12 Consolidated Accounts - Analysis and Annexes

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017 AND 2016

Amounts stated in EUR

	NOTES	31/12/2017	31/12/2016 RESTATED	01/01/2016 RESTATED
ASSETS				
Cash and liquid assets in central banks	1	57 345 371	33 031 767	47 502 895
Liquid assets in other credit institutions	2	45 293 328	18 358 071	23 585 448
Financial assets held for trading	3	10 355 514	7 637 439	3 858 021
Other financial assets at fair value through profit or loss	4	11 969	6 832	3 567
Available for sale financial assets	5	22 903 194	26 411 328	40 331 185
Investments in credit institutions	6	611 780	16 116 385	17 116 330
Loans to clients	7	94 536 614	66 113 462	76 082 331
Held-to-maturity investments	8	8 830 258	11 011 818	–
Assets under repurchase agreement		–	–	–
Hedging derivatives	9	53 480	129 841	–
Non-current assets held for sale	10	85 680	85 680	85 680
Investment properties		–	–	–
Other property, plant and equipment	11	8 535 068	6 733 856	1 815 311
Intangible assets	12	90 246	162 174	212 831
Investments in associated and subsidiary companies excluded from consolidation		–	–	–
Current tax assets	13	288 300	289 411	–
Deferred tax assets	14	358 741	434 710	1 288 906
Other assets	15	20 028 768	25 191 140	12 542 876
Total Assets		**269 328 309**	**211 713 912**	**224 425 380**

	NOTES	31/12/2017	31/12/2016 RESTATED	01/01/2016 RESTATED
LIABILITIES				
Deposits from central banks		–	–	2 013 878
Financial liabilities held for trading	16	–	39 256	470 404
Other liabilities at fair value through profit or loss		–	–	–
Deposits from other credit institutions	17	15 738 499	14 801 430	19 683 158
Clients' deposits and other loans	18	189 796 891	142 478 356	161 267 870
Liabilities represented by securities		–	–	–
Financial liabilities associated to asset transfers		–	–	–
Hedging derivatives		–	–	–
Non-current liabilities held for sale		–	–	–
Provisions	19	13 513	10 046	47 813
Current tax liabilities	20	72 834	554 186	144 870
Deferred tax liabilities		–	–	–
Instruments representing equity		–	–	–
Other subordinated liabilities		–	–	–
Other liabilities	21	27 750 447	19 132 349	10 113 978
Total Liabilities		233 372 184	177 015 624	193 741 970
EQUITY	22			
Equity		20 000 000	20 000 000	20 000 000
Issue premiums		369 257	369 257	369 257
Other equity instruments		–	–	–
Fair value reserves		725 244	741 743	(3 673 781)
Other reserves and retained earnings		13 533 819	13 899 859	13 899 294
Own shares		–	–	–
Consolidated income for the year		774 119	(395 018)	–
Interim dividends		–	–	–
Other reserves and retained earnings		35 402 439	34 615 842	30 594 770
Own shares	23	553 686	82 447	88 640
Total Equity		35 956 125	34 698 289	30 683 410
Total Liabilities + Equity		269 328 309	211 713 912	224 425 380

The Certified Accountant

The Board of Directors

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Amounts stated in EUR

	NOTES	31/12/2017	31/12/2016 (*)
Interest and similar income	24	5 960 463	6 176 350
Interest and similar costs	25	-892 771	-1 193 803
Financial margin		5 067 692	4 982 547
Income from equity instruments	26	126 981	95 200
Income from services and commissions	27	6 471 597	5 361 619
Charges – services and commissions	28	-2 291 364	-2 071 193
Income from assets and liabilities evaluated at fair value through profit and loss	29	1 131 212	-113 395
Income from available for sale financial assets	30	463 272	2 783 775
Income from foreign currency revaluation	31	-223 167	-38 697
Income from the disposal of other assets	32	45 862	14 490
Other operating income	33	-453 475	-562 976
Net operating revenue		10 338 608	10 451 370
Staff costs	34	-4 598 224	-4 349 508
General administrative costs	35	-3 635 822	-3 486 780
Depreciation and amortisations	36	-653 184	-593 466
Provisions net of write-offs	37	-3 466	37 767
Credit impairment net of reversals and recoveries	38	-389 440	-1 476 017
Impairment of other financial assets net of reversals and recoveries	39	3 448	-1 111,18
Impairment of other assets net of reversals and recoveries		–	–
Income from associated companies and joint ventures (equity method)		–	–
Pre-tax profit		1 061 920	-527 812
Taxes			
Current	40	-240 592	-239 938
Deferred	41	-75 969	366 540
Profit after income tax		745 358	-401 211
Minority interests		28 761	6 193
Consolidated income for the year		774 119	-395 018

Of which: net income after tax on discontinued operations.
(*) Restated amounts.

The Certified Accountant

The Board of Directors

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts stated in EUR

	31/12/2017	31/12/2016(*)
Consolidated net result for the year	774 119	(395 018)
Items that will not be restated into profit or loss:		
Property, plant and equipment	(479)	3 984
Actuarial gains or losses (-) with defined benefit pension plans	28 978	566
Items that may be restated into profit or loss:		
Cash flow hedging	(2 231)	46 060
Available for sale financial assets	333 454	5 442 368
Income tax related to items that may be restated into profit or loss	(347 243)	(1 076 887)
Other comprehensive income	12 478	4 416 089
Overall comprehensive income for the year	786 597	4 021 072
Attributable to minority interests [non-controlling interests)	28 761	6 193
Attributable to owners of parent-company	757 837	4 014 879

(*) Restated amounts.

The Certified Accountant

The Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOW AS AT 31 DECEMBER 2017 AND 2016

Amounts stated in EUR

	31/12/2017	31/12/2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and commissions received	12 298 572	12 173 247
Interest and commissions paid	(3 170 014)	(3 366 470)
Payments to employees and suppliers	(8 391 712)	(8 027 920)
Deposits from credit institutions	2 175 619	(8 137 468)
Other operating assets and liabilities	12 915 374	(7 359 398)
Other receipts from clients	18 593 640	(8 834 733)
Income taxes	(1 064 184)	(176 645)
Net cash from operating activities	(33 357 294)	(23 729 387)
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Dividends received	–	–
Acquisition/Disposal of available for sale assets	3 845 036	18 251 046
Held-to-maturity investments	2 141 413	(11 011 818)
Acquisitions of property, plant and equipment and intangible assets	(2 672 754)	(5 461 355)
Disposal of property, plant and equipment and intangible assets	303 963	10 500
Increase/Decrease in other asset accounts	–	–
Investments in subsidiaries and associated companies	–	–
Net cash from investment activities	3 617 659	1 788 374
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital increase	–	–
Other equity instruments	–	–
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	–	–
Net increase (decrease) of cash and cash equivalents	36 974 953	(21 941 013)
Exchange differences	–	–
Cash and cash equivalents at the start of the year	66 212 789	88 153 802
Cash and cash equivalents at the end of the year	103 187 742	66 212 789
Cash and cash equivalents (detail as at December 2016 and December 2017)		
Cash and liquid assets in central banks	57 345 371	33 031 767
Liquid assets in other credit institutions	45 293 328	18 358 071
Investments in other credit institutions	611 572	16 116 287
Overdrafts in other credit institutions	(62 529)	(1 293 336)

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The Board of Directors

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2017 | (CONSOLIDATED ACTIVITY)

Amounts stated in EUR

	CAPITAL	ISSUE PREMIUMS	REVALUATION RESERVES	LEGAL RESERVES
Balances as at 31 December 2015	20 000 000	369 257	(4 883 741)	2 161 217
RESTATED			1 209 960	
Opening balances (restated)	20 000 000	369 257	(3 673 781)	2 161 217
Changes in fair value reserves			5 454 612	
Deferred tax			(1 076 888)	
Actuarial gains or losses (-) with pension plans				
Net result for 2016				
Comprehensive income for 2016				
Distribution of dividends				
Other changes in equity				81 742
Minority interests				
Balances as at 31 December 2016	20 000 000	369 257	(506 017)	2 242 959
RESTATED			37 800	
Opening balances (restated)	20 000 000	369 257	741 743	2 242 959
Changes in fair value reserves			330 744	
Deferred tax			(347 243)	
Actuarial gains or losses (-) with pension plans				
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	725 244	2 242 959

The Certified Accountant

The Board of Directors

OTHER RESERVES	RETAINED EARNINGS	RESULT OF THE PERIOD	MINORITY INTERESTS	TOTAL EQUITY
10 466 941	1 668 023	813 073	88 640	30 683 410
	(1 209 960)			0
10 466 941	458 063	813 073	88 640	30 683 410
				5 454 612
				(1 076 888)
566				566
		(357 218)	(6 193)	(363 411)
				4 014 879
				0
735 675	(4 344)	(813 073)		0
			0	0
11 203 182	1 663 679	(357 218)	82 447	34 698 289
		(37 800)		0
11 203 182	453 719	(395 018)	82 447	34 698 289
				330 744
				(347 243)
28 978				28 978
		774 119	(28 761)	745 358
				757 837
				0
	(395 018)	395 018		0
			500 000	500 000
11 232 160	58 701	774 119	553 686	35 956 125

ANNEX TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

[EXCEPT WHERE EXPLICITLY STATED OTHERWISE, AMOUNTS ARE EXPRESSED IN EURO]

INTRODUCTION

The 2017 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 ninth 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, Lda, from 2015 on it is no longer considered as an ancillary services company, as reported to Banco de Portugal for the purpose of registration.

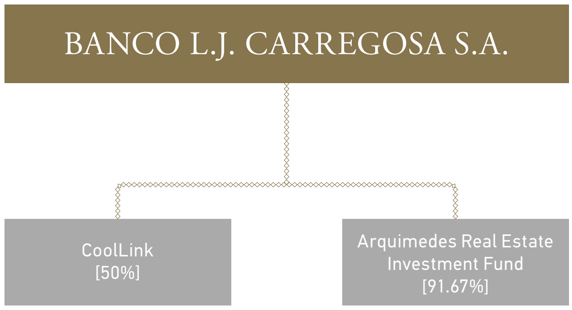
The share in the Real Estate Investment Fund «Arquimedes» was included in this scope of consolidation.

Companies included in the Group's scope of consolidation as at 31/12/2017

ACTIVITY	HEAD-OFFICE	EQUITY	ASSETS	PROFIT/LOSS	EFFECTIVE PARTICIPAT.	CONSOLIDATED METHOD
BANKING						
Banco L. J. Carregosa, SA	Portugal	35 371 327	274 589 280	800 654	–	Comprehensive
IT SERVICES COMPANY						
CoolLink, Lda	Portugal	111 823	248 882	(53 071)	50.00%	Comprehensive
REAL ESTATE INVESTMENT FUND						
Arquimedes	Portugal	5 973 298	5 979 000	(26 702)	91.67%	Comprehensive

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

SCOPE OF CONSOLIDATION AS AT 31/12/2017



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 2017 and as approved by Banco de Portugal, the Bank no longer reports the consolidated financial statements to this entity as it did in 2016.

The Group posted a net Profit of **774 119 €**, with equity standing at **35 402 439 €.**

The financial statements as at 31 December 2017 were approved by the Board of Directors on **04 May 2018**.

The financial statements of the Bank as at 31 December 2017 require the approval of the General Meeting. However, the Board of Directors believes that they 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 *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 2017 and were prepared in accordance with the current IFRS as adopted in the European Union.

The financial statements are expressed in euro and have been prepared on a historical cost basis, except for the assets and liabilities recorded at fair value in accordance with the respective accounting policies.

Consolidation of subsidiary and associate companies [IAS 28 and 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. The share in the Arquimedes Real Estate Investment Fund was considered, at the end of 2017, a specific investment objectivo, but it did not materialise. In the course of the first half of 2018 it will be decided whether a new investment similar to the one initially planned is possible, or whether it will have to be settled.

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 and amendments adopted by the European Union

The following standards, interpretations, amendments and revisions adopted («*endorsed*») by the European Union were respected and implemented by the Bank for the first time in the year ended 31 December 2017.

Amendments to IAS 7 – Statement of Cash Flows: Disclosure initiative.

The amendments require the disclosure of additional information on the changes in their financing liabilities, including changes in cash and cash equivalents and changes that do not offset cash flow.

Amendments to IAS 12 – Income taxes: Recognition of deferred tax assets for Unrealised Losses.

The amendments introduced clarify the requirements for the recognition and measurement of deferred tax assets resulting from unrealised losses.

Annual improvements to IFRS standards: 2014-2016 cycle.

These improvements involve the clarification of some aspects related to:

- **IFRS 1** – First-time adoption of international financial reporting standards: deletion of some short-term exemptions;

- **IFRS 12** – Disclosure of interests in other entities: clarifies that the disclosures required apply to interests held for sale or held for distribution, under IFRS 5;

- **IAS 28** – Investments in associates and joint ventures: introduces clarifications on the fair value measurement through profit or loss of investment in associates or joint ventures held by venture capital companies or by investment funds.

No significant effects were recorded in the Bank's financial statements for the year ended 31 December 2017, arising from the adoption of the standards, interpretations, amendments and revisions referred to above.

The following standards, interpretations, amendments and revisions that must be applied in future financial years were, as of the date when these financial standards were approved, *endorsed* by the European Union:

IFRS 9 – «Financial instruments (2009) and subsequent amendments» – This standard is included in the draft revision of IAS 39, establishing new rules for the classification and measurement of financial assets and liabilities, in particular:

• defines a new method for recognising impairment losses of financial assets based on expected credit loss («*expected loss model*» or «ECL»). According to this new method, entities are required to recognise expected losses before the loss events occur. Entities are required to include in their impairment models forward looking information, including trends and future macroeconomic scenarios. In the ECL model, assets subject to impairment calculation must be categorised into three types, according to credit risk changes on initial recognition of the asset and not according to the credit risk at the reporting date;

• establishes new requirements for the classification and measurement of financial instruments and for certain types of contracts for the purchase or sale of non-financial items;

• presents new possibilities of applying hedge accounting rules through a greater number of hedge relationships between the hedged items and hedged instruments.

This standard is effective in the European Union for annual periods beginning on or after 1 January 2018. The Bank has set up a work team to analyse the scope, impact and time needed for the full and timely adoption thereof, and has concluded that:

The Bank estimates that the application of IFRS9 will have a positive net impact of 144 661€ on its equity, resulting from the changes in the impairment of the loan portfolio and securities portfolio.

Amendments to IFRS 9 – Prepayment features with negative compensation – This amendment allows financial assets subject to contractual terms that foresee, in the event of early repayment, the payment of a considerable sum by the creditor to be measured at amortised cost or at fair value through other comprehensive income (depending on the business model), provided that: (i) on the initial recognition of the asset, the fair value of the early repayment is significant; and (ii) the possibility of negative compensation in the event of early repayment is the only reason for the asset in question not to be considered as an instrument that only includes payment of principal and interest. These amendments are effective in the European Union for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 2 – «Share-based payments» – These amendments clarify the standard in relation to: i) the recording of cash-settled share-based payment transactions; ii) the recording of changes in share-based payment transactions (from cash-settled to equity-settled); iii) the classification of transactions with net settlement features. Banco Carregosa's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

Amendments to IFRS 4 – «Insurance contracts» – The amendments address concerns arising from implementing IFRS 4 together with IFRS 9. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

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. Effective in the European Union for annual periods beginning on or after 1 January 2018. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

Clarificações à IFRS 15 – «Revenue from contracts with customers» – These amendments introduce a number of clarifications to the standard, in order to prevent divergent interpretations on various topics. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

IFRS 16 – «Leases» – This standard introduces the principles for the recognition and measurement of leases, replacing IAS 17 – Leases. The standard defines a single accounting model for lease contracts, resulting in the recognition by the lessee of right-of-use assets and lease liability for all lease contracts, except for leases with a lease term of less than 12 months or for leases of low-value assets. Lessors will continue to classify leases wither as operational or financial. IFRS 16 will not bring significant changes for such entities as defined in IAS 17. The application of this standard is in progress.

Emendas à IAS 40 – «Investment property» – 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. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

IFRIC 22 – «Foreign Currency Transactions and Advance Consideration»: This interpretation clarifies how to determine the transaction date for the purpose of determining the exchange rate to be used in the initial recognition of the asset, cost or revenue.

The following standards, interpretations, amendments and revisions that must be applied in future financial years, were not, as of the date when these financial statements were approved, endorsed by the European Union:

IFRS 14 – «Regulated assets» – This standard establishes the reporting requirements for first-time adopters of IFRS, applicable to regulated assets;

IFRS 17 – «Insurance Contracts» – This standard establishes, for insurance contracts within their scope of application, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 – Insurance Contracts;

Amendments to IAS 28 – Long-term interests in associates and joint ventures – This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to interests in associates and joint ventures when the equity method is not used in their measurement.

IFRIC 23 – Uncertainty over income tax treatments – This interpretation addresses the accounting for when income tax treatments involve uncertainty.

Improvement to IFRS (cycle 2015-2017) – These improvements involve the clarifications of some IFRS-related concerns: IFRS 3 – Business combinations: requires the remeasurement of previously held interests when an entity obtains control of a participated company over which it used to have full control; IFRS 11 – Joint arrangements: clarifies that previously held interests should not be remeasured when an entity obtains joint control of a joint operation; IAS 12 – Income taxes: clarifies that all income tax consequences of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 – Borrowing costs: clarifies that, for the purpose of determining the capitalisation rate, the entity treats as part of general borrowings any borrowing directly related to the acquisition/construction of an asset still outstanding when that asset is ready for its intended use.

COMPARABILITY WITH PREVIOUS YEARS

Change in scope of consolidation

Notice 5/2015, of 7 December, of Banco de Portugal, in addition to repealing Notices 1/2005, of 21 February, and 3/95, of 30 June, both of Banco de Portugal, defines that as of 1 January 2016 all institutions under its supervision must prepare the financial statements in accordance with the *International Accounting Standards* (IAS/IFRS), as adopted, at any given time, by European Union regulation and respecting the conceptual structure for the preparation and presentation of financial statements that covers those standards.

As mentioned in the introduction, the scope of consolidation in the current period was changed, although the accounting policies on the definition of the scope of consolidation are the same.

1.2. SIGNIFICANT ACCOUNTING POLICIES

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

1.2.1 TRANSACTIONS IN FOREIGN CURRENCY

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

1.2.3 FINANCIAL ASSETS HELD FOR TRADING

Financial assets and liabilities acquired or issued with the purpose of sale or repurchase in the short term, in particular bonds, treasury bonds or shares, or that are part of a portfolio of identified financial instruments and in relation to which there is evidence of a recent pattern of an inflow of profits in the short term or that fall within the definition of derivative (except in the case of a derivative classified as hedge), are classified as held for trading.

Dividends associated to the shares of such portfolios are recorded in Income from assets and liabilities measured at fair value through profit or loss.

Interest on debt instruments are recognised in financial margin. Trading derivatives with a positive fair value are included in the heading financial assets held for trading, and those with a negative value are included in the heading financial liabilities held for trading.

1.2.4 AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are non-derivative financial assets that:

- The Bank intends to hold for an indefinite period;
- Are designated as available for sale on initial recognition; or
- Do not fall into the categories of financial assets at fair value through profit or loss or financial assets held to maturity.

Available for sale financial assets are initially recognised at fair value, including costs or gains associated to the transactions, and subsequently they are measured at fair value. Changes in fair value are recorded in revaluation reserves until such time as they are sold, recognised in another comprehensive income, except in the case of impairment losses and foreign exchange gains or losses, until the financial asset is derecognised. The cumulative gain or loss prior to that recognised in another comprehensive income is restated to profit or loss as a restatement adjustment.

Upon the disposal of available for sale financial assets, cumulative gains or losses recognised in fair value reserves are recognised under the heading Revenue from available for sale financial assets in the statement of profit or loss.

Interest on debt instruments are recognised based on the effective interest rate as financial margin, including a premium or discount, where applicable. Dividends are recognised in profit or loss when the right to receive them is granted.

1.2.5 FINANCIAL ASSETS HELD TO MATURITY

Recogniton of non-derivative financial assets with fixed or determinable payments and defined maturities that the Group intends to and is able to hold to maturity and that have not been assigned to any other category of financial assets. They are recognised at their fair value at initial recognition and subsequently measured at amortised cost.

Interest is calculated through the effective interest rate method and recognised in financial margin. Impairment losses are recognised in profit or loss when identified.

If at a subsequent date the impairment loss reduces, and this reduction can be objectively related to an event that occurred after the impairment was recognised, then it will be reversed against profit or loss.

Any reclassification or disposal of financial assets recognised in this category is not posted close to maturity if it does not fall under the exceptions provided for in the standards, and the Bank will have to fully classify this portfolio of available for sale financial assets and will not be able to classify any financial assets in this category.

1.2.6 DERIVATIVES

The Bank performs derivative transactions as a standard activity to meet its clients' requirements and to reduce the exposure to foreign exchange, interest rate and quote fluctuations. Derivative financial instruments are recorded at fair value on their contract date. Moreover, they are disclosed off-balance sheet at their notional value. Subsequently, derivative financial instruments are measured at their fair value. Fair value is calculated: – Based on the quotes obtained in active markets (for e.g., futures traded in organised markets); – Based on models that include valuation techniques accepted in the market, including discounted cash-flows and options valuation models.

Embedded derivatives

Derivative financial instruments embedded in other financial instruments are removed from the underlying contract and treated as autonomous derivatives under IAS 39, whenever: – The economic characteristics and risk of the embedded derivative are not closely related with the underlying contract, as defined in IAS 39; and – The entire combined financial instrument is not recorded at fair value, with the changes in fair value reflected through profit or loss.

Trading derivatives

All derivative financial instruments not associated with effective hedging relations under IAS 39 are considered derivatives for trading, including: – Derivatives used to hedge risk in assets or liabilities recorded at fair value through profit or loss, thus making hedge accounting unnecessary; – Derivatives used to hedge risk that are not considered effective hedges under IAS 39; – Derivatives used for «trading». Trading derivatives are recorded at fair value, the results of which are determined on a daily basis and recognised in income and expenses for the year, under «Income from assets and liabilities evaluated at fair value through profit or loss». Positive and negative revaluations are recorded under «Financial assets at fair value through profit or loss» and «Financial liabilities at fair value through profit or loss», respectively.

1.2.7 HEDGE ACCOUNTING

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 re-evaluation are recognised according to the hedge accounting model. A hedge relation exists when:

- at the start date of the relation there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- hedge effectiveness can be reliably measured;
- hedge is evaluated on a continuous basis and effectively determined as being highly effective throughout the financial reporting year; and
- 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 in accordance with IAS 39, 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 (ACCOUNTS RECEIVABLE)

Valuation

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.

The value of loans to clients and receivables from other debtors is measured as follows:

On the initial recognition date, the financial assets 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 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.

1.2.9 *REPOS*

Securities sold under repurchase agreement are kept in the portfolio where they were originally recorded. The funds received are recorded in their own liability account on the settlement date, the interest value being recognised on an accrual basis. The par value of securities lent is recognised in a specific off-balance sheet item.

1.2.10 IMPAIRMENTS

The current impairment system checks all the analysed positions individually.
The following loan transactions are tested individually for impairment:

- Of a group of clients whose current exposure is more than 5% of own funds;
- Of a group of clients whose default credit exceeds 50 000 EUR.

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

- Estimated cash flows of the client's business or client's other loans;
- Cash flows of real estate projects;
- Expected cash flows related to the execution /pledge of collateral;
- Estimated cash flows arising from calls on private guarantees;
- 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.

When the transaction does not fulfil the previous conditions, a general calculation is used. Transactions subject to a specific calculation whose resulting impairment is nil are also treated in the same manner. In the general approach, credit ratings provided by specialised companies are used, between 1 and 10, with associated one-year probabilities of default. Level 1 stands for the highest probability of default (PD), of 25%, and 10 stands for the lowest, of 0%. The Bank added a level 0 to the above levels, with a PD of 100% for credit default.

1.2.11 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 assessment of external independent internal or external experts, minus costs to be incurred in the sale, and are not subject to depreciation.

1.2.12 OTHER PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment are stated at acquisition cost (including directly attributed costs) minus cumulative amortisations and cumulative impairment losses. Subsequent charges are recognised as a separate asset only when it is likely that future economic benefits will flow to the company. Maintenance and repair costs are recognised through profit or loss as they are incurred.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life, within the limits shown in the table below. Using the prudence principle, and in duly documented exceptional cases, the Executive Committee may decide on lower depreciation periods than those mentioned in the table below, but their tax effect will be considered as at the date on which the decision was made and measured in the appropriate asset account.

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

Land is not amortised.

Where there is an indication that an asset may be impaired, IAS 36 requires the estimation of its recoverable amount, and an impairment loss must be recognised whenever the net asset value exceeds its recoverable amount.

Impairment losses are recorded in the statement of profit or loss. The recoverable amount is the highest between its net selling price and its value in use, being calculated according to the current value of future estimated cash flows expected to be generated from the continued use of the asset and its disposal at the end of its useful life.

1.2.13 INTANGIBLE ASSETS

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 cumulative amortisations and impairment losses, if any.

Intangible assets are depreciated using the straight-line method, over their estimated useful life, which is, in general, three years.

1.2.14 OTHER FINANCIAL LIABILITIES – DEPOSITS FROM OTHER CREDIT INSTITUTIONS, CLIENT DEPOSITS, OTHER LOANS, AND OTHERS

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, advocated by IAS 39, 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

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) a reliable estimate can be made of the amount of the obligation. 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 group 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

All Group companies are taxed separately. 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.

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

Income from services and commissions are recognised as follows:

- Income from services and commissions related to a significant act, for e.g., commissions in the syndication of loans, are recognised in profit or loss when such act is completed;

- Income from services and commissions received as the services are provided are recognised in profit or loss in the period to which they refer;

- Income from services and commissions that are wholly part of the effective interest rate of a financial instrument are recognised through profit or loss using the effective interest rate method.

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, using the effective rate method. 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 through 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.

When calculating the effective interest rate, an entity shall estimate future cash flows considering all contractual terms of the financial instrument (for example, prepayment), but shall not consider future credit losses. The calculation includes all fees that are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts directly related to the transaction. In the case of financial assets or groups of similar financial assets for which impairment losses were recognised, the interest posted in interest receivable and similar income are determined based on the interest rate used to measure the impairment loss.

1.2.20 FEES AND COMMISSIONS FOR SERVICES PROVIDED

Carregosa Group charges commissions to its clients for providing a broad range of services. Commissions and 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

Based on the *Collective Labour Agreement for the Banking Sector* (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 Fundo de Pensões 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 who do not benefit from the SAMS, at the same cost.

Variable remuneration paid to employees

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.

1.3. 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 Group's results could be 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 Group's financial position and the results of its operations in all materially relevant aspects.

1.3.1 IMPAIRMENTS ON LOANS TO CLIENTS

The Group reviews its loan portfolios on a regular basis to determine if impairment exists, as described in Note 1.3.

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.

Using alternative methods and other assumptions and estimates could result in different levels of recognised impairment losses, with a consequent impact on the Group's consolidated results.

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 Group records deferred taxes in accordance with the policy described in Note 1.2.16, 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 Group 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 BENEFITS TO EMPLOYEES

Banco Carregosa, using the *Vertical Collective Labor Agreement for the Sector* (ACTV) as a benchmark for labor practices, has made the commitment, exclusively to its employees not integrated into the System. To grant them, or their families, cash old-age, early retirement or invalidity or survivors' retirement of a Defined Benefit Pension Plan. This Plan follows the established ACTV and is subject to the requirements established by the Bank of Portugal, namely by its Notice no. 12/2001 and subsequent updates.

In order to finance these responsibilities, Banco Carregosa joined in 2004 Pension Fund Horizonte - Valorization of Pensõesgere. In 2010, attentive to the evolution obligations and a policy of rigor and good management of the assumed, the Bank decided to move the Pension Fund to a new entity, the «REAL LIVING PENSIONS - Pension Fund Management Company SA», subscribing three funds: Pension Fund Open Optimize Capital Pensions Equity (30%) Open Pension Fund Optimize Balanced Capital (30%) and Equity Fund Pensions Open Optimize Capital Moderate (40%). Pension benefits and immediate survival are covered by a policy of life insurance.

The liabilities for past services of the employees covered are determined by the annually and consider the date of admission to Banco Carregosa and not the date of admission in the banking sector. Consequently, the share of liabilities affects the period between the date of admission in the banking sector and the date of admission. Company shall be attributed to the previous employers, unless have transferred the amount relating to the responsibility.

Liabilities recognized correspond to the difference between the present value of the liabilities and the fair value of pension fund assets, adjustments related to deferred actuarial gains and losses. The value of responsibilities is determined on an annual basis by independent actuaries using the Projected Unit Credit method, and actuarial assumptions considered adequate.

The responsibilities are updated based on a discount rate that reflects medium- and long-term interest rates on bonds listed in the Euro Zone by companies evaluated as low risk. In addition to pensions, integrated into the responsibilities of the Fund and for that group of employees, the Bank also assumed the death grant. As a result of a study of current liabilities and In 2010, the Bank decided to externalize this benefit, initially with the Multicare and in 2017 with Advancecare, covering all employees and maintaining the same levels of charges.

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.

1.3.4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of listed instruments is based on current listed market prices, if available. Otherwise, the Bank estimates the fair value using: (i) pricing models, such as prices of recent, similar transactions carried out under market conditions, stream of future discounted cash flows and valuation models of customised options so as to reflect the particularities and circumstances of the instrument, and (ii) valuation assumptions based on market information. These methods also include own and counterparty credit risk. The estimate of fair value may require the use of assumptions or judgments.

Consequently, the use of different methods or different assumptions or judgments in applying a specific model can give rise to financial results different from those reported.

1.3.5 IMPAIRMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS

The Group determines that available for sale financial assets are impaired when there is a continued or significant devaluation of their fair value, or when it predicts an impact on future cash flows of the assets.

This determination requires the Bank to collect and evaluate all the information needed to formulate its decision, in particular the normal price volatility of financial instruments.

In addition, valuations are obtained through market prices (*mark to market*) or valuation models (*mark to model*), which in turn require the use of certain assumptions or judgments to establish fair value estimates.

Using alternative methods and other assumptions and estimates could result in different levels of recognised impairment losses, with a consequent impact on the Group's consolidated results.

1.3.6 HELD-TO-MATURITY INVESTMENTS

The Group classifies its non-derivative investments with fixed or determinable payments and defined maturities as financial assets held to maturity, in accordance with IAS 39. This classification requires a significant level of judgment.

In its judgment, the Group assesses its capacity to hold these investments to maturity. If the Bank does not hold such investments to maturity, except in specific cases – for example, if it sells an insignificant portion thereof close to maturity date – the entire portfolio of available for sale financial assets must be reclassified, and consequently measured at fair value and not at amortised cost.

1.3.7 SUBSEQUENT EVENTS AND RESTATEMENTS IN THE FINANCIAL STATEMENTS

1.3.7.1 SUBSEQUENT EVENTS

Arquimedes – Fundo Especial de Investimento Imobiliário Fechado

The Bank has a 91.6% stake in the fund Arquimedes – Fundo Especial de Investimento Imobiliário Fechado, which are disclosed in the trading book. As at 31 December 2017, the fund's portfolio consisted solely of liquid assets, and the management company is looking into future real estate investments. The Bank plans to dispose of part of its shares to investors.

Overdue loans

An impairment of 451 k€ was made, in accordance with the Bank's loan impairment model in respect of a defaulting client, despite existing real estate collateral being of a higher value than the loan granted.

In 2018, following a proposition made by the client, the Bank decided to purchase the existing real estate collateral through a conduit entirely owned by the Bank.

1.3.7.2 RESTATEMENTS:

Notes to the restatements made in the Financial Statements.

(I) PENSION FUND (Liabilities)
For the periods in question, the net amount of 173 335.03€ was restated in the balance sheet between total liabilities and the net asset value of the Pension Fund.

(II) CIMPOR
In 2017, with reference to 01/01/2016, the Bank restated, in its Statements Consolidated financial statements, the impact of accounting for impairment of the shareholding held in the public company CIMPOR-Cimentos de Portugal S.A. (ISIN: PTCPR0AM0003), as recognition in the investment portfolio of the Bank, considering the following events:

- In 2014, there was a significant devaluation of the stock price of the bond, with a negative impact of 516 600 € (depreciation of 39%).

- In 2015, there was a devaluation of the stock exchange of 289 100€ (further depreciation of 22%), in the market less than 10% of the initial investment.

At the end of 2015, the stock price of the securities was less than 10% of the investment as shown in the table below.

	PURCHASE PRICE	DEVALUATION	VALUE OF THE PARTICIPATION ON 31/12/2015
PTCPR0AM0003	1 331 760.10	1 209 960.10	121 800.00

Therefore, these devaluations affected the Bank's net position (reserves) under Comprehensive income. Given the development history of this security and considering, at that date, that a recognition of the loss was already evident, paragraph #61 of IAS 39 would apply, that is., the cumulative loss that had been recognised in another comprehensive income should have been reclassified from equity to profit or loss as an adjustment of the reclassification, even if the financial asset had not been derecognised. As this was not done in 2015, it was recorded now in 2017, through retained earnings (IAS 8).

On 31/12/2016, an increase in impairment was considered for the market price of a further 37 800€.

IMPACT OF RESTATEMENTS IN THE BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS (CONSOLIDATED)

FINANCIAL STATEMENTS	31/12/2016			01/01/2016		
		RESTATEMENT	VARIATION		RESTATEMENT	VARIATION
BALANCE SHEET						
ASSETS						
(I) Other assets	28 492 505	25 191 140	(3 301 366)	15 790 416	12 542 876	(3 247 540)
LIABILITIES						
(I) Other assets	22 433 715	19 132 349	(3 301 366)	13 361 518	10 113 978	(3 247 540)
NET POSITION						
(II) Fair value reserves	(506 017)	741 743	1 247 760	(4 883 741)	(3 673 781)	1 209 960
(II) Other reserves and retained earnings	15 109 819	13 899 859	(1 209 960)	15 109 254	13 899 294	(1 209 960)
STATEMENT OF PROFIT AND LOSS						
(II) Impairment of other financial assets net of reversals and recoveries	(1 073 379)	(1 111 179)	(37 800)			
COMPREHENSIVE STATEMENT OF PROFIT AND LOSS						
Items that can be reclassified through profit or loss:						
(II) Available for sale financial assets	5 404 568	5 442 368	37 800			

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 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:

- Adequate level of capital (principle of solvency);
- Remuneration of risks assumed (principle of profitability);
- 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 ICAAP – *Internal Capital Adequacy Assessment Process* 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 Commission (ALCO), in an advisory capacity. The commission 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 Portfolio Management Service. Recommendations are issued at these meetings on the collection and use of funds, through result-risk 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.

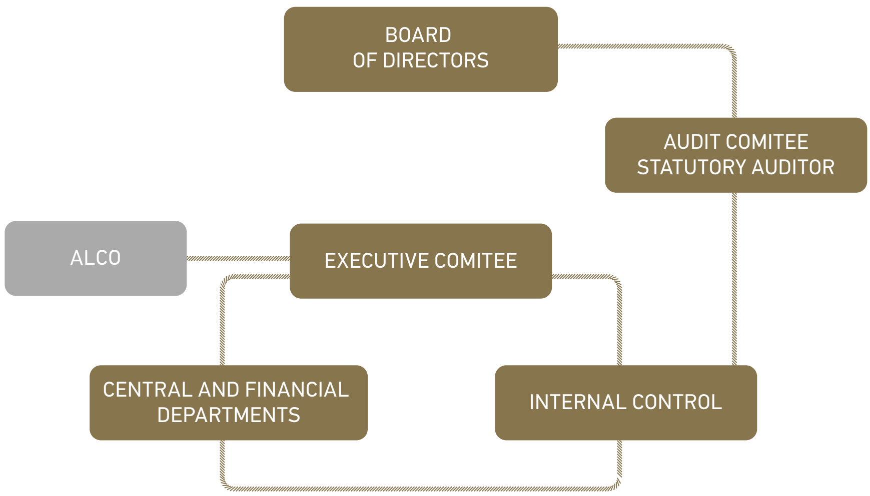
The functions of the Supervisory Committee and the Statutory Audit Firm are similar to those of Internal Control, but with a more general scope.

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 significant, 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:

	31/12/2017	31/12/2016
FINANCIAL ASSETS		
Cash and liquid assets in central banks	57 270 238	32 941 158
Liquid assets in other credit institutions	45 293 328	18 358 071
Financial assets held for trading	9 913 499	6 503 457
Other financial assets at fair value through profit or loss	–	–
Available for sale financial assets	17 922 864	23 332 506
Investments in credit institutions	611 780	16 116 385
Loans to clients	94 536 614	66 113 462
Investments held to maturity	8 830 258	11 011 818
Hedging derivatives	53 480	129 841
Other assets	20 028 768	25 191 140
	254 460 829	199 697 836
OTHER COMMITMENTS		
Personal/institutional guarantees		
Guarantees and commitments	6 886 982	6 688 181
Other personal guarantees provided and other contingent liabilities	3 329 013	4 402 132
Collateral (collateral)	5 586 000	10 180 000
Irrevocable commitments	442 626	358 569
Revocable commitments	12 184 867	14 502 457
	28 429 487	36 131 338
MAXIMUM EXPOSURE	282 890 316	235 829 174

Client creditworthiness

The disclosures required by Circular Letter 02/2014/DSP of Banco de Portugal, of 26 February[3] are presented hereunder:

Qualitative disclosures

2.4.1. CREDIT RISK MANAGEMENT POLICY

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 (including securitised loans), 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.

In order to meet legal and regulatory requirements, and based on the adoption of the best practices in credit risk management, Banco Carregosa has implemented a procedure for the various phases of the lending activity:

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.

3 The above Circular Letter was replaced in 2018 by Circular Letter CC/2018/0006, issued on 24 January and published on 15 february p.p. in the Official Gazette of Banco de Portugal no. 2/2018, which revises the reference criteria and principles in the context of IFRS 9, in particular the criteria used to assess expected credit losses.

2.4.3. MONITORING OF THE LOAN PORTFOLIO

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

- identify the factors that prove the deterioration of the client's creditworthiness;
- define solutions to renegotiate the debt.

2.4.4. 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.

2.4.5. 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 analysed by the Executive Committee, which bases its decision on the recommendation of the Credit Committee.

2.4.6. POLICY ON THE WRITE-OFF OF LOANS

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.

2.4.7. IMPAIRMENT REVERSAL POLICY

Impairment is reversed whenever there is:

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

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

2.4.8. 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» in accordance with Instruction 32/2013 of Banco de Portugal (BdP).

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.

2.4.9. DESCRIPTION OF THE EVALUATION PROCESS AND COLLATERAL MANAGEMENT

2.4.9.1. 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. This evaluation contains the copies of blueprints, the property registration document and the fiscal property register certificate, where provided.

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.

2.4.9.2. OTHER GUARANTEES

- TListed securities are evaluated mark-to-market at the reporting date;
- 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;
- Exceptionally, and in special situations, the Bank may use evaluators suited to the nature of the collateral;
- Guarantees without evaluation which potentially may not be called on are regarded as equal to zero

2.4.10. NATURE OF PRINCIPLES, ESTIMATES AND HYPOTHESES USED IN MEASURING IMPAIRMENT

The calculation of impairment is the sum of the impairments determined for each lending operation:

- Lending operations tested separately for impairment are evaluated at their current value, plus the current exposure of expected cash flows, adjusted to the contract interest rate;
- The remaining lending operations and those that according to the first method have returned zero impairment are tested collectively for impairments.

2.4.11. DESCRIPTION OF THE METHODS FOR CALCULATING IMPAIRMENT, INCLUDING HOW PORTFOLIOS ARE SEGMENTED TO REFLECT THE VARIOUS CHARACTERISTICS OF LOANS

The Loan Impairment Model conforms to each operation according to the purpose of the loan (type of instrument), type of collateral, and sector of activity.

2.4.12. INDICATION OF SIGNS OF IMPAIRMENT BY LOAN SEGMENT

2.4.12.1. Loans with signs of impairment

- Overdue loans with arrears of less than 90 days;
- Restructuring due to financial difficulties;
- Banco de Portugal indicators;
- Insolvency requests or Special Revitalisation Process (PER)..

2.4.12.2. LOANS SUBJECT TO IMPAIRMENT

- Credit default (default of more than 90 days) with the Bank;
- Overdue credit, written-off from assets or in litigation with the financial system;
- Other evidences of financial difficulties;
- Declared insolvency.

2.4.13. INDICATION OF THE THRESHOLDS DEFINED FOR SEPARATE ANALYSIS

Separate analysis applies to the credit operations:

- Of a group of clients whose current exposure is more than 5% of own funds;
- Of a group of clients whose default credit exceeds 50 000 EUR.

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

Clients found to be in non-compliance 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.

2.4.15.GENERAL DESCRIPTION OF THE CALCULATION OF THE CURRENT VALUE OF FUTURE CASH FLOWS IN THE DETERMINATION OF IMPAIRMENT LOSSES EVALUATED INDIVIDUALLY AND COLLECTIVELY

The following are taken into consideration in the calculation of specific impairment:
- Exposure;
- Estimated business cash flows or other client's cash flows;
- Cash flows of real estate projects;
- Expected cash flows related to the execution /pledge of collateral;
- Estimated cash flows arising from calls on private guarantees;
- 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 2/14DSPDR 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:

- Regulatory volatility adjustments using the Financial Collateral Comprehensive Method as described in Regulation (EU) 575/2013 for eligible securities;
- 30% for other securities;
- 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 previous conditions, a general calculation is used. Transactions subject to a specific calculation whose resulting impairment is nil are also treated in the same manner. In the general approach, credit ratings provided by specialised companies are used, between 1 and 10, with associated one-year probabilities of default. Level 1 stands for the highest probability of default (PD), of 25%, and 10 stands for 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 a 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 level 7 (PD of 0.4%).

2.4.16. 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:

- First moment when the information emerges;
- 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.

Quantitative disclosures

The information on the client loans portfolio as at 31 December 2017 and 2016 is presented below.

a) Detalhe das exposições e imparidade constituída

a.1)

	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

a.1)

	EXPOSURE AS AT 31.12.2016					
SEGMENT	TOTAL EXPOSURE	COMPLIANT LOANS	OF WHICH SETTLED	OF WHICH RESTRUCTURED	DEFAULTING LOANS	OF WHICH RESTRUCTURED
Construction & CRE	36 069 313	36 069 313		3 830 000	4 610	
Corporate	13 969 694	13 969 694		1 500 000	32 277	
Guarantees	6 681 181	6 681 181		–	–	
Individual	12 905 026	12 905 026		6 722 648	7 683	
Non-contracted	–	–		–	133 189	
Transferable securities	3 864 234	3 864 234		–	–	
Total	73 489 448	73 489 448		12 052 648	177 758	–

	IMPAIRMENT AS AT 31.12.2016		
SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS	DEFAULTING LOANS
Construction & CRE	188 987	182 713	6 275
Corporate	330 681	307 628	23 053
Guarantees	10 046	10 046	–
Individual	312 884	305 201	7 683
Non-contracted	131 668	–	131 668
Transferable securities	4 097	3 934	163
Total	978 363	809 522	168 842

a.2)

31.12.2017

	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..

a.2)

31.12.2016

	TOTAL EXPOSURE AS AT 31.12.2016					
	COMPLIANT LOANS				DEFAULTING LOANS	
	DAYS IN ARREARS < 30					
SEGMENT	TOTAL EXPOSURE 31.12.2016	NO EVIDENCE	WITH EVIDENCE	SUB-TOTAL	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	36 069 313	10 600 000	3 830 000	14 430 000	49 855	4 610
Corporate	13 969 694	800 000	1 500 000	2 300 000	1 396	32 277
Guarantees	6 681 181	–	–	–	–	–
Individual	12 905 026	–	6 722 648	6 722 648	–	7 683
Non-contracted	–	–	–	–	4 993	133 189
Transferable securities	3 864 234	2 000 000	–	2 000 000	1 631	–
Total	73 489 448	13 400 000	12 052 648	25 452 648	57 875	177 758

	TOTAL IMPAIRMENT AS AT 31.12.2016				
	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	188 987	184 378	–	1 665	2 945
Corporate	330 681	307 677	–	49	22 956
Guarantees	10 046	10 046	–	–	0
Individual	312 884	305 201	–	–	7 683
Non-contracted	131 668	–	–	467	131 200
Transferable securities	4 097	2 334	–	163	1 600
Total	978 363	809 636	–	2 344	166 384

* 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

31.12.2017

	CORPORATE			CONSTRUCTION E 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

31.12.2016

	CORPORATE			CONSTRUCTION E 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	280 000	5 653
2012						
2013	2	1 500 000	85 281	2	2 100 000	8 937
Total	2	1 500 000	85 281	3	2 380 000	14 590

c) Breakdown of gross loan exposure and impairment evaluated separately and collectively[4] by segment, sector and geographical spread

c.1) By segment:

	CONSTRUCTION & CRE		CORPORATE		GUARANTEES	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	39 509 326	269 477	12 697 868	18 464	3 985 840	3 644
Collective	6 632 877	27 451	10 562 143	258 643	2 674 125	7 968
Total	46 142 203	296 928	23 260 010	277 108	6 659 965	11 612

	INDIVIDUAL		N/ NON-CONTRACTED		TRANSFERABLE SECURITIES		TOTAL	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	13 735 710	465 486	–	85 278	3 807 521	3 046	73 736 264	845 395
Collective	4 173 943	170 457	–	92 137	73 472	592	24 116 561	557 249
Total	17 909 653	635 943	–	177 415	3 880 993	3 638	97 852 824	1 402 644

4 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.

	CONSTRUCTION & CRE		CORPORATE		GUARANTEES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	28 798 580	79 970	6 792 588	116 982	4 034 857	3 051
Collective	7 270 733	109 018	7 177 106	213 699	2 646 324	6 996
Total	36 069 313	188 987	13 969 694	330 681	6 681 181	10 046

	INDIVIDUAL		N/ NON-CONTRACTED		TRANSFERABLE SECURITIES		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	10 916 229	276 554	–	84 683	3 747 195	3 161	54 289 450	564 400
Collective	1 988 797	36 330	–	46 984	117 039	936	19 199 999	413 963
Total	12 905 026	312 884	–	131 668	3 864 234	4 097	73 489 448	978 363

c.2) By sector of activity:

	REAL ESTATE ACTIVITIES		PRIVATE		FINANCIAL INTERMEDIATION, EXCEPT INCURANCE AND PENSION FUNDS	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	39 509 326	269 477	15 143 230	547 810	6 690 294	3 445
Collective	6 792 877	28 226	3 314 137	127 826	5 133 644	294 551
Total	46 302 203	297 703	18 457 368	675 636	11 823 938	297 996

	ACCOMODATION		PROPERTY DEVELOPMENT (BUILDING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION		ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	2 400 000	6 000	3 511 052	8 778	3 985 840	3 644
Collective	3 857 500	5 095	1 175 799	29 395	0	23 575
Total	6 257 500	11 095	4 686 851	38 173	3 985 840	27 219

	RETAIL TRADE, EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		MANUFACTURE OF ELECTRICAL EQUIPMENT	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	2 496 522	6 241				
Collective	6 78 572	33 929	1 220 000	3 050	681 683	1 023
Total	3 175 094	40 170	1 220 000	3 050	681 683	1 023

	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
EVALUATION						
Individual						
Collective	450 000	4 500	342 545	514	225 017	1 949
Total	450 000	4 500	342 545	514	225 017	1 949

	ACTIVITIES OF AUXILIARY FINANCIAL AND INSURANCE SERVICES		ADMINISTRATIVE SERVICES AND SUPPORT GIVEN TO COMPANIES		SPECIALIZD CONSTRUCTION ACTIVITIES	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	200 584	2 966	29 000	382	15 201	190
Total	200 584	2 966	29 000	382	15 201	190

	CONSULTANCY AND IT SERVICE ACTIVITIES		TOTAL	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			73 736 264	845 395
Collective	–	78	24 116 561	557 249
Total	–	78	97 852 824	1 402 644

	REAL ESTATE ACTIVITIES		PRIVATE		FINANCIAL INTERMEDIATION, EXCEPT INCURANCE AND PENSION FUNDS	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	24 709 749	65 951	14 663 424	364 398	4 100 000	103 519
Collective	6 025 113	100 150	4 598 508	87 875	1 093 271	9 344
Total	30 734 862	166 102	19 261 933	452 273	5 193 271	112 863

	CROPS, ANIMAL PRODUCTION, HUNTING, FORESTRY AND FISHING		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		PROPERTY DEVELOPMENT (BUILD-ING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	3 985 840	2 989	2 692 588	13 463	2 237 848	11 189
Collective	155 777	125	750 000	6 000	191 392	2 003
Total	4 141 617	3 114	3 442 588	19 463	2 429 241	13 192

	HUMAN HEALTH ACTIVITIES		ACCOMODATION		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual			1 900 000	2 890		
Collective	2 185 837	12 014	280 000	5 653	1 000 000	5 000
Total	2 185 837	12 014	2 180 000	8 544	1 000 000	5 000

	ARCHITECTURE, ENGINEERING AND RELATED ACTIVITIES; TESTS AND TECHNICAL ANALYSIS		MANUFACTURE OF ELECTRICAL EQUIPMENT		ACTIVITIES OF AUXILIARY FINANCIAL AND INSURANCE SERVICES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	875 000	4 375	812 500	122	634 383	152 105
Total	875 000	4 375	812 500	122	634 383	152 105

	EDUCATION		ADMINISTRATIVE SERVICES AND SUPPORT GIVEN TO COMPANIES		SPECIALIZD CONSTRUCTION ACTIVITIES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	380 017	950	203 000	5 052	15 201	190
Total	380 017	950	203 000	5 052	15 201	190

	CONSULTANCY AND IT SERVICE ACTIVITIES		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			54 289 450	564 400
Collective	–	23 005	19 199 999	413 963
Total	–	23 005	73 489 448	978 363

c.3) By geographical spread:

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

	S. TOMÉ E PRÍNCIPE		UNITED STATES OF AMERICA		LUXEMBOURG	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	443 113	665	52 699	21	2 042	18
Total	443 113	665	52 699	21	2 042	18

	UNITED KINGDOM		DENMARK		TOTAL	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual					73 736 264	845 395
Collective	–	9 973	–	152	24 116 561	557 249
Total	–	9 973	–	152	97 852 824	1 402 644

	PORTUGAL		SPAIN		S. TOMÉ E PRÍNCIPE	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	54 289 450	564 400				
Collective	18 247 680	227 389	634 383	152 105	199 135	159
Total	72 537 130	791 789	634 383	152 105	199 135	159

	BRAZIL		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			54 289 450	564 400
Collective	118 800	34 310	19 199 999	413 963
Total	118 800	34 310	73 489 448	978 363

d) Breakdown of gross loan exposure and impairment by segment, sector and geographical spread

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						

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

2016

	COMPLIANT LOANS			DEFAULTING LOANS		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	6	12 052 648	317 551			
Grace Period						
Reduction of Rate						

	TOTAL		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	6	12 052 648	317 551
Grace Period			
Reduction of Rate			

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

	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»	–
Other	–
Closing balance of the restructured loan portfolio (gross of impairment)	16 286 429

	31.12.2016
Opening balance of the restructured loan portfolio (gross of impairment)	12 052 648
Restructured loans in the period	–
Interest accrued on restructured portfolio	–
Payment of restructured loans (partial or total)	–
Loans reclassified from «restructured» to «normal»	–
Other	–
Closing balance of the restructured loan portfolio (gross of impairment)	12 052 648

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

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€ e <1M€	3	2 472 000	2	1 565 793
>= 1M€ e <5M€	3	8 776 000	4	12 708 959
>=5M e <10M€	3	21 103 000	1	5 605 313
>=10M e <20M€	1	10 507 611		
>=20M e <50M€				
>=50M				
Total	20	45 546 011	33	20 584 335

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

*Example: Shares, bonds, deposits, material assets.

31.12.2016

CORPORATE				
	BUILDINGS		OTHER REAL COLLATERAL*	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	24	1 620 000	14	1 006 997
>=0,5M€ e <1M€	12	7 591 000	1	525 000
>= 1M€ e <5M€	6	13 181 700	2	4 882 075
>=5M e <10M€				
>=10M e <20M€				
>=20M e <50M€				
>=50M				
Total	42	22 392 700	17	6 414 072

g) LTV ratio of segments

31.12.2017

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral	2 038 004	7 683	43 337
<60%	14 868 175	0	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% e <80%	11 263 248		118 744
>=80% e <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

31.12.2016

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral		7 683	7 683
<60%	7 858 972		111 268
>=60% and <80%	2 112 025		136 839
>=80% and <100%	438 092		5 755
>=100%	2 495 936		51 338
Transferable securities			
With no associated collateral			
<60%	3 768 290		3 330
>=60% and <80%	95 944		768
>=80% and <100%			
>=100%			
Construction & CRE			
With no associated collateral	118 800	4 610	34 310
<60%	20 919 166		87 104
>=60% and <80%	14 865 728		66 859
>=80% and <100%			
>=100%	165 620		714
Corporate			
With no associated collateral	200 000	23 005	28 053
<60%	6 099 474		28 990
>=60% and <80%	3 185 837	9 272	106 021
>=80% and <100%	3 100 000		9 512
>=100%	1 384 383		158 105
Non-contractualised		133 189	131 668
With no associated collateral			
<60%			
>=60% and <80%			
>=80% and <100%			
>=100%			
Guarantees			
With no associated collateral	29 013		116
<60%	25 773		1 289
>=60% and <80%			
>=80% and <100%			
>=100%	6 626 395		8 642
Total	7 689 448	177 758	978 363

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

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

ASSET 31.12.2016	NO OF PROPERTIES	ASSET FAIR VALUE	BOOK VALUE
LAND			
Urban	1	85 000	85 000
Total	1	85 000	85 000

i) Breakdown of the loan portfolio by internal risk degree

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-contracted				
Transferable Securities		3 880 993		
Total	9 253 490	17 227 055	27 474 638	32 375 240

	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-contracted			0	0
Transferable Securities				3 880 993
Total	1 174 204	1 025 000	9 323 197	97 852 824

2016

	LOW DEGREE			MEDIUM DEGREE		
SEGMENT	9	8	7	6	5	4
Construction & CRE				1 165 620	24 786 069	2 955 000
Corporate		1 562 500	2 000 000	2 249 520	1 300 000	5 172 604
Guarantees				63 691	6 360 183	25 773
Individual			2 337 150	995 731	2 980 442	182 968
Non-contracted						
Transferable Securities				3 864 234		
Total	–	1 562 500	4 337 150	8 338 796	35 426 694	8 336 345

	HIGH DEGREE			TOTAL
SEGMENT	3	2	1	
Construction & CRE	3 031 490	2 126 591	2 004 543	36 069 313
Corporate	1 000 000		685 069	13 969 694
Guarantees		75 000	156 535	6 681 181
Individual			6 408 734	12 905 026
Non-contracted			–	–
Transferable Securities				3 864 234
Total	4 031 490	2 201 591	9 254 882	73 489 448

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

2017

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

2016

	IMPAIRMENT			
	PD (%)			
SEGMENT	< 30 DAYS WITH NO EVIDENCE	< 30 DAYS WITH EVIDENCE	BETWEEN 30-90 DAYS	LGD (%)
Construction & CRE	19%		0%	0%
Corporate	31%		0%	2%
Guarantees	1%		0%	0%
Individual	31%		0%	1%
Non-contracted	0%		0%	13%
Transferable Securities	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 assets.

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:

	2017	2016
VaR Trading Portfolio	99 798	46 067

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 indexes 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.

Following Instruction 19/2005 of Banco de Portugal, as at 31 December 2017 and 2016 interest rate-sensitive on-or off-balance sheet positions, by maturity intervals or interest rate reset, are as follows.

This interest-sensitive analysis is based on a parallel shift in the yield curve in 200 bp. The scope of application is the banking book. The results are shown below:

2017 TIME SPAN	ASSETS	LIABILITIES	WEIGHTED POSITION
At sight – 1 month	102 525 623	122 784 297	14 962
1 – 3 months	49 414 957	16 359 408	-115 155
3 – 6 months	24 930 201	19 033 881	-47 244
6 – 12 months	40 852 002	28 224 756	-300 994
1 – 2 years	14 719 053	24 445 503	269 199
2 – 3 years	4 307 896	348 639	-177 771
3 – 4 years	800 473	0	-49 149
4 – 5 years	3 547 733	0	-273 530
5 – 7 years	6 838 930	0	-694 151
7 – 10 years	680 598	0	-90 247
10 – 15 years		0	0
15 – 20 years		0	0
> 20 years	12 899	0	-3 358
	248 630 364	211 196 483	-1 467 437

2016 TIME SPAN	ASSETS	LIABILITIES	WEIGHTED POSITION
At sight – 1 month	96 645 925	108 521 586	9 501
1 – 3 months	13 383 192	13 249 125	-429
3 – 6 months	19 728 662	14 526 125	-37 458
6 – 12 months	29 042 176	20 082 435	-128 124
1 – 2 years	12 965 862	25 675 907	352 068
2 – 3 years	13 291 971	1 424 543	-532 848
3 – 4 years	4 581 328	–	-281 294
4 – 5 years	3 993 545	–	-307 902
5 – 7 years	11 349 979	–	-1 152 023
7 – 10 years	1 019 246	–	-135 152
10 – 15 years		–	–
15 – 20 years		–	–
> 20 years	12 332	–	3 210
	206 014 218	183 479 721	-2 216 871

Given the exposure on 31 December 2017, the impact of an interest rate variation in 200 base points in own funds would be of about 1,467 k€ (2,216 k€ in 2016).

Note that in 2017 the impact of net worth on own funds is of -4%, lower than the -6% in 2016.

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 2016 and 2017 the exchange risk was residual, as shown in the table below:

CURRENCY	2017	2016
USD	438 562	298 301
GBP	248 315	17 761
SEK	173 963	16 977
DKK	86 742	4 281
CAD	68 126	76 598
AUD	60 646	47 416
NOK	60 364	77 503
JPY	33 677	20 572
CHF	25 944	361 182
NZD	19 540	511
BRL	7 322	614 968
SGD	4 530	
HKD	1 653	395
RUB	1 034	
ZAR	384	
MXN	274	
PLN	10	
CNH	1	
TOTAL	1 231 087	1 536 465

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 policy, 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:

- Determine process-related risks, without regard to existing controls (inherent risk);
- Assess the exposure of various processes to risk, considering the influence of existing controls (residual risk);
- 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:

- Allocation of assets, liabilities and off-balance sheet items;
- Estimates of minimum requirements for own funds;
- Joint venture of counterparts;
- Liquidity profile;
- Other prudential indicators.

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

The contractual maturities of financial instruments as at 31 December are as follows:

31.12.2017

	CURRENT AND AND UP TO 1 WEEK	GREATER THAN 1 WEEK AND UP TO 1 MONTH	GREATER THAN 1 MONTH AND UP TO 3 MONTHS	GREATER THAN 3 MONTHS AND UP TO 6 MONTHS	GREATER THAN 6 MONTHS AND UP TO 12 MONTHS	GREATER THAN 12 MONTHS	TOTAL
FINANCIAL ASSETS							
Cash and Cash Equivalents in Central Banks	57 345 371						57 345 371
Cash and Cash Equivalents in other Credit Institutions	44 802 585	0	490 746	0	0	0	45 293 331
Financial Assets held for trading	5 838 582	0	3 904 216	601 451	12 552	5 474 236	15 831 036
Financial Assets held for sale	5 345 339	1 214 561	1 315 643	438 517	304 237	14 284 897	22 903 194
Creditors	21 468 690	8 341 240	13 830 950	23 602 362	17 194 491	27 980 890	112 418 622
Investments held until Maturity	0	0	0	0	3 315 405	5 326 136	8 641 541
Hedging Derivatives	0	0	10 609	15 053	0	37 019	62 681
Other Assets	2 666 255						2 666 255
	137 466 822	9 555 801	19 552 164	24 657 382	20 826 684	53 103 179	265 162 031
FINANCIAL LIABILITIES							
Liabilities held for trading							0
Deposits from other credit institutions	4 081 234	2 005 808	3 511 170	6 118 880	2 861	0	15 719 953
Deposits from clients and other loans	16 665 288	34 983 208	34 441 280	18 287 747	32 709 436	58 289 571	195 376 530
Other liabilities	7 467 447	4 697 163	1 304 150	1 304 150	1 304 150	7 131 142	23 208 203
	28 213 970	41 686 179	39 256 600	25 710 777	34 016 448	65 420 713	234 304 686
DIFERENCIAL	109 252 852	-32 130 378	-19 704 436	-1 053 395	-13 189 763	-12 317 534	30 857 345

31.12.2016

	CURRENT AND AND UP TO 1 WEEK	GREATER THAN 1 WEEK AND UP TO 1 MONTH	GREATER THAN 1 MONTH AND UP TO 3 MONTHS	GREATER THAN 3 MONTHS AND UP TO 6 MONTHS	GREATER THAN 6 MONTHS AND UP TO 12 MONTHS	GREATER THAN 12 MONTHS	TOTAL
FINANCIAL ASSETS							
Cash and Cash Equivalents in Central Banks	33 031 767	0	0	0	0	0	33 031 767
Cash and Cash Equivalents in other Credit Institutions	9 746 264	3 226	273 187	3 473 549	4 802 502	59 346	18 358 074
Financial Assets held for trading	1 826 130	0	3 210	327 088	4 657	5 476 353	7 637 439
Financial Assets held for sale	11 973 472	98 677	0	496 027	230 582	13 612 570	26 411 328
Creditors	634 780	461 619	13 935 621	17 299 377	26 532 071	27 062 218	85 925 686
Investments held until Maturity	0	0	0	0	0	10 782 954	10 782 954
Hedging Derivatives	0	0	40 102	34 524	45 040	14 925	134 591
Other Assets	3 158 166	0	0	0	0	3 938 537	7 096 703
	60 370 579	563 522	14 252 121	21 630 565	31 614 852	60 946 903	189 378 541
FINANCIAL LIABILITIES							
Liabilities held for trading	0	0	0	0	0	0	0
Deposits from other credit institutions	296 232	7 490 628	1 601 682	1 909 957	3 066 241	409 619	14 774 358
Deposits from clients and other loans	12 027 650	29 369 075	22 602 354	23 296 633	28 157 213	26 620 769	142 073 694
Other liabilities	8 424 486	1 628 474	731 454	731 454	731 454	105 282	12 352 604
	20 748 368	38 488 177	24 935 490	25 938 044	31 954 907	27 135 670	169 200 656
DIFERENCIAL	39 622 211	-37 924 655	-10 683 369	-4 307 479	-340 056	33 811 232	20 177 885

2.8 EQUITY MANAGEMENT

With respect to equity 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

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

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

In addition to the regulatory requirements, the Bank has, as an integral part of the equity management process, a Recovery Plan in place, 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 adverse event scenarios, some of which in terms of equity.

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

O 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:

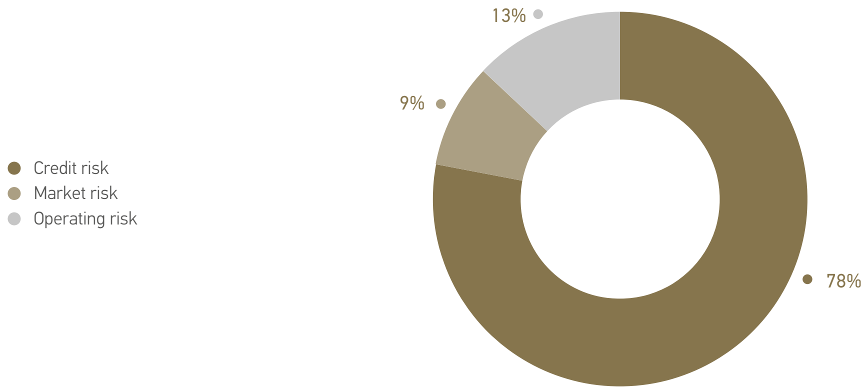
- Regulatory, based on regulatory reports, especially prudential reports, that provide important data for the quantitative and qualitative analysis of capital and risk;
- Economic capital and its requirements, which quantifies the risk according to the confidence level established in its RAS (*Risk Appetite 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 2017.

TYPES OF RISK	RISK-WEIGHTED ASSETS (RWA)	REGULATORY CAPITAL REQUIREMENTS
Credit risk	128 696 472 €	10 295 718 €
Market risk	15 431 223 €	1 234 498 €
Operating risk	21 901 796 €	1 752 144 €
Total	166 029 492 €	13 282 359 €



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:

- Standard Method, using the market price for measuring Counterparty Risk;
- 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 2017:

	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:

- 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;

- 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 2017 were:

- 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 EUR, fully subscribed and paid;
- 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;

- 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 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:

- 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:

- Deduction of 20% of positive reserves not resulting from potential gains in sovereign bonds and of negative reserves, both resulting from the revaluation of investment portfolio assets;

- Additional filters resulting from the 20% deduction arising from clients' deposits with a rate above the threshold defined by Banco de Portugal, in accordance with Instruction 28/2011 or Instruction 15/2012, depending on their composition, as at 31/12/2013.

ITEMS	VALUE
Paid-in capital	20 000 000 €
Issue premiums	369 257 €
Retained earnings	986 024 €
Legal reserves	13 353 229 €
Intangible assets	70 368 €
Own funds with no transitional provisions	34 638 141 €
Transitional provisions	17 592 €
Additional filters	68 524 €
Economic capital	34 552 025 €

CAPITAL IINDICATORS

As at 31 December 2017, risk-weighted assets amounted to 166.0 M€, setting capital requirements of 13.3 M€ – comfortably hedged by own funds in the amount of 34.6 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 20.81%, well above the legally minimum required (6% and 8%, respectively).

In addition, the gearing ratio stood at 12.85%.

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet and statement of profit and loss accounts are compared as at 31 December 2017 and 31 December 2016, in compliance with the International Financial Reporting Standards, and consist of the following headings:

3.01. Cash and liquid assets in central banks — Note 01

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

	31/12/2017	31/12/2016
Cash	75 133	90 609
Liquid assets at demand with Banco de Portugal	57 270 238	32 941 158
	57 345 371	33 031 767

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. Liquid assets in other credit institutions — Note 02

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

	31/12/2017	31/12/2016
Demand deposits in credit institutions		
Residents	18 130 042	1 616 667
Non-residents	27 163 286	16 741 404
	45 293 328	18 358 071

3.03. Financial assets held for trading — Note 03

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

	31/12/2017	31/12/2016
Trading securities		
Securities	10 342 867	7 560 374
Derivative instruments with positive fair value	12 647	77 065
	10 355 514	7 637 439

This portfolio grew by 35.59% compared to the previous financial year, explained by purchases and sales arising from favourable market opportunities, the book trading positions of which are shown in detail in the table below.

FINANCIAL ASSETS HELD FOR TRADING

As at 31 December 2017 and 2016, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE		BALANCE SHEET VALUE		CAPITAL				IMPAIRMENT	
			FAIR VALUE		GAINS		LOSSES			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
DEBT INSTRUMENTS										
Issued by residents										
Of Portuguese public debt										
Treasury bonds	279 430		280 250		820		–		–	
Non-subordinated debt		5 000 000		5 000 000		–		–		–
Of other resident issuers										
Sovereign bonds	–	380 452	–	437 149	–	56 697	–	–	–	–
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	340 113	129 118	346 223	–	6 132	558	22		–
	9 234 954	5 720 565	9 232 286	5 783 372	820	62 829	3 488	22		–
EQUITY INSTRUMENTS										
Issued by residents										
Of other resident issuers										
Shares	2 860	262 813	2 254	210 006	2	7 893	609	60 700	–	–
Issued by non-residents										
Of other non-resident issuers										
Shares	633 325	1 475 222	408 562	896 732	1 544	4 941	226 307	583 431	–	–
Participation units	31 516	27 375	31 197	27 244	38	179	357	310	–	–
Other	8 486	8 486	10 537	8 486	2 051	–	–	–	–	–
	676 187	1 773 896	452 550	1 142 468	3 635	13 013	227 273	644 441	–	–
OTHER										
Issued by residents										
Of other resident issuers										
Other	–	–	–	–	–	–	–	–	–	–
Issued by non-residents										
Of other non-resident issuers										
Structured products	682 812	662 885	658 031	634 534	4 221	4 903	29 002	33 254	–	–
	682 812	662 885	658 031	634 534	4 221	4 903	29 002	33 254	–	–
DERIVATIVE INSTRUMENTS AT POSITIVE FAIR VALUE										
Other										
Unrealised capital gains from futures	–	–	–	52 400	–	–	–	–	–	–
Unrealised capital gains from options	–	–	12 647	24 665	–	–	–	–	–	–
	–	–	12 647	77 065	–	–	–	–	–	–
TOTAL	10 593 954	8 157 346	10 355 514	7 637 439	8 676	80 745	259 763	677 717	–	–

3.04. Other financial assets at fair value through profit or loss — Note 04

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

	31/12/2017	31/12/2016
Securities		
Issued by residents	11 969	6 832
	11 969	6 832

This amount refers to the contribution to the Work Compensation Fund. Fair value accounting in accordance with IAS 39(9)(b), quotation being obtained from the website of the Work Compensation Fund.

3.05. Available for sale financial assets — Note 05

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

	31/12/2017	31/12/2016
Issued by residents		
Debt instruments	9 008 797	10 612 131
Equity instruments	551 750	656 900
Other	4 421 904	2 402 585
	13 982 451	13 671 616
Issued by non-residents		
Debt instruments	8 281 123	12 254 563
Equity instruments	6 676	19 336
Other	632 943	465 812
	8 920 742	12 739 711
	22 903 194	26 411 328

As mentioned in the basis of presentation and significant accounting policies, assets are classified under this heading when they are not intended for divestment in the short term. Changes in fair value are recognised directly in equity under “Fair value reserves”. In 2017, the position of this portfolio dropped as a result of divestitures in debt instruments issued by non-residents.

AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31 December 2017 and 2016, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE		BALANCE SHEET VALUE – FAIR VALUE		CAPITAL – GAINS		CAPITAL – LOSSES		IMPAIRMENT	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
DEBT INSTRUMENTS										
Issued by residents										
Of Portuguese public debt										
Treasury bonds	6 216 985	221 202	6 208 797	225 632	54 474	10 960	62 661	6 530	–	–
Treasury Bills		9 998 473		10 001 500		3 027		–		–
Of other resident issuers										
Non-subordinated debt	2 800 000	407 720	2 800 000	385 000	–	–	–	22 720	–	–
Subordinated debt	4 353 500	4 353 500	–	–	–	–	–	–	4 353 500	4 353 500
Issued by non-residents										
Of other non-resident issuers										
Non-subordinated debt	8 231 545	12 794 180	8 281 123	12 127 403	355 579	345 585	16 761	452 976	289 240	559 386
Subordinated debt	348 110	456 992	–	127 160	–	18 278	–	–	348 110	348 110
	21 950 139	28 232 067	17 289 921	22 866 695	410 053	377 850	79 422	482 226	4 990 850	5 260 996
EQUITY INSTRUMENTS										
Issued by residents										
Of other resident issuers										
Shares	2 138 824	3 687 934	551 750	656 900	–	–	–	1 247 760	1 587 074	1 783 274
Issued by non-residents										
Other	–	–	6 676	19 336	6 676	19 336	–	–	–	–
	2 138 824	3 687 934	558 426	676 236	6 676	19 336	0	1 247 760	1 587 074	1 783 274
OTHER										
Issued by residents										
Of other resident issuers										
Other	3 993 759	1 883 758	4 421 904	2 402 585	428 145	518 827	–	–	–	–
Issued by non-residents										
Of other non-resident issuers										
Structured products	669 046	503 706	632 943	465 812	781	156	36 885	38 050	–	–
	4 662 805	2 387 464	5 054 847	2 868 397	428 927	518 983	36 885	38 050	–	–
TOTAL	28 751 768	34 307 465	22 903 194	26 411 328	845 655	916 169	116 306	1 768 036	6 577 924	7 044 270

The changes occurred in impairment losses of available for sale financial assets are presented as follows:

	31/12/2017	31/12/2016
Balance on 1 January	7 004 270	6 235 149
Appropriation	1 800	1 169 850
Reversal	(5 248)	(58 671)
Utilisation	(418 474)	(335 490)
Exchange differences and others	(44 425)	33 433
Balance on 31 December	6 577 924	7 044 270

3.06. Investments in credit institutions — Note 06

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

	31/12/2017	31/12/2016
Investments:		
In the country		
In other credit institutions	611 400	16 111 400
Income receivable	380	4 985
	611 780	16 116 385

3.07. Loans to clients — Note 07

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

	31/12/2017	31/12/2016
Domestic loans		
Loans	29 913 689	22 358 730
Current account loans	58 739 771	43 314 251
Overdrafts in demand deposits	3 565 332	182 968
Foreign loans		
Loans	1 175 799	118 800
Current account loans	1 048 965	833 519
Overdue loans and interest	1 372 715	168 512
Income receivable	187 425	105 029
	96 003 696	67 081 808
Impairment for overdue loans and interest	(1 467 082)	(968 346)
	94 536 614	66 113 462

In 2017, the credit portfolio grew considerably, being more and more relevant in the Bank's activity as a whole, 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 are formed in conformity with Notice 5/2015 of Banco de Portugal.

The changes occurred in impairment losses of the credit portfolio are presented as follows:

	31/12/2017	31/12/2016
Balance on 1 January	968 346	942 304
Appropriation	1 171 338	2 300 401
Reversal	(781 898)	(2 274 359)
Utilisation		
Exchange differences and others	109 297	
Balance on 31 December	1 467 082	968 346

3.08. Investments held to maturity Note 08

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

	31/12/2017	31/12/2016
Investments held to maturity	8 830 258	11 011 818
	8 830 258	11 011 818

INVESTMENTS HELD TO MATURITY

As at 31 December 2017 and 2016, this heading is broken down as follows::

NATURE AND TYPE OF SECURITIES	PAR VALUE		ACQUISITION VALUE		EFFECTIVE RATE		BALANCE SHEET VALUE AMORTISED COST	
				2016	2017	2016	2017	2016
DEBT INSTRUMENTS								
Issued by residents								
Of other resident issuers								
Non-subordinated debt								
EGLPL 5,50 04/19	2 000 000	2 000 000	2 000 000	2 000 000	5.67%	5.67%	2 022 124	2 021 599
Issued by non-residents								
Of other non-resident issuers								
Non-subordinated debt								
BANBRA 3,75 07/18	1 600 000	1 600 000	1 516 000	1 516 000	6.10%	6.10%	1 606 182	1 571 831
TRAFIG 5,00 04/20	1 000 000	1 000 000	915 000	915 000	7.47%	7.47%	982 445	962 995
BNDES 3,625 01/19	2 000 000	2 000 000	1 910 000	1 910 000	5.37%	5.37%	2 033 230	2 001 875
BANBRA 3,75 07/18	400 000	400 000	392 500	392 500	4.62%	4.62%	404 651	401 405
BCOBMG 8,00 04/18	5 253 064	5 976 663	5 253 064	5 976 663	8.24%	8.24%	1 781 626	4 052 113
TOTAL	12 253 064	12 976 663	11 986 564	12 710 163			8 830 258	11 011 818

3.09. Hedging derivatives Note 09

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

	31/12/2017	31/12/2016
Hedging derivatives		
Positive fair value – Cash flow hedge	53 480	129 841
	53 480	129 841

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 2016 and 2017, 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.

3.10. Non-current assets held for sale Note 10

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

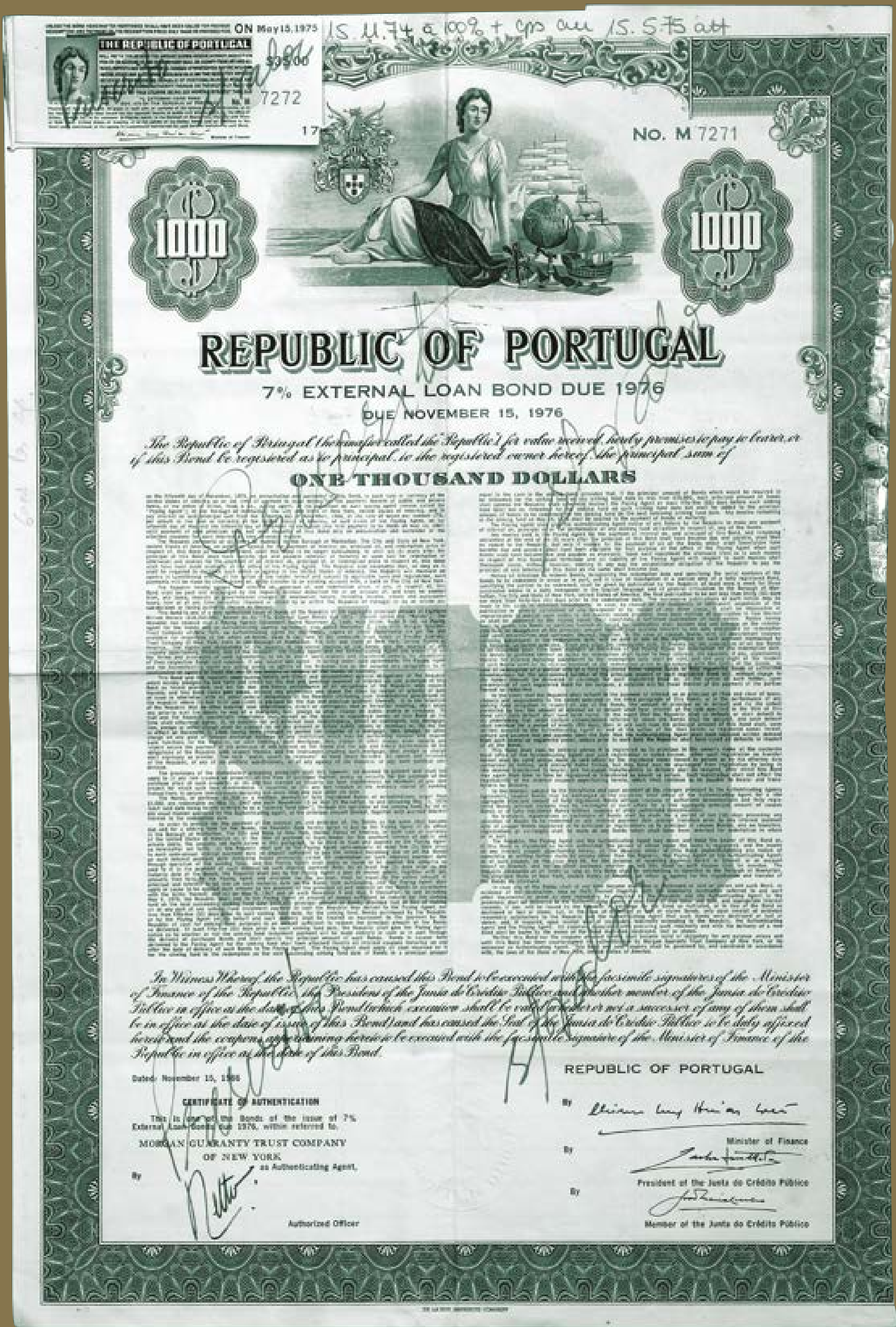
	31/12/2017	31/12/2016
Non-current property, plant and equipment held for sale		
Buildings	85 680	85 680
	85 680	85 680

This amount corresponds to a property acquired to recover a loan.

3.11. Other property, plant and equipment Note 11

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

	31/12/2017	31/12/2016
Other property, plant and equipment		
Buildings	6 875 172	5 095 220
Equipment	6 785 027	6 029 642
Finance lease assets	63 705	368 570
Property, plant and equipment in progress	82 602	223 953
	13 806 507	11 717 384
Accrued amortisations		
Buildings	(188 870)	(75 489)
Equipment	(5 075 402)	(4 872 104)
Finance lease assets	(7 167)	(35 935)
	(5 271 439)	(4 983 528)
	8 535 068	6 733 856


No. M 7271
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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
$1000
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

In terms of investment, there was a positive year-on-year variation of 26.75% due to the acquisition of a new building, the exchange of another building purchased earlier on, and rehabilitation and functional upgrading in the *affluent* building, plus the equipment thereof.

Changes recorded in Other property, plant and equipment are shown in the following note.

O movimento verificado em Outros ativos tangíveis pode ser analisado na Note seguinte.

3.12. Intangible assets Note 12

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

	31/12/2017	31/12/2016
Consolidation difference (Goodwill)	200	200
Other intangible assets		
Automatic data processing system (software)	2 472 700	2 439 862
Other	272 187	272 187
	2 745 087	2 712 249
Accrued amortisations		
Automatic data processing system (software)	(2 405 439)	(2 329 404)
Other	(249 402)	(220 671)
	(2 654 841)	(2 550 075)
	90 246	162 174

Changes and balances as at 31 December 2017 and 2016 under «Other property, plant and equipment» and «intangible assets», including amortisations and impairment adjustments are presented in the table below.

Despite a slight increase in investments made in automatic data processing systems (software), the pace of amortisations corresponding to net investments made earlier substantially reduces this asset component.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AS AT 31 DECEMBER 2017 | (CONSOLIDATED ACTIVITY)

Amounts stated in EUR

	ON 31/12/2016				
CONTAS	GROSS VALUE	ACCRUED AMORTISATIONS	INCREASES DUE TO ACQUISIT.	DEPRECIATION	WRITE-OFFS (NET)
OTHER INTANGIBLE ASSETS					
Goodwill	200	0	0	0	0
Set-up costs	0	0	0	0	0
Multi-year costs	0	0	0	0	0
Data processing systems (software)	2 439 863	(2 329 404)	32 838	(76 036)	0
Other intangible assets	272 187	(220 671)	0	(28 731)	0
Intangible assets in progress	0	0	0	0	0
	2 712 249	(2 550 075)	32 838	(104 766)	0
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)	0	(956)	0
Property, plant and equipment in progress	223 953	0	1 103 326	0	0
	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

The Board of Directors

TRANSF.	SETTLEMENTS: GROSS VALUE	SETTLEMENTS: DEPRECIATION	SETTLEMENTS: ACCRUED AMORTISATIONS	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED AMORTISATIONS	NET VALUE ON 31/12/2017
0	0	0	0	200	0	0	200
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	2 472 701	(76 036)	(2 329 404)	67 261
0	0	0	0	272 187	(28 731)	(220 671)	22 785
0	0	0	0	0	0	0	0
0	0	0	0	2 745 087	(104 766)	(2 550 075)	90 246
1 510 957	0	2 286	(32 011)	7 163 296	(85 153)	(107 500)	6 686 302
38 584	0	0	0	7 043 957	(460 022)	(4 872 104)	1 709 625
(304 864)	0	(2 286)	32 011	63 705	(3 242)	(3 925)	56 539
(1 244 677)	0	0	0	82 602	0	0	82 602
0	0	0	0	14 353 561	(548 417)	(4 983 528)	8 535 068
0	0	0	0	17 098 647	(653 184)	(7 533 603)	8 625 313

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AS AT 31 DECEMBER 2016 | (CONSOLIDATED ACTIVITY)

Amounts stated in EUR

	ON 31/12/2016				
CONTAS	GROSS VALUE	ACCRUED AMORTISATIONS	INCREASES DUE TO ACQUISIT.	DEPRECIATION	WRITE-OFFS (NET)
OTHER INTANGIBLE ASSETS					
Goodwill	200	0	0	0	0
Set-up costs	0	0	0	0	0
Multi-year costs	0	0	0	0	0
Data processing systems (software)	2 388 762	(2 217 658)	51 101	(111 746)	0
Other intangible assets	242 529	(201 002)	575	(19 669)	0
Intangible assets in progress	0	0	29 083	0	0
	2 631 491	(2 418 660)	80 758	(131 415)	0
PROPERTY, PLANT AND EQUIPMENT					
Property	525 290	(44 970)	4 569 930	(30 519)	0
Equipment	5 519 178	(4 522 350)	586 714	(426 004)	0
Financial leasing assets	368 570	(30 407)	0	(5 529)	0
Property, plant and equipment in progress	0	0	223 953	0	0
	6 413 037	(4 597 727)	5 380 597	(462 052)	0
TOTALS	9 044 528	(7 016 387)	5 461 355	(593 466)	0

The Certified Accountant

The Board of Directors

		SETTLEMENTS						
	TRANSF.	GROSS VALUE	DEPRECIATION	ACCRUED AMORTISATIONS	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED AMORTISATIONS	NET VALUE ON 31/12/2016
	0	0	0	0	200	0	0	200
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	0	0	0	0	2 439 863	(111 746)	(2 217 658)	110 459
	29 083	0	0	0	272 187	(19 669)	(201 002)	51 516
	(29 083)	0	0	0	0	0	0	0
	0	0	0	0	2 712 249	(131 415)	(2 418 660)	162 174
	0	0	0	0	5 095 220	(30 519)	(44 970)	5 019 731
	0	0	0	0	6 105 892	(426 004)	(4 522 350)	1 157 538
	0	0	0	0	368 570	(5 529)	(30 407)	332 634
	0	0	0	0	223 953	0	0	223 953
	0	0	0	0	11 793 634	(462 052)	(4 597 727)	6 733 856
	0	0	0	0	14 505 883	(593 466)	(7 016 387)	6 896 030

3.13 Current tax assets — Note 13

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

	31/12/2017	31/12/2016
Current tax assets		
Recoverable corporate income tax	288 300	289 411
	288 300	289 411

3.14. Deferred tax assets — Note 14

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

	31/12/2017	31/12/2016
Deferred tax assets		
Temporary differences		
Property, plant and equipment / Intangible assets	17 667	31 171
Impairments	307 971	383 060
P Tax losses	33 103	20 479
	358 741	434 710

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.

3.15. Other assets — Note 15

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

	31/12/2017	31/12/2016
Other liquid assets	147 081	53
Debtors and other investments		
Miscellaneous debtors	2 409 540	4 356 853
Miscellaneous investments	10 398 254	10 100 467
Other assets	3 829 053	4 535 884
Other interest and similar income		
Of fixed income issued by residents		
Of Portuguese public debt	126 815	4 991
Of other residents	153 288	52 078
Other income receivable		
Other obligations	109 094	255 166
Fees for services provided	113 804	99 641
Costs with deferred charges		
Insurance	90 875	31 170
Other deferred charges	534 684	208 109
Other regularisation accounts	2 666 255	7 096 703
	20 578 743	26 741 115
Accumulated impairments.		
Debtors and other investments (*)	(549 975)	(1 549 975)
	(549 975)	(1 549 975)
	20 028 768	25 191 140

«Other regularisation accounts» include the security transactions made at the end of the period, pending settlement at the beginning of the subsequent financial year.

(*) Following an extra-judicial agreement signed at the end of 2016, an impairment in the amount of 1.45 M€ was recognised, which includes, on the recommendation of Banco de Portugal, 500 k€ on amounts receivable up to 2019, of which 50 k€ were received in early 2017.

Following the above extra-judicial agreement, the sale/purchase contract of a 10% holding in the equity of a credit institution, the head-office of which is abroad, was terminated, and the advance payment of 50 k€ was refunded in early 2017.

	31/12/2017	31/12/2016
Balance on 1 January	1 549 975	100 000
Appropriation		1 449 975
Reversal		
Utilisation	(1 000 000)	
Exchange differences and others		
Balance on 31 December	549 975	1 549 975

3.16. Financial liabilities held for trading — Note 16

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

	31/12/2017	31/12/2016
Derivative instruments with negative fair value	0	39 256
	0	39 256

Perdas não realizadas em 2016 destinadas a cobrir parte da exposição da carteira em USD.

3.17. Recurso de instituições de crédito — Note 17

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

	31/12/2017	31/12/2016
Loans and deposits from domestic credit institutions		
Deposits	15 659 141	13 102 509
Loans	38 216	85 043
Other deposits	2 014	2 285
	15 699 370	13 189 838
Loans and deposits in foreign credit institutions		
Deposits	14 815	403 300
Loans	24 314	1 208 293
	39 129	1 611 593
	15 738 499	14 801 430

3.18. Deposits from clients and other loans — Note 18

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

	31/12/2017	31/12/2016
Deposits from clients		
Deposits		
Of residents		
Demand	77 981 565	49 308 043
Term	87 401 772	70 757 857
Of non-residents		
Demand	15 220 933	16 563 076
Term	8 793 258	5 444 715
	189 397 526	142 073 692
Interest on deposits from clients		
Deposits		
Of residents	367 371	381 383
Of non-residents	31 994	23 282
	399 365	404 665
	189 796 891	142 478 356

3.19. Provisions — Note 19

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

	31/12/2017	31/12/2016
Provisions for general credit risks		
Guarantees, commitments	13 513	10 046
	13 513	10 046

3.20. Current tax liabilities — Note 20

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

	31/12/2017	31/12/2016
Current tax liabilities		
Corporate income tax payable	0	539 184
Other	72 834	15 002
	72 834	554 186

3.21. Other liabilities — Note 21

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

	31/12/2017	31/12/2016
Suppliers	715 609	203 188
Suppliers – finance lease assets	8 586	35 125
Creditors – trading in securities	132 211	176 593
Other creditors	373 812	380 336
Creditors – futures & options	1 784 632	4 627 533
Other deposits	20 225 824	6 931 652
VAT payable	153 603	68 242
Withholding and other taxes payable to the State	446 897	372 580
Contributions to Social Security	84 913	76 362
Contributions to other health systems	4 200	4 010
Unions	788	752
	23 931 076	12 876 372
Liabilities relating to pensions and other benefits	173 335	190 864
Charges payable		
Staff costs	527 078	519 041
Other charges	148 495	122 544
	677 576	655 118
Other revenue with deferred income	79	7 773
Other operations to be regularised	2 968 382	5 402 221
	27 750 447	19 132 349

The amount stated under «Other deposits» refers to the financial balances of clients arising from derivative transactions invested in the liquidity of portfolio management contracts.

«Other operations to be regularised» includes transactions for the purchase of securities made at the end of the year, pending settlement at the begining of the following financial year.

3.22. Equity attributed to the Group — Note 22

The movements and balances as at 31 December 2017 under the equity headings are presented in the annex «Statement of changes in equity capital».

Breakdown of equity:

- 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 EUR, fully subscribed and paid;
- 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;

3.23. Minority interests

Note 23

Minority interests in 2017 were calculated according to the following table:

SUBSIDIARIES	EQUITY	% MINORITY INTERESTS	MINORITY INTERESTS
CoolLink, Lda	111 823	50.00%	55 911
FII Arquimedes	5 973 298	8.33%	497 775
TOTAL	6 085 121		553 686

3.24. Fair value of financial assets and liabilities

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is estimated in accordance with IFRS13.

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 market (or more favourable) 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:

2017	AMORTISED COST	MEASURED AT FAIR VALUE LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS							
Cash and liquid assets in central banks	57 345 371	–	–	–	–	57 345 371	57 345 371
Liquid assets in other credit institutions	45 293 328	–	–	–	–	45 293 328	45 293 328
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
Investments in credit institutions	611 780	–	–	–	–	611 780	611 780
Loans to clients	94 536 614	–	–	–	–	94 536 614	94 536 614
Investments held to maturity	8 830 258	–	–	–	–	8 830 258	9 183 172
Hedging derivatives	–	–	–	53 480	–	53 480	53 480
Other assets	20 028 768	–	–	–	–	20 028 768	20 028 768
	226 646 119	6 907 879	25 799 079	617 199	33 258 708	259 970 276	260 323 190
FINANCIAL LIABILITIES							
Financial liabilities held for trading	–	–	–	–	–	–	–
Deposits from other credit institutions	15 738 499	–	–	–	–	15 738 499	15 738 499
Clients' deposits and other loans	189 796 891	–	–	–	–	189 796 891	189 796 891
Other liabilities	27 750 447	–	–	–	–	27 750 447	27 750 447
	233 285 837	–	–	–	–	233 285 837	233 285 837

2016	AMORTISED COST	MEASURED AT FAIR VALUE LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS							
Cash and liquid assets in central banks	33 031 767	–	–	–	–	33 031 767	33 031 767
Liquid assets in other credit institutions	18 358 071	–	–	–	–	18 358 071	18 358 071
Financial assets held for trading	–	1 108 077	6 529 362	–	7 637 439	7 637 439	7 637 439
Other financial assets at fair value through profit or loss	–	–	–	6 832	–	6 832	6 832
Available for sale financial assets	–	309 631	25 528 796	572 900	26 411 328	26 411 328	26 411 328
Investments in credit institutions	16 116 385	–	–	–	–	16 116 385	16 116 385
Loans to clients	66 113 462	–	–	–	–	66 113 462	66 113 462
Investments held to maturity	11 011 818	–	–	–	–	11 011 818	11 382 088
Hedging derivatives	–	–	–	129 841	–	129 841	129 841
Other assets	25 191 140	–	–	–	–	25 191 140	25 191 140
	169 822 641	1 417 708	32 058 158	709 573	34 048 767	204 008 081	204 378 351
FINANCIAL LIABILITIES							
Financial liabilities held for trading	–	–	39 256	–	39 256	39 256	39 256
Deposits from other credit institutions	14 801 430	–	–	–	–	14 801 430	14 801 430
Clients' deposits and other loans	142 478 356	–	–	–	–	142 478 356	142 478 356
Other liabilities	19 132 349	–	–	–	–	19 132 349	19 132 349
	176 412 136	0	39 256	–	39 256	176 451 391	176 451 391

FAIR VALUE HIERARCHY

IFRS 13 categorises the inputs used to measure fair value into three levels:

- 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.

- 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.

- Level – 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 2017 and 2016 financial years, the changes in Level 3 class of assets or liabilities in the fair value hierarchy are as follows:

	AVAILABLE FOR SALE FINANCIAL ASSETS
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	–
Others	–
Balance on 31 December 2017	551 750

	AVAILABLE FOR SALE FINANCIAL ASSETS
Balance on 1 January 2016	686 900
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	-114 000
Gains/(losses) recognised in fair value reserves	-
Acquisitions	-
Disposals	-
Transfers from other levels	-
Transfers to other levels	-
Exchange differences	-
Others	-
Balance on 31 December 2016	572 900

The transfer from other levels to level 3 corresponds only to the Cimpor shares, which in 2016 were classified in level 1, as explained in the note on restatements (II).

In 31/12/2017, the holdings in the 2 entities classified in level 3 were valuated through the analysis of their financial statements. One of the entities was subject to impairment in 2013, which is maintained as a result of the recent valuation of the equity.

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[5]:

	2017		2016	
	EUR	USD	EUR	USD
1 week	-0.378	1.480	-0.374	0.723
1 month	-0.368	1.564	-0.368	0.771
2 months	-0.340	1.622	-0.338	0.819
3 months	-0.329	1.694	-0.319	0.998
6 months	-0.271	1.837	-0.221	1.318
1 year	-0.257	1.881	-0.203	1.687
2 years	-0.150	2.060	-0.160	1.450
3 years	0.013	2.147	-0.103	1.674
4 years	0.172	2.191	-0.024	1.843
5 years	0.316	2.226	0.078	1.970
7 years	0.565	2.291	0.309	2.166
10 years	0.886	2.375	0.648	2.350
30 years	1.501	2.518	1.201	2.593

5 The above amounts were obtained from *Bloomberg*.

Exchange rates

The fixing values of the Central Bank[6] are used for exchange rates. The table below shows the exchange rates of some of the relevant currency pairs as at 31 December 2017 and 2016:

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	1,6916	3,9785
USD	0,83299		0,73977	0,97484	8,19175	8,19925	1,28048	1,25686	1,40908	3,31404
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		8,40322	8,41091	1,31354	1,2893	1,44545	3,39959
SEK	0,10169	0,12207	0,09031	0,119		1,00092	0,15631	0,15343	0,17201	0,40456
NOK	0,10159	0,12196	0,09022	0,11889	0,99909		0,15617	0,15329	0,17186	0,40419
AUD	0,65053	0,78096	0,57773	0,7613	6,39739	6,40325		0,98155	1,10043	2,58811
CAD	0,66275	0,79563	0,58858	0,77561	6,51764	6,5236	1,0188		1,12111	2,63676
NZD	0,59116	0,70968	0,525	0,69182	5,81355	5,81887	0,90874	0,89197		2,35192
BRL	0,25135	0,30175	0,22322	0,29415	2,47184	2,4741	0,38638	0,37925	0,42519	

2016	EUR	USD	GBP	CHF	SEK	NOK	AUD	CAD	NZD	BRL
EUR		1,05117	0,85352	1,07209	9,5751	9,0874	1,45969	1,41338	1,5159	3,4288
USD	0,95084		0,81156	1,01939	9,1044	8,64068	1,38793	1,3439	1,44138	3,26025
GBP	1,17162	1,23219		1,25608	11,2184	10,647	1,7102	1,65594	1,77606	4,01725
CHF	0,93276	0,98098	0,79613		8,93125	8,47634	1,36154	1,31834	1,41397	3,19824
SEK	0,10444	0,10984	0,08914	0,11197		0,94907	0,15245	0,14761	0,15832	0,3581
NOK	0,11004	0,11573	0,09392	0,11798	1,05367		0,16063	0,15553	0,16681	0,37731
AUD	0,68508	0,7205	0,58473	0,73446	6,55968	6,22557		0,96827	1,03851	2,34899
CAD	0,7752	0,7441	0,60389	0,75853	6,77461	6,42955	1,03277		1,07254	2,42596
NZD	0,65967	0,69378	0,56305	0,70723	6,31645	5,99472	0,96292	0,93237		2,26189
BRL	0,29165	0,30673	0,24893	0,31267	2,79255	2,65032	0,42572	0,41221	0,44211	

6 Source of exchange rates: https://www.bportugal.pt/taxas-cambio.

3.25. Financial margin Note 24 and 25

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

	31/12/2017	31/12/2016
Interest and similar income from:		
Deposits in central banks	0	194
Deposits and investments in other credit institutions	14 173	3 880
Interest on deposits in credit institutions	47 790	131 297
Interest on loans to clients	4 127 983	3 588 475
Overdue loans	83 450	233 675
Interest and similar income from other financial assets	1 659 820	2 218 829
Commissions received associated to amortised cost	27 246	0
	5 960 463	6 176 350
Interest and similar costs on:		
Deposits from Banco de Portugal	(67 032)	(63 060)
Deposits from other credit institutions	(131 730)	(103 045)
Interest from creditors and other deposits s		
Interest on deposits from clients	(624 000)	(921 882)
Interest on trading liabilities	(1 257)	(1 761)
Other interest and similar costs	(68 751)	(104 055)
	(892 771)	(1 193 803)
	5 067 692	4 982 547

3.26. Income from equity instruments Note 26

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

	31/12/2017	31/12/2016
Available for sale financial assets		
Issued by residents		
Participation units	126 981	95 200
	126 981	95 200

These results arise from the distribution of dividends of the investment fund Retail Properties, corresponding to 0.015€/0.043€ (2 distribution periods) and to 0.015€, respectively, in 2017 and 2016, per unit held.

3.27. Revenue and charges – fees/commission services Note 27 and 28

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

	31/12/2017	31/12/2016
Income – services and fees/commissions from:		
Guarantees and sureties	101 959	100 581
Deposits and values under custody	27 619	21 711
Collection of securities	118 942	69 064
Administration of securities	1 011 077	866 417
Collective investment undertakings	242 476	198 937
Other services provided	1 694 748	348 462
Operations carried out on behalf of third parties	2 410 662	2 581 117
Other fees/commissions received	864 114	1 175 331
	6 471 597	5 361 619
Charges – services and fees/commissions for:		
Deposits and values under custody	(66 759)	(50 685)
Organisation of collective investments in transferable securities	(15 129)	0
Other banking services provided by third parties	(46 263)	(21 819)
Operations carried out by third parties	(2 162 843)	(1 998 689)
	(2 291 364)	(2 071 193)
	4 180 233	3 290 426

3.28. Income from assets and liabilities evaluated at fair value Note 29

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

	31/12/2017	31/12/2016
Gains from:		
Financial assets held for trading		
Securities	2 757 135	3 117 089
Derivative instruments	630 211	3 084 904
	3 387 346	6 201 993
Losses from:		
Financial assets held for trading		
Securities	(1 795 828)	(3 042 284)
Derivative instruments	(460 306)	(3 273 104)
	(2 256 134)	(6 315 388)
	1 131 212	(113 395)

3.29. Income from available for sale financial assets — Note 30

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

	31/12/2017	31/12/2016
Gains from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	1 527	3 032
Equity instruments	300 000	0
Other (*)	0	2 324 472
Issued by non-residents		
Debt instruments	437 482	904 263
Equity instruments	176	22
	739 184	3 231 789
Losses from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	(5 714)	(64 655)
Issued by non-residents		
Debt instruments	(270 198)	(383 360)
	(275 912)	(448 015)
	463 272	2 783 775

(*) According to the applicable rules, this heading shows the amounts relating to the derecognition of financial assets, normally through their disposal. Considering the normally longer period in which investment are made for this portfolio, the disposal of securities generally results from particularly favourable opportunities found for their disposal. Therefore, 2016 saw a positive result from the sale of 4 304 243 participation units of the Retail Properties Real Estate Fund, which alone represented a result of 2.3 M€, which justifies the net variation observed betwen the two financial years.

3.30. Income from currency revaluation — Note 31

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

	31/12/2017	31/12/2016
Gains from:		
Exchange differences		
Other items in foreign currency – foreign currencies	245 567	1 448 852
Losses from:		
Exchange differences		
Other items in foreign currency – foreign currencies		
Outros itens em moeda estrangeira – divisas	(468 735)	(1 487 550)
	(223 167)	(38 697)

3.31. Income from the disposal of other assets — Note 32

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

	31/12/2017	31/12/2016
Gains from:		
Non-financial assets	45 862	10 500
Other gains in financial transactions	0	3 990
	45 862	14 490

Results calculated from the sale of the Bank's vehicles in each financial year.

3.32. Other operating income — Note 33

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

	31/12/2017	31/12/2016
Gains from:		
Other gains and operating income	50 415	58 167
	50 415	58 167
Losses from:		
Other taxes	(255 811)	(209 947)
Donations and membership fees	(71 235)	(73 995)
Contributions to the Deposit Guarantee Fund (FGD)	(110)	(80)
Contributions to the Investor Compensation Scheme	(5 000)	(4 000)
Failure of computer systems or telecommunications	(1 058)	(2 919)
Other property, plant and equipment	(28 745)	0
Other costs and operating expenses	(141 931)	(330 202)
	(503 890)	(621 143)
	(453 475)	(562 976)

3.33. Staff costs — Note 34

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

	31/12/2017	31/12/2016
Remuneration		
Management and supervisory bodies	(423 696)	(439 829)
Employees	(3 012 166)	(2 766 169)
Mandatory social security contributions		
Remuneration-related charges	(825 018)	(779 274)
Other mandatory social security contributions		
Pension fund	(61 565)	(73 426)
Insurance against accidents at work	(16 928)	(16 211)
Other staff costs	(258 578)	(274 598)
	(4 598 224)	(4 349 508)

In December 2017, the Bank had 88 staff in Portugal, as shown below in the job descriptions.

DISTRIBUTION BY PROFESSIONAL CATEGORY	31/12/2017	31/12/2016
Management Board	4	4
Management	19	20
Technical staff	20	15
Admin. staff	15	14
Commercial/operations	22	22
Others	8	9
Banco Carregosa	88	84
CoolLink (includes 2 managers)	16	14

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:

- Old-age retirement or presumable disability pension;
- Deferred survivors' pension;
- Immediate survivors' pensions;
- Post-retirement contributions to SAMS (medical-social aid assistance for bank employees);
- 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. Responsibility for services provided in the past by eligible employees is 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 benefits relating to disability pensions and immediate survivors pensions are covered by a life insurance policy.

In addition, the Bank also has responsibilities and costs of health care of 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 MULTICARE 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 2017, Banco Carregosa's pension plan included 14 active employees, 49 with acquired rights and 4 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:

	2017	2016
Current workers	14	16
Former participants with acquired rights	49	47
Pensioners	4	5
TOTAL	67	68

Assumptions

The liabilities of the pension scheme were assessed on the basis of the following assumptions:

	2017	2016
ACTUARIAL EVALUATION METHOD	PROJECTED UNIT CREDIT METHOD	PROJECTED UNIT CREDIT METHOD
Demographic assumptions		
Mortality tables	TV88/90	TV88/90s
Invalidity tables	SR88	SR88
Turnover tables		
Financial assumptions		
Rate of return on Fund	2.00%	2.00%
Wage growth rate	1.25%	1.25%
Pension adjustment rate	2.00%	2.00%
Pension growth rate	1.00%	1.00%
General information		
Number of benefit Payments	14	14

Rate of Return on Fund – The discount rate, which should reflect 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 2017 and 2016 financial years and values actually recorded is shown below:

	2017		2016	
	PLANNED	CONFIRMED	PLANNED	CONFIRMED
Mortality	0.31%	0.00%	0.30%	1.46%
Wage growth rate	1.25%	0.75%	1.25%	0.75%
Pension growth rate	1.00%	11.12%	1.00%	1.61%
Return rate	2.00%	3.10%	2.00%	2.34%

Mortality table – In view of the history of death rate, the TV88_90 mortality table is maintained.

Return rate – As in recent years, the return rate in 2017 was higher than the planned rate. 10-year projections, until 2027, in a best estimate scenario, point to an average annual return rate of 5.5%. 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 aforementioned changes have influenced a percentage increase of pensions in an amount greater than the actuarial assumption, as mentioned in the related Actuarial Report.

Pension liabilities

Pension liabilities as at 31 December are as follows:

	2017	2016
Pension payment liabilities	727 740	741 385
Asset liabilities	2 863 223	2 750 845
TOTAL	3 590 963	3 492 230

Pension payment liabilities

The current value of pension liabilities as at 31 December 2017 is as follows:

	CURRENT VALUE OF PENSIONS IN 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

The current value of pension liabilities as at 31 December 2016 is as follows:

	CURRENT VALUE OF PENSIONS IN PAYMENT	SAMS	DEATH GRANT	TOTAL
Old-age pensions	194 685	19 977	1 132	215 794
Invalidity pensions	–	–	–	–
Survivors' pensions	497 383	12 470	–	509 854
Orphans' pensions	15 212	526	–	15 738
TOTAL	707 280	32 973	1 132	741 385

Asset liabilities

The current value of asset liabilities as at 31 December 2017 is as follows:

CURRENT VALUE OF LIABILITIES 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

The current value of asset liabilities as at 31 December 2016 is as follows:

CURRENT VALUE OF LIABILITIES PAST SERVICE LIABILITIES	ASSETS	ACQUIRED RIGHTS	SAMS ASSETS	DEATH GRANT ASSETS	TOTAL
<65 years	1 496 105	860 626	165 522	14 438	2 536 691
≥ 65 years	190 857	3 124	19 060	1 113	214 154
TOTAL	1 686 962	863 750	184 582	15 551	2 750 845

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:

	2017	2016
FP OCP Equilibrado	885 259	875 803
FP OCP Moderado	1 403 490	1 368 615
FP OCP Ações	1 128 880	1 056 947
TOTAL	3 417 628	3 301 366

In 2017 and 2016, the three funds developed as follows:

	2017			2016		
	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE
Opening balance	6.8723	480 387.8095	3 301 366	6.7151	483 619.3127	3 247 540
Pensions + Costs	–	-15 839.9366	-111 113	–	-11 673.4627	-76 807
Contributions + Other receipts	–	17 791.0911	123 683	–	8 441.9595	54 942
Total movements	–	1 951.1545	12 570	–	-3 231.5032	-21 865
Fund return rate	3.10%	–	103 693	2.34%	–	75 690
Closing balance	7.0855	482 338.9640	3 417 628	6.8723	480 387.8095	3 301 366

Below is an analysis of the differences in each financial year:

	2017			2016		
	ESTIMATED	REAL	DIFF.	ESTIMATED	REAL	DIFF.
Pensions + Costs	-69 297	-111 113	-41 815	-67 305	-76 807	-9 502
Contributions + Other receipts	–	123 683	123 683	–	54 942	54 942
Total movements	-69 297	12 570	81 867	-67 305	-21 865	45 440
Fund return rate	65 334	103 693	38 359	64 278	75 690	11 413
Closing balance	3 297 402	3 417 628	120 226	3 244 513	3 301 366	56 853

Estimates were based on the pensions and the estimated return rate of the previous year.

Since the Bank made contributions in each year and the real return was higher than the estimated return, the differences were positive.

Defined benefit liability

As at 31 December 2017 and 2016, the Bank's past service liabilities and their hedges are broken down as follows:

	2017	2016
Liabilities as at 31 December		
Pensions in payment	727 740	741 385
Assets	2 863 223	2 750 845
	3 590 963	3 492 230
Value of funds	3 417 628	3 301 366
Net asset/(Liability) in the balance sheet	-173 335	-190 864
Actuarial differences recognised in other comprehensive income	28 978	566

As at 31 December 2017 and 2016, past service liabilities developed as follows:

	2017	2016
Opening liabilities	3 492 230	3 380 684
Current service cost	57 055	70 090
Interest cost	69 844	67 614
Actuarial losses/(gains)	9 381	10 847
Payments	-37 547	-37 005
Closing liabilities	3 590 964	3 492 230

The development of the pension funds value in the years ended 31 December 2017 and 2016 is broken down as follows:

	2017	2016
Opening balance	3 301 366	3 247 540
Net yield	57 300	55 187
Contributions	96 510	35 643
Pensions paid	-37 547	-37 004
Closing balance	3 417 628	3 301 366

In February 2018, the Bank made an additional payment of 82 875€.

As at 31 December 2017 and 2016, the weight by class of financial asset for each of the 3 funds is shown below:

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	–	–	–

2016

ASSET CLASS	FP OCP EQUILIBRADO	FP OCP MODERADO	FP OCP AÇÕES
Shares	32.60%	13.60%	46.50%
Liquidity	1.10%	5.00%	2.40%
Real estate	–	–	–
Bonds	65.40%	81.20%	49.90%
Other	0.90%	0.20%	1.20%

The financing level of pension payment liabilities as at 31 December is as follows:

	2017	2016
Liabilities (VAPP+VASP)	3 590 963	3 492 230
Fund value	3 417 628	3 301 366
Overall funding level	95.17%	94.53%

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 pension in 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 2017 the Current Value of Past Service Liabilities totals 3 590 963€, of which 727 740€ correspond to the Current Value of Pensions in Payment. At the same date, the fund is worth 3 417 628€, which means an overall financing hedge of 95.17%.

As at 31 December 2017, 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	-346 998
- 0.5 bp	398 622
Wage growth rate	
+ 0.5 bp	228 605
- 0.5 bp	-200 078
Pension growth rate	
+ 0.5 bp	200 680
- 0.5 bp	-183 687
Mortality	
Up 1 year	131 682

Maturity periods for defined benefit obligation as at 31 December 2017 and 2016 is as follows:

	31/12/2017	31/12/2016
Duration of defined benefit obligation	21.56	21.84

Maturity of defined benefit obligation		
up to 12 months	38 033	35 927
between 1 and 3 years	78 515	73 401
between 3 and 6 years	135 998	116 039
between 6 and 11 years	291 688	252 325
between 11 and 16 years	541 893	496 861
> more than 16 years	3 157 047	3 602 745

The actuarial report is available at the Bank's head-office for consultation.

3.34. General administrative costs Note 35

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

	31/12/2017	31/12/2016
Supplies:		
Water, electricity and fuel	(198 816)	(190 231)
Consumables	(28 856)	(10 957)
Publications	(7 533)	(7 029)
Hygiene and cleaning products	(17 771)	(13 023)
Other third party supplies	(209 497)	(138 796)
	(462 473)	(360 037)
Services:		
Leases and rentals	(140 111)	(281 675)
Communications	(239 426)	(262 701)
Travel, hotel and representation costs	(308 418)	(314 382)
Advertising and publishing	(591 167)	(506 166)
Repairs and maintenance	(122 322)	(133 191)
Insurance	(59 769)	(51 524)
Specialised services		
Retainers and fees	(144 480)	(108 982)
Legal, litigation and notaries	(10 923)	(9 440)
IT services	(373 046)	(288 582)
Security and surveillance	(19 411)	(17 856)
Cleaning services	(2 901)	(1 844)
Information	(485 363)	(473 427)
Databases	(48 385)	(50 135)
Other specialised services		
Advisory services	(1 068)	(2 676)
Consultants and external auditors (*)	(498 309)	(500 547)

	31/12/2017	31/12/2016
Other third party services		
Public relations and advisory services	(41 666)	(59 976)
Banco de Portugal – Bpnet Service	(3 939)	(2 899)
Housekeeping services	(7 409)	(6 900)
Temporary manpower	(1 650)	(10 004)
Unicre – Card management fee	(1 483)	0
Other	(72 104)	(43 838)
	(3 173 350)	(3 126 743)
	(3 635 822)	(3 486 780)

(*) 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 AUDIT FIRM	
Statutory audit	47 800
Assurance and reliability services	10 250
Other (CoolLink)	1 500
	59 550

3.35. Depreciations and amortisations — Note 36

As mentioned in Notes 11 and 12, 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.

3.36. Provisions net of write-offs — Note 37

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

	31/12/2017	31/12/2016
Gains:		
Provisions for guarantees and commitments made	19 604	90 515
Losses:		
Provisions for guarantees and commitments made	(23 071)	(52 748)
	(3 466)	37 767

3.37. Credit impairment net of reversals and recoveries — Note 38

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

	31/12/2017	31/12/2016
Normal loans	90 455	(36 769)
Overdue loans (includes other debtors)	(479 894)	(1 439 248)
	(389 440)	(1 476 017)

3.38. Impairment of other financial assets net of reversals and recoveries Note 39

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

	31/12/2017	31/12/2016
Available for sale financial assets		
Securities	5 248	(1 073 379)
Equity instruments	(1 800)	(37 800)
	3 448	(1 111 179)*

* Restated amount.

IMPAIRMENTS			
2017		2016	
SECURITY	VALUE	VALUE	SECURITY
Debt instruments			Debt instruments
OIBRBZ 5,75 02/22 (Reversal)	5 248	210 700	BESPL 7,25 11/23
Equity instruments		1 235	ESFG 6,875
Cimpor – Cimentos de Portugal S.A.	-1 800	318 594	OGXPBZ 8,50 06/15
		601 521	OI 5,75 02/22
		-58 671	OIBRBZ 5,75 02/22 (Reversal)
		1 073 379	Total 2016
		37 800	Cimpor – Cimentos de Portugal, SA(*)
	3 448	1 111 179	Total 2016 – Restated

(*) Recognition of impairment from 2016 (share price variation from 0.348 to 0.24).

3.39. Taxes Note 40 e 41

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

	31/12/2017	31/12/2016
Current	(240 592)	(239 938)
Deferred	(75 969)	366 540
	(316 561)	126 602

Current taxes recognised in 2017 in the amount of 240 592 € arise from income tax calculated according to the tax law applicable to Banco Carregosa, in the amount of 234 978 €, and to the participated company CoolLink in the amount of 5 614 €.

Deferred taxes recognised in 2017 amounting to 75 969 €, are broken down into 88 593 € 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 an inverse nature, 12 624 € relating to tax losses 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

Deferred taxes recorded in 2017 result from the impact of temporary differences in income tax on both property, plant and equipment and intangible assets, and on impairments.

3.40. Off-balance sheet accounts

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

	31/12/2017	31/12/2016
Commitments to third parties:		
Irrevocable commitments		
Potential commitments to SII	442 626	358 569
Revocable commitments		
Credit lines	9 674 698	14 485 425
Account overdraft facilities	2 510 168	17 032
	12 627 493	14 861 026
Liability for service provision:		
Of deposits and values under custody	588 443 217	399 045 419
Administrative amounts of the institution	166 464 320	124 243 186
	754 907 537	523 288 605
Services provided by third parties:		
For deposits and values under custody	351 862 830	316 188 895
	351 862 830	316 188 895
Foreign exchange transactions and derivative instruments:		
Futures and forward options – trading	0	11 300 044
Options – trading	12 647	24 665
Options – hedging	50 851	115 413
	63 498	11 440 121
Guarantees provided and any other services:		
Personal guarantees	10 215 994	11 090 313
Real guarantees	5 586 000	10 180 000
	15 801 994	21 270 313
Guarantees received:		
Personal guarantees	71 167 797	64 356 150
Real guarantees	334 661 434	178 964 929
	405 829 231	243 321 079
Other off-balance sheet items:		
Write-offs	1 340 261	1 340 261
Accrued interest	71 477	43 649
Miscellaneous accounts	(1 542 504 321)	(1 131 753 949)
	(1 541 092 582)	(1 130 370 038)

3.41. 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.

Pursuant to the previous paragraph and as reported in December 2015, Banco de Portugal decided to hold the RF liable for any negative effects of future decisions arising from the Banco Espirito Santo SA resolution process, which entails responsibilities and contingencies. According to the publicly available information, the sum of claims is high and the amount of claimed losses that the FR may incur remains unclear, as well as any losses arising from the sale of Novo Banco.

A similar situation was also clarified by Banco de Portugal on 19 and 20 December 2015 regarding BANIF.

On 31 March 2017, Banco de Portugal issued a statement on the selection of Lone Star for completing the sale of Novo Banco. The statement is transcribed below:

«Under the terms of the agreement, LONE STAR will inject a total of € 1,000 million in Novo Banco, of which € 750 million at completion and € 250 million within a period of up to 3 years. Through the capital injection, LONE STAR will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital. The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are to be met related to: i) the performance of a specific portfolio of assets and ii) the capital levels of the bank going forward. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the agreement and are subject to an absolute cap.»

On 18 October 2017, Banco de Portugal and the RF announced the completion of the sale of Novo Banco to Lone Star.

To repay the loans obtained and other liabilities it may take on in connection with the aforementioned resolution measures, the RF receives periodical and special contributions from participating institutions (one of which is the Bank) and the contribution of the banking sector. Pursuant to Article 153-I of Decree-law 345/98, of 9 November, if the RF's resources are insufficient to fulfil its obligations, a special diploma may determine that participating institutions are required to make special contributions, and define the amounts thereof, instalment payments, deadlines and other terms and conditions of these contributions. Pursuant to Decree-law 24/2013 on the operation of the RF, since 2013 the Bank has paid the required contributions in accordance with the said decree.

In the context of the sale of Novo Banco, S.A., the Council of Ministers approved a resolution on 2 October 2017 authorising the Portuguese State, as the ultimate guarantor of financial stability, to conclude a framework agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when necessary, to meet the contractual obligations that may arise from the sale of 75% of the share capital of Novo Banco, S.A.

Accordingly, as at 31 December 2017 there is no estimate as to the amount of possible losses in connection with the sale of Novo Banco, with the claims and other contingencies related to the resolution of the Banco Espírito Santo process, and with possible losses to be incurred by FR following the resolution of BANIF.

Although the relevant law provides for the collection of special contributions, given the renegotiation of the terms and conditions of loans granted to the RF by the State and a banking union, and the press releases issued by the RF and the Office of the Minister of Finance, who said that the provision would not be used, the financial statements as at 31 December 2017 reflect the expectations of the Bank's Board of Directors that the institutions will not be called to make special contributions to the Resolution Fund or any other type of extraordinary contributions to finance the resolution measures applied to BES and Banif.

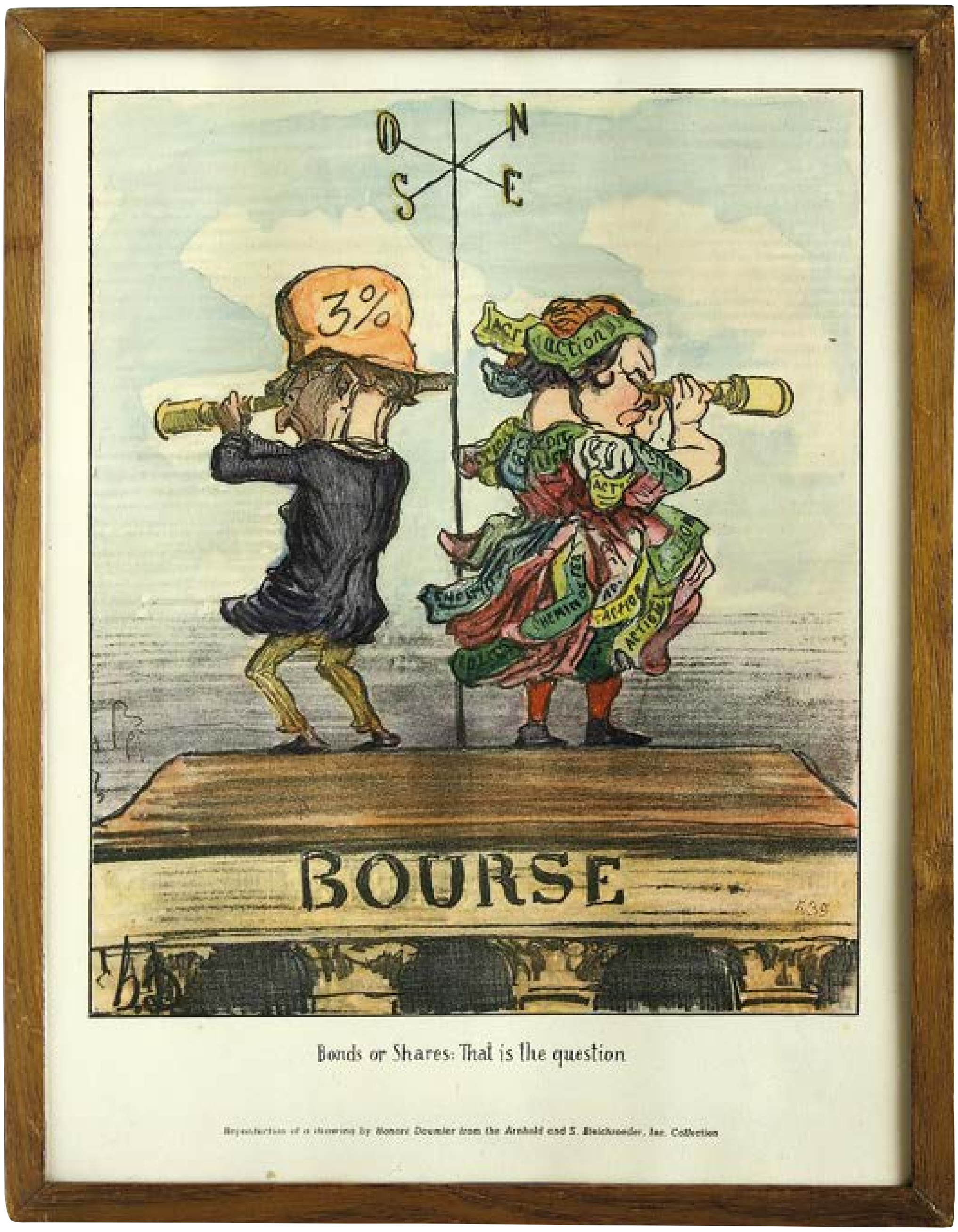
The contribution payable in 2018 was set at 50 811.78€, compared to 29 282.31€ paid in 2017, as a result of the change in the rate applied.

These contributions were and will be recognised as a cost in each financial year, in accordance with IFRIC 21 – Taxes.

3.42. Assets given as collateral

These assets are broken down as shown in the table below:

PLEDGED FINANCIAL ASSETS	31/12/2017	31/12/2016
Available for sale financial assets		
Debt securities	6 010 705	10 193 160
Other assets		
Receivables from futures and options transactions – margins	3 791 170	4 496 471
Various investments – uncleared values	10 395 180	10 050 467
	20 197 055	24 740 099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BOURSE
Bonds or Shares: That is the question

3.43. Related parties

As at 31 December 2017 and 2016, the Bank is controlled by the following shareholders with a holding of more than 2%:

SHAREHOLDING COMPOSITION:			31/12/2017
	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29,32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18,88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7,94	15 880
Groupe Norwich S.A.	9 999 990	5,00	9 999
Mauricio Zlatkin	9 999 000	5,00	9 999
Sophia Capital – Fundo de Capital de Risco	8 510 000	4,26	8 510
António José Paixão Pinto Marante	8 200 000	4,10	8 200
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 358 751	3,68	7 358
Ruasgest, SGPS, SA	4 764 223	2,38	4 764

SHAREHOLDING COMPOSITION:			31/12/2016
	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7.94	15 880
António José Paixão Pinto Marante	10 000 000	5.00	10 000
Groupe Norwich S.A.	9 999 990	5.00	9 999
Mauricio Zlatkin	9 999 000	5.00	9 999
Sophia Capital – Fundo de Capital de Risco	8 510 000	4.26	8 510
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 068 342	3.53	7 068
Ruasgest, SGPS, SA	4 764 223	2.38	4 764

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 2017 and 2016 are shown in Note 34 to this annex.

13 Separate Accounts - Analysis and Annexes

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2017 AND 2016

Amounts stated in EUR

	NOTES	31/12/2017	31/12/2016 RESTATED	01/01/2016 RESTATED
ASSETS				
Cash and liquid assets in central banks	1	57 345 292	33 031 686	47 502 888
Liquid assets in other credit institutions	2	45 280 385	18 343 694	23 529 925
Financial assets held for trading	3	15 830 080	7 637 076	3 858 017
Other financial assets at fair value through profit or loss	4	9 201	4 751	2 191
Available for sale financial assets	5	22 903 194	26 411 328	40 331 185
Investments in credit institutions	6	500 172	16 004 888	17 004 583
Loans to clients	7	94 536 614	66 113 462	76 082 331
Investments held to maturity	8	8 830 258	11 011 818	-
Assets under repurchase agreement		–	–	–
Hedging derivatives	9	53 480	129 841	–
Non-current assets held for sale	10	85 680	85 680	85 680
Investment properties		–	–	–
Other property, plant and equipment	11	8 483 962	6 668 358	1 781 721
Intangible assets	12	87 690	157 034	203 750
Investments in associated and subsidiary companies	13	25 000	25 000	25 000
Current tax assets	14	288 300	289 411	–
Deferred tax assets	15	325 638	414 231	1 276 669
Other assets	16	20 004 334	25 166 415	12 530 726
Total assets		274 589 280	211 494 672	224 214 666

	NOTES	31/12/2017	31/12/2016 RESTATED	01/01/2016 RESTATED
LIABILITIES				
Deposits from central banks		–	–	2 013 878
Financial liabilities held for trading	17	–	39 256	470 404
Other liabilities at fair value through profit or loss		–	–	–
Deposits from other credit institutions	18	15 738 163	14 800 312	19 682 386
Clients' deposits and other loans	19	195 775 894	142 478 359	161 267 872
Liabilities represented by securities		–	–	–
Financial liabilities associated to asset transfers		–	–	–
Hedging derivatives		–	–	–
Non-current liabilities held for sale		–	–	–
Provisions	20	13 513	10 046	47 813
Current tax liabilities	21	72 834	547 650	142 392
Deferred tax liabilities		–	–	–
Instruments representing equity		–	–	–
Other subordinated liabilities		–	–	–
Other liabilities	22	27 617 549	19 060 854	10 058 991
Total Liabilities		239 217 953	176 936 477	193 683 736
EQUITY	23			
Equity		20 000 000	20 000 000	20 000 000
Issue premiums		369 257	369 257	369 257
Other equity instruments		–	–	–
Revaluation reserves		725 244	741 743	(3 673 781)
Other reserves and retained earnings		13 476 173	13 836 020	13 835 454
Own shares		–	–	–
Income for the year		800 654	(388 825)	–
Interim dividends		–	–	–
Total equity		35 371 327	34 558 195	30 530 931
Total Liabilities and Equity		274 589 280	211 494 672	224 214 666

The Certified Accountant

The Board of Directors

SEPARATE INCOME STATEMENT
31 DECEMBER 2017 AND 2016

Amounts stated in EUR

	NOTAS	31/12/2017	31/12/2016 (*)
Interest and similar income	24	5 960 350	6 175 624
Interest and similar costs	25	-892 771	-1 193 803
Financial Margin		5 067 579	4 981 821
Income from equity instruments	26	126 981	95 200
Income from services and fees	27	6 477 651	5 361 619
Charges – services and fees	28	-2 275 357	-2 070 834
Income from assets and liabilities evaluated at fair value through profit or loss	29	1 106 140	-113 754
Income from available for sale financial assets	30	463 272	2 783 775
Income from foreign currency revaluation	31	-223 167	-38 697
Income from the sale of other assets	32	37 862	14 490
Other operating income	33	-445 409	-610 384
Operating revenue		10 335 551	10 403 234
Staff costs	34	-4 095 526	-3 842 764
General administrative costs	35	-4 104 189	-3 968 782
Depreciation and amortisations	36	-622 153	-556 957
Provisions net of write-offs	37	-3 466	37 767
Loan impairments net of reversals and recoveries	38	-389 440	-1 476 017
Impairment of other financial assets net of reversals and recoveries	39	3 448	-1 111 179
Impairment of other assets net of reversals and recoveries		–	–
Pre-tax profit		1 124 224	-514 697
Taxes		-323 571	125 872
Current	41	-234 978	-232 426
Deferred	42	-88 593	358 298
Profit after income tax		800 654	-388 825

Of which: Net income after tax on discontinued operations.
(*) Restated amount.

The Certified Accountant

The Board of Directors

STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts stated in EUR

	31/12/2017	31/12/2016(*)
Consolidated net result for the year	800 654	(388 825)
Items that will not be reclassified into profit or loss:		
Property, plant and equipment	(479)	3 984
Actuarial gains or losses (-) with defined benefit pension plans	28 978	566
Items that may be reclassified into profit or loss:		
Cash flow hedges	(2 231)	46 060
Available for sale financial assets	333 454	5 442 368
Income tax related to items that may be reclassified into profit or loss	(347 243)	(1 076 888)
Other comprehensive income	12 478	4 416 089
Total comprehensive income for the year	813 132	4 027 264

(*) Restated amounts.

The Certified Accountant

The Board of Directors

CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Amounts stated in EUR

	31/12/2017	31/12/2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and commissions receivable	12 304 626	11 959 632
Interest and commissions paid	(3 170 014)	(3 366 470)
Payments to employees and suppliers	(8 524 176)	(7 983 178)
Deposits from credit institutions and central banks	2 176 402	(8 137 814)
Other operating assets and liabilities	7 044 776	(7,223 873)
Other receipts from clients	24 572 641	(8 834 732)
Income taxes	(1 055 926)	(169 284)
Net cash from operating activities	**33 348 328**	**(23 755 720)**
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Dividends received	–	–
Acquisition/Disposal of available for sale assets	3 845 036	18 251 046
Held-to-maturity investments	2 141 412	(11 011 818)
Acquisitions of property, plant and equipment and intangible assets	(2 652 754)	(5 396 878)
Disposal of property, plant and equipment and intangible assets	294 364	10 500
Investments in subsidiaries and associated companies	–	–
Net cash from investment activities	**3 628 060**	**1 852 851**
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	–	–
Net increase (decrease) of cash and cash equivalents	36 976 388	(21 902 869)
Cash and cash equivalents at the beginning of the year	66 086 931	87 989 801
Cash and cash equivalents at the end of the year	103 063 320	66 086 931
Cash and cash equivalents		
In the years ended 31 December 2017 and 2016, the heading cash and cash equivalents is broken down as follows:		
Cash and liquid assets in central banks	57 345 292	33 031 686
Liquid assets in other credit institutions	45 280 385	18 343 694
Investments in other credit institutions	500 172	16 004 888
Overdrafts in other credit institutions	(62 529)	(1 293 336)
Cash and cash equivalents at year-end	**103 063 320**	**66 086 931**

The Certified Accountant

The Board of Directors

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2017 | (SEPARATE ACTIVITY)

Amounts stated in EUR

	CAPITAL	ISSUE PREMIUMS	FAIR VALUE RESERVES	LEGAL RESERVES
Balances as at 31 December 2015	20 000 000	369 257	(4 883 741)	2 161 217
RESTATED			1 209 960	
Opening balances (restated)	20 000 000	369 257	(3 673 781)	2 161 217
Changes in fair value reserves			5 454 612	
Deferred tax			(1 076 888)	
Actuarial gains or losses (-) with pension plans				
Net result of 2016				
Comprehensive income for 2016				
Distribution of dividends				
Other changes in equity				81 742
Balances as at 31 December 2016	20 000 000	369 257	(506 017)	2 242 959
RESTATED			37 800	
Opening balances (restated)	20 000 000	369 257	741 743	2 242 959
Changes in fair value reserves			330 744	
Deferred tax			(347 243)	
Actuarial gains or losses (-) with pension plans				
Net result of 2017				
Comprehensive income for 2017				
Distribution of dividends				
Other changes in equity				
Balances as at 31 December 2017	20 000 000	369 257	725 244	2 242 959

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The Board of Directors

OTHER RESERVES	RETAINED EARNINGS	RESULT OF THE PERIOD	TOTAL EQUITY
10 466 941	1 599 839	817 417	30 530 931
	(1 209 960)	0	0
10 466 941	389 879	817 417	30 530 931
			5 454 612
			(1 076 888)
566			566
		(351 025)	(351 025)
			4 027 264
			0
735 675		(817 417)	(0)
11 203 182	1 599 839	(351 025)	34 558 195
		(37 800)	0
11 203 182	389 879	(388 825)	34 558 195
			330 744
			(347 243)
28 978			28 978
		800 654	800 654
			813 132
			0
	(388 825)	388 825	0
11 232 160	1 054	800 654	35 371 327

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

[EXCEPT WHERE EXPLICITLY STATED OTHERWISE, 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

The separate 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 *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 2017 and were prepared in accordance with the current IFRS as adopted in the European Union.

The financial statements are expressed in euro and have been prepared on a historical cost basis, except for the assets and liabilities recorded at fair value in accordance with the respective accounting policies.

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

The following standards, interpretations, amendments and revisions adopted («*endorsed*») by the European Union were respected and implemented by the Bank for the first time in the year ended 31 December 2017.

Amendments to IAS 7 – Statement of Cash Flows: Disclosure initiative.

The amendments require the disclosure of additional information on the changes in their financing liabilities, including changes in cash and cash equivalents and changes that do not offset cash flow.

Amendments to IAS 12 – Income taxes: Recognition of deferred tax assets for Unrealised Losses.

The amendments introduced clarify the requirements for the recognition and measurement of deferred tax assets resulting from unrealised losses.

Annual improvements to IFRS standards: 2014-2016 cycle.

These improvements involve the clarification of some aspects related to:

• **IFRS 1** – First-time adoption of international financial reporting standards: deletion of some short-term exemptions;

• **IFRS 12** – Disclosure of interests in other entities: clarifies that the disclosures required apply to interests held for sale or held for distribution, under IFRS 5;

• **IAS 28** – Investments in associates and joint ventures: introduces clarifications on the fair value measurement through profit or loss of investment in associates or joint ventures held by venture capital companies or by investment funds.

No significant effects were recorded in the Bank's financial statements for the year ended 31 December 2017, arising from the adoption of the standards, interpretations, amendments and revisions referred to above.

The following standards, interpretations, amendments and revisions that must be applied in future financial years were, as of the date when these financial standards were endorsed by the European Union:

• **IFRS 9** – «Financial instruments (2009) and subsequent amendments» – This standard is included in the draft revision of IAS 39, establishing new rules for the classification and measurement of financial assets and liabilities, in particular:

- defines a new method for recognising impairment losses of financial assets based on expected credit loss («*expected loss model*» or «ECL»). According to this new method, entities are required to recognise expected losses before the loss events occur. Entities are required to include in their impairment models forward looking information, including trends and future macroeconomic scenarios. In the ECL model, assets subject to impairment calculation must be categorised into three types, according to credit risk changes on initial recognition of the asset and not according to the credit risk at the reporting date;

- establishes new requirements for the classification and measurement of financial instruments and for certain types of contracts for the purchase or sale of non-financial items.

This standard is effective in the European Union for annual periods beginning on or after 1 January 2018. The Bank has set up a work team to analyse the scope, impact and time needed for the full and timely adoption thereof, and has concluded that:

Considering the change in the impairment model, the following impacts were recorded in Retained earnings in 2018:

The Bank estimates that the application of IFRS9 will have a positive net impact of 144 661€ on its equity, resulting from the changes in the impairment of the loan portfolio and securities portfolio.

Amendment to IFRS 9 – Prepayment features with negative compensation – This amendment allows financial assets subject to contractual terms that foresee, in the event of early repayment, the payment of a considerable sum by the creditor to be measured at amortised cost or at fair value through other comprehensive income (depending on the business model), provided that: (i) on the initial recognition of the asset, the fair value of the early repayment is significant; and (ii) the possibility of negative compensation in the event of early repayment is the only reason for the asset in question not to be considered as an instrument that only includes payment of principal and interest. These amendments are effective in the European Union for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 2 – «Share-based payments» – These amendments clarify the standard in relation to: i) the recording of cash-settled share-based payment transactions; ii) the recording of changes in share-based payment transactions (from cash-settled to equity-settled); iii) the classification of transactions with net settlement features. Banco Carregosa's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

Amendments to IFRS 4 – «Insurance contracts» – The amendments address concerns arising from implementing IFRS 4 together with IFRS 9. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

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. Effective in the European Union for annual periods beginning on or after 1 January 2018. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

Clarifications to IFRS 15 – «Revenue from contracts with customers» – These amendments introduce a number of clarifications to the standard, in order to prevent divergent interpretations on various topics. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements.

IFRS 16 – «Leases» – This standard introduces the principles for the recognition and measurement of leases, replacing IAS 17 – Leases. The standard defines a single accounting model for lease contracts, resulting in the recognition by the lessee of right-of--use assets and lease liability for all lease contracts, except for leases with a lease term of less than 12 months or for leases of low-value assets. Lessors will continue to classify leases wither as operational or financial. IFRS 16 will not bring significant changes for such entities as defined in IAS 17. The application of this standard is in progress.

Amendments to IAS 40 – «Investment property» – 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. The Bank's Board of Directors is of the opinion that the application of this standard will not have a significant impact on the Bank's financial statements;

IFRIC 22 – «Foreign Currency Transactions and Advance Consideration»: This interpretation clarifies how to determine the transaction date for the purpose of determining the exchange rate to be used in the initial recognition of the asset, cost or revenue.

The following standards, interpretations, amendments and revisions that must be applied in future financial years, were not, as of the date when these financial statements were endorsed by the European Union:

IFRS 14 – «Regulated assets» – This standard establishes the reporting requirements for first-time adopters of IFRS, applicable to regulated assets;

IFRS 17 – «Insurance Contracts» – This standard establishes, for insurance contracts within their scope of application, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 – Insurance Contracts;

Amendment to IAS 28 – Long-term interests in associates and joint ventures – This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to interests in associates and joint ventures when the equity method is not used in their measurement.

IFRIC 23 – Uncertainty over income tax treatments – This interpretation addresses the accounting for when income tax treatments involve uncertainty.

Improvement to IFRS (cycle 2015-2017) – These improvements involve the clarifications of some IFRS-related concerns: IFRS 3 – Business combinations: requires the remeasurement of previously held interests when an entity obtains control of a participated company over which it used to have full control; IFRS 11 – Joint arrangements: clarifies that previously held interests should not be remeasured when an entity obtains joint control of a joint operation; IAS 12 – Income taxes: clarifies that all income tax consequences of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 – Borrowing costs: clarifies that, for the purpose of determining the capitalisation rate, the entity treats as part of general borrowings any borrowing directly related to the acquisition/construction of an asset still outstanding when that asset is ready for its intended use.

2.2. SIGNIFICANT ACCOUNTING POLICIES

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

2.2.1 TRANSACTIONS IN FOREIGN CURRENCY

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

2.2.3 FINANCIAL ASSETS HELD FOR TRADING

Financial assets and liabilities acquired or issued with the purpose of sale or repurchase in the short term, in particular bonds, treasury bonds or shares, or that are part of a portfolio of identified financial instruments and in relation to which there is evidence of a recent pattern of an inflow of profits in the short term or that fall within the definition of derivative (except in the case of a derivative classified as hedge), are classified as held for trading.

Dividends associated to the shares of such portfolios are recorded in Income from assets and liabilities measured at fair value through profit or loss.

Interest on debt instruments are recognised in financial margin. Trading derivatives with a positive fair value are included in the heading financial assets held for trading, and those with a negative value are included in the heading financial liabilities held for trading.

2.2.4 AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are non-derivative financial assets that:

- The Bank intends to hold for an indefinite period;
- Are designated as available for sale on initial recognition; or
- Do not fall into the categories of financial assets at fair value through profit or loss or financial assets held to maturity.

Available for sale financial assets are initially recognised at fair value, including costs or gains associated to the transactions, and subsequently they are measured at fair value. Changes in fair value are recorded in revaluation reserves until such time as they are sold, recognised in another comprehensive income, except in the case of impairment losses and foreign exchange gains or losses, until the financial asset is derecognised. The cumulative gain or loss prior to that recognised in another comprehensive income is restated to profit or loss as a restatement adjustment.

Upon the disposal of available for sale financial assets, cumulative gains or losses recognised in fair value reserves are recognised under the heading Revenue from available for sale financial assets in the statement of profit or loss.

Interest on debt instruments are recognised based on the effective interest rate as financial margin, including a premium or discount, where applicable. Dividends are recognised in profit or loss when the right to receive them is granted.

2.2.5 FINANCIAL ASSETS HELD TO MATURITY

Recognition of non-derivative financial assets with fixed or determinable payments and defined maturities that the Group intends to and is able to hold to maturity and that have not been assigned to any other category of financial assets. They are recognised at their fair value at initial recognition and subsequently measured at amortised cost.

Interest is calculated through the effective interest rate method and recognised in financial margin. Impairment losses are recognised in profit or loss when identified.

If at a subsequent date the impairment loss reduces, and this reduction can be objectively related to an event that occurred after the impairment was recognised, then it will be reversed against profit or loss.

Any reclassification or disposal of financial assets recognised in this category is not posted close to maturity if it does not fall under the exceptions provided for in the standards, and the Bank will have to fully classify this portfolio of available for sale financial assets and will not be able to classify any financial assets in this category.

2.2.6 DERIVATIVES

The Bank performs derivative transactions as a standard activity to meet its clients' requirements and to reduce the exposure to foreign exchange, interest rate and quote fluctuations. Derivative financial instruments are recorded at fair value on their contract date. Moreover, they are disclosed off-balance sheet at their notional value. Subsequently, derivative financial instruments are measured at their fair value. Fair value is calculated: – Based on the quotes obtained in active markets (for e.g., futures traded in organised markets); – Based on models that include valuation techniques accepted in the market, including discounted cash-flows and options valuation models.

Embedded derivatives

Derivative financial instruments embedded in other financial instruments are removed from the underlying contract and treated as autonomous derivatives under IAS 39, whenever: – The economic characteristics and risk of the embedded derivative are not closely related with the underlying contract, as defined in IAS 39; and – The entire combined financial instrument is not recorded at fair value, with the changes in fair value reflected through profit or loss.

Trading derivatives

All derivative financial instruments not associated with effective hedging relations under IAS 39 are considered derivatives for trading, including: – Derivatives used to hedge risk in assets or liabilities recorded at fair value through profit or loss, thus making hedge accounting unnecessary; – Derivatives used to hedge risk that are not considered effective hedges under IAS 39; – Derivatives used for «trading». Trading derivatives are recorded at fair value, the results of which are determined on a daily basis and recognised in income and expenses for the year, under «Income from assets and liabilities evaluated at fair value through profit or loss». Positive and negative revaluations are recorded under «Financial assets at fair value through profit or loss» and «Financial liabilities at fair value through profit or loss», respectively.

2.2.7 HEDGE ACCOUNTING

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 re-evaluation are recognised according to the hedge accounting model. A hedge relation exists when:

- at the start date of the relation there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- hedge effectiveness can be reliably measured;
- a hedge is evaluated on a continuous basis and effectively determined as being highly effective throughout the financial reporting year; and
- 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 in accordance with IAS 39, 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 (ACCOUNTS RECEIVABLE)

Valuation

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.

The value of loans to clients and receivables from other debtors is measured as follows:

On the initial recognition date, the financial assets 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.

2.2.9 *REPOS*

Securities sold under repurchase agreement are kept in the portfolio where they were originally recorded. The funds received are recorded in their own liability account on the settlement date, the interest value being recognised on an accrual basis. The par value of securities lent is recognised in a specific off-balance sheet item.

2.2.10 IMPAIRMENTS

The current impairment system checks all the analysed positions individually.

The following loan transactions are tested individually for impairment:

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

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

- Estimated cash flows of the client's business or client's other loans;
- Cash flows of real estate projects;
- Expected cash flows related to the execution /pledge of collateral;
- Estimated cash flows arising from calls on private guarantees;
- 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.

When the transaction does not fulfil the previous conditions, a general calculation is used. Transactions subject to a specific calculation whose resulting impairment is nil are also treated in the same manner. In the general approach, credit ratings provided by specialised companies are used, between 1 and 10, with associated one-year probabilities of default. Level 1 stands for the highest probability of default (PD), of 25%, and 10 stands for the lowest, of 0%. The Bank added a level 0 to the above levels, with a PD of 100% for credit default.

2.2.11 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 assessment of external independent internal or external experts, minus costs to be incurred in the sale, and are not subject to depreciation.

2.2.12 OTHER PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment are stated at acquisition cost (including directly attributed costs) minus cumulative amortisations and cumulative impairment losses. Subsequent charges are recognised as a separate asset only when it is likely that future economic benefits will flow to the company. Maintenance and repair costs are recognised through profit or loss as they are incurred.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life, within the limits shown in the table below. Using the prudence principle, and in duly documented exceptional cases, the Executive Committee may decide on lower depreciation periods than those mentioned in the table below, but their tax effect will be considered as at the date on which the decision was made and measured in the appropriate asset account.

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

Land is not amortised.

Where there is an indication that an asset may be impaired, IAS 36 requires the estimation of its recoverable amount, and an impairment loss must be recognised whenever the net asset value exceeds its recoverable amount.

Impairment losses are recorded in the statement of profit or loss. The recoverable amount is the highest between its net selling price and its value in use, being calculated according to the current value of future estimated cash flows expected to be generated from the continued use of the asset and its disposal at the end of its useful life.

2.2.13 INTANGIBLE ASSETS

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 cumulative amortisations and impairment losses, if any.

Intangible assets are depreciated using the straight-line method, over their estimated useful life, which is, in general, three years.

2.2.14 OTHER FINANCIAL LIABILITIES – DEPOSITS FROM OTHER CREDIT INSTITUTIONS, CLIENT DEPOSITS, OTHER LOANS, AND OTHERS

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, advocated by IAS 39, 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

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) a reliable estimate can be made of the amount of the obligation. 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 group 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

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.

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

Income from services and commissions are recognised as follows:

- Income from services and commissions related to a significant act, for e.g., commissions in the syndication of loans, are recognised in profit or loss when such act is completed;
- Income from services and commissions received as the services are provided are recognised in profit or loss in the period to which they refer;
- Income from services and commissions that are wholly part of the effective interest rate of a financial instrument are recognised through profit or loss using the effective interest rate method.

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, using the effective rate method. 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 through 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.

When calculating the effective interest rate, an entity shall estimate future cash flows considering all contractual terms of the financial instrument (for example, prepayment), but shall not consider future credit losses. The calculation includes all fees that are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts directly related to the transaction. In the case of financial assets or groups of similar financial assets for which impairment losses were recognised, the interest posted in interest receivable and similar income are determined based on the interest rate used to measure the impairment loss.

2.2.20 FEES AND COMMISSIONS FOR SERVICES PROVIDED

Carregosa Group charges commissions to its clients for providing a broad range of services. Commissions and 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

Based on the *Collective Labour Agreement for the Banking Sector* (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 Fundo de Pensões 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-in-service.

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 who do not benefit from the SAMS, at the same cost.

Variable remuneration paid to employees

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.

2.3. 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 Group's results could be 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 Group's financial position and the results of its operations in all materially relevant aspects.

2.3.1 IMPAIRMENTS ON LOANS TO CLIENTS

The Group reviews its loan portfolios on a regular basis to determine if impairment exists, as described in Note 1.3.

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.

Using alternative methods and other assumptions and estimates could result in different levels of recognised impairment losses, with a consequent impact on the Group's consolidated results.

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 Group records deferred taxes in accordance with the policy described in Note 1.2.16, 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 Group 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.

2.3.4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of listed instruments is based on current listed market prices, if available. Otherwise, the Bank estimates the fair value using: (i) pricing models, such as prices of recent, similar transactions carried out under market conditions, stream of future discounted cash flows and valuation models of customised options so as to reflect the particularities and circumstances of the instrument, and (ii) valuation assumptions based on market information. These methods also include own and counterparty credit risk. The estimate of fair value may require the use of assumptions or judgments.

Consequently, the use of different methods or different assumptions or judgments in applying a specific model can give rise to financial results different from those reported.

2.3.5 IMPAIRMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS

The Group determines that available for sale financial assets are impaired when there is a continued or significant devaluation of their fair value, or when it predicts an impact on future cash flows of the assets.

This determination requires the Bank to collect and evaluate all the information needed to formulate its decision, in particular the normal price volatility of financial instruments.

In addition, valuations are obtained through market prices (*mark to market*) or valuation models (*mark to model*), which in turn require the use of certain assumptions or judgments to establish fair value estimates.

Using alternative methods and other assumptions and estimates could result in different levels of recognised impairment losses, with a consequent impact on the Group's consolidated results.

2.3.6 INVESTMENTS HELD TO MATURITY

The Group classifies its non-derivative investments with fixed or determinable payments and defined maturities as financial assets held to maturity, in accordance with IAS 39. This classification requires a significant level of judgment.

In its judgment, the Group assesses its capacity to hold these investments to maturity. If the Bank does not hold such investments to maturity, except in specific cases – for example, if it sells an insignificant portion thereof close to maturity date – the entire portfolio of available for sale financial assets must be reclassified, and consequently measured at fair value and not at amortised cost.

2.4. SEGMENT REPORTING

Banco Carregosa conducts its business through a network common to the various traded products, therefore, segment reporting is not appropriate.

Since the Bank's activities take place in Portugal and Spain, through a satellite office in the latter country, we feel it is not relevant to present geographical segment reporting.

2.5. SUBSEQUENT EVENTS AND RESTATEMENTS IN THE FINANCIAL STATREMENTS

2.5.1. SUBSEQUENT EVENTS

Arquimedes – Fundo Especial de Investimento Imobiliário Fechado

The Bank has a 91.6% stake in the fund Arquimedes – Fundo Especial de Investimento Imobiliário Fechado, which is disclosed in the trading book. As at 31 December 2017, the fund's portfolio consisted solely of liquid assets, and the management company is looking into future real estate investments. The Bank plans to dispose of part of its shares to investors.

Overdue loans

An impairment of 451 k€ was made, in accordance with the Bank's loan impairment model in respect of a defaulting client, despite existing real estate collateral being of a higher value than the loan granted.

In 2018, following a proposition made by the client, the Bank decided to purchase the existing real estate collateral through a conduit entirely owned by the Bank.

2.5.2 RESTATEMENTS

Notes to the restatements made in the Financial Statements.

(I) PENSION FUND (Liabilities)
For the periods in question, the net amount of 173 335.03€ was restated in the balance sheet between total liabilities and the net asset value of the Pension Fund.

(II) CIMPOR
In 2017, with reference to 01/01/2016, the Bank restated, in its Statements Consolidated financial statements, the impact of accounting for impairment of the shareholding held in the public company CIMPOR - Cimentos de Portugal S.A. (ISIN: PTCPR0AM0003), as recognition in the investment portfolio of the Bank, considering the following events:

- In 2014, there was a significant devaluation of the stock price of the security, with a negative impact of 516 600€ (depreciation of 39%).
- In 2015, there was a devaluation of stock price of 289 100€ (further depreciation of 22%), in the market less than 10% of the initial investment.

At the end of 2015, the stock price of the securities was less than 10% of the investment as shown in the table below.

	PURCHASE PRICE	DEVALUATION	VALUE OF THE PARTICIPATION ON 31/12/2015
PTCPR0AM0003	1 331 760.10	1 209 960.10	121 800.00

Therefore, these devaluations affected the Bank's net position (reserves).

Given the development history of this security and considering, at that date, that a recognition of the loss was already evident, paragraph #61 of IAS 39 would apply, that is., the cumulative loss that had been recognised in another comprehensive income should have been reclassified from equity to profit or loss as an adjustment of the reclassification, even if the financial asset had not been derecognised. As this was not done in 2015, it was recorded now in 2017, through retained earnings (IAS 8).

On 31/12/2016, an increase in impairment was considered for the market price of a further 37 800€.

IMPACT OF RESTATEMENTS IN THE BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS (SEPARATE)

FINANCIAL STATEMENTS	31/12/2016			01/01/2016		
		RESTATEMENT	VARIATION		RESTATEMENT	VARIATION
BALANCE SHEET						
ASSETS						
(I) Other assets	28 467 780	25 166 415	(3 301 366)	15 778 266	12 530 726	(3 247 540)
LIABILITIES						
(I) Other liabilities	22 362 219	19 060 584	(3 301 366)	13 306 532	10 058 991	(3 247 540)
NET POSITION						
(II) Fair value reserves	(506 017)	741 743	1 247 760	(4 883 741)	(3 673 781)	1 209 960
(II) Other reserves and retained earnings	15 045 980	13 836 020	(1 209 960)	15 045 414	13 835 454	(1 209 960)
STATEMENT OF PROFIT AND LOSS						
(II) Impairment of other financial assets net of reversals and recoveries	(1 073 379)	(1 111 179)	(37 800)			
COMPREHENSIVE STATEMENT OF PROFIT AND LOSS						
Items that can be reclassified through profit or loss:						
(II) Available for sale financial assets	5 404 568	5 442 368	37 800			

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 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:

- Adequate level of capital (principle of solvency);
- Remuneration of risks assumed (principle of profitability);
- 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 ICAAP – Internal Capital Adequacy Assessment Process 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 Commission (ALCO), in an advisory capacity. The commission 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 Portfolio Management Service. Recommendations are issued at these meetings on the collection and use of funds, through result-risk 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.

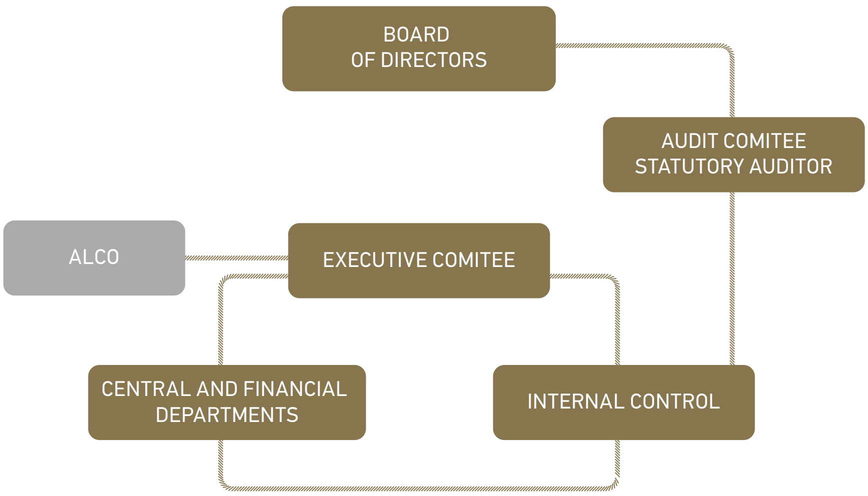
The functions of the Supervisory Committee and the Statutory Audit Firm are similar to those of Internal Control, but with a more general scope.

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 significant, in particular the Credit Risk, Market Risk, Operating risk, and Liquidity Risk.

3.4 CREDIT RISK

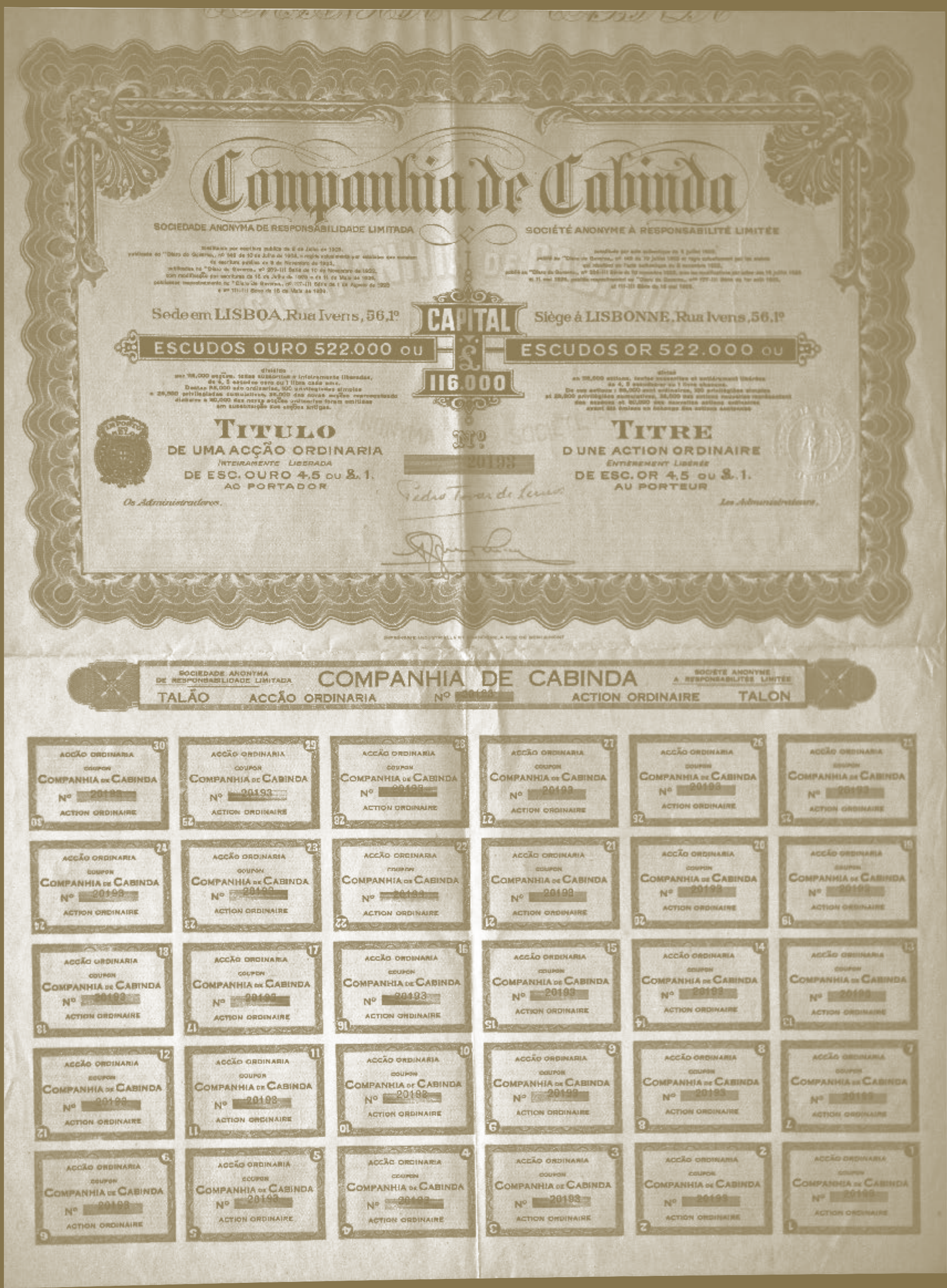
Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the Bank, including any restrictions on the transfer of payments from abroad. Credit risk is found mainly in credit exposures, credit lines, 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:

	31/12/2017	31/12/2016
FINANCIAL ASSETS		
Cash and liquid assets in central banks	57 270 238	32 941 158
Liquid assets in other credit institutions	45 293 328	18 358 071
Financial assets held for trading	9 913 499	6 503 457
Other financial assets at fair value through profit or loss	–	–
Available for sale financial assets	17 922 864	23 332 506
Investments in credit institutions	611 780	16 116 385
Loans to clients	94 536 614	66 113 462
Investments held to maturity	8 830 258	11 011 818
Hedging derivatives	53 480	129 841
Other assets	20 028 768	25 191 140
	254 311 845	199 547 237
OTHER COMMITMENTS		
Personal/institutional guarantees		
Guarantees and commitments	6 886 982	6 688 181
Other personal guarantees provided and other contingent liabilities	3 329 013	4 402 132
Collateral (collateral)	5 586 000	10 180 000
Irrevocable commitments	442 626	358 569
Revocable commitments	12 184 867	14 502 457
	28 429 487	36 131 338
MAXIMUM EXPOSURE	282 741 332	235 678 575


Companhia de Cabinda
SOCIEDADE ANONYMA DE RESPONSABILIDADE LIMITADA
SOCIÉTÉ ANONYME À RESPONSABILITÉ LIMITÉE
Sede em LISBOA, Rua Ivens, 56, 1º
Siège à LISBONNE, Rua Ivens, 56, 1º
CAPITAL
ESCUDOS OURO 522.000 ou
ESCUDOS OR 522.000 ou
£ 116.000
TITULO
DE UMA ACÇÃO ORDINARIA
INTEIRAMENTE LIBERADA
DE ESC. OURO 4.5 ou £. 1.
AO PORTADOR
Nº
20193
TITRE
D'UNE ACTION ORDINAIRE
ENTIÈREMENT LIBÉRÉE
DE ESC. OR 4.5 ou £. 1.
AU PORTEUR
Os Administradores.
Les Administrateurs.
SOCIEDADE ANONYMA DE RESPONSABILIDADE LIMITADA
COMPANHIA DE CABINDA
SOCIÉTÉ ANONYME A RESPONSABILITÉ LIMITÉE
TALÃO
ACÇÃO ORDINARIA
ACTION ORDINAIRE
TALON
ACÇÃO ORDINARIA
COUPON
COMPANHIA DE CABINDA
Nº 20193
ACTION ORDINAIRE

Client creditworthiness

The disclosures required by Circular Letter 02/2014/DSP of Banco de Portugal, of 26 February[7] are presented hereunder:

Qualitative disclosures

3.4.1. CREDIT RISK MANAGEMENT POLICY

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 (including securitised loans), 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.

In order to meet legal and regulatory requirements, and based on the adoption of the best practices in credit risk management, Banco Carregosa has implemented a procedure for the various phases of the lending activity:

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.

7 The above Circular Letter was replaced in 2018 by Circular Letter CC/2018/0006, issued on 24 January and published on 15 february p.p. in the Official Gazette of Banco de Portugal no. 2/2018, which revises the reference criteria and principles in the context of IFRS 9, in particular the criteria used to assess expected credit losses.

3.4.3. MONITORING OF THE LOAN PORTFOLIO

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

- identify the factors that prove the deterioration of the client's creditworthiness;
- define solutions to renegotiate the debt.

3.4.4. 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.

3.4.5. 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 analysed by the Executive Committee, which bases its decision on the recommendation of the Credit Committee.

3.4.6. POLICY ON THE WRITE-OFF OF LOANS

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.

3.4.7. IMPAIRMENT REVERSAL POLICY

Impairment is reversed whenever there is:

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

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

3.4.8. 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» in accordance with Instruction 32/2013 of Banco de Portugal.

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.

3.4.9. DESCRIPTION OF THE EVALUATION PROCESS AND COLLATERAL MANAGEMENT

3.4.9.1. 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. This evaluation contains the copies of blueprints, the property registration document and the fiscal property register certificate, where provided.

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.

3.4.9.2. OTHER GUARANTEES

- Listed securities are evaluated mark-to-market at the reporting date;
- 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;
- Exceptionally, and in special situations, the Bank may use evaluators suited to the nature of the collateral;
- Guarantees without evaluation which potentially may not be called on are regarded as equal to zero.

3.4.10. NATURE OF PRINCIPLES, ESTIMATES AND HYPOTHESES USED IN MEASURING IMPAIRMENT

The calculation of impairment is the sum of the impairments determined for each lending operation:

- Lending operations tested separately for impairment are evaluated at their current value, plus the current exposure of expected cash flows, adjusted to the contract interest rate;
- The remaining lending operations and those that according to the first method have returned zero impairment are tested collectively for impairments.

3.4.11. DESCRIPTION OF THE METHODS FOR CALCULATING IMPAIRMENT, INCLUDING HOW PORTFOLIOS ARE SEGMENTED TO REFLECT THE VARIOUS CHARACTERISTICS OF LOANS

The Loan Impairment Model conforms to each operation according to the purpose of the loan (type of instrument), type of collateral, and sector of activity.

3.4.12. INDICATION OF SIGNS OF IMPAIRMENT BY LOAN SEGMENT

3.4.12.1. LOANS WITH SIGNS OF IMPAIRMENT

- Overdue loans with arrears of less than 90 days;
- Restructuring due to financial difficulties;
- Banco de Portugal indicators;
- Insolvency requests or Special Revitalisation Process (PER).

3.4.12.2. LOANS SUBJECT TO IMPAIRMENT

- Credit default (default of more than 90 days) with the Bank;
- Overdue credit, written-off from assets or in litigation with the financial system;
- Other evidences of financial difficulties;
- Declared insolvency.

3.4.13. INDICATION OF THE THRESHOLDS DEFINED FOR SEPARATE ANALYSIS

Separate analysis applies to the credit operations:

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

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

Clients found to be in non-compliance 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.

3.4.15. GENERAL DESCRIPTION OF THE CALCULATION OF THE CURRENT VALUE OF FUTURE CASH FLOWS IN THE DETERMINATION OF IMPAIRMENT LOSSES

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

- Exposure;
- Estimated business cash flows or other client's cash flows;
- Cash flows of real estate projects;

- Expected cash flows related to the execution /pledge of collateral;
- Estimated cash flows arising from calls on private guarantees;
- 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 2/14DSPDR 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:

- Regulatory volatility adjustments using the Financial Collateral Comprehensive Method as described in Regulation (EU) 575/2013 for eligible securities;
- 30% for other securities;
- 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 previous conditions, a general calculation is used. Transactions subject to a specific calculation whose resulting impairment is nil are also treated in the same manner. In the general approach, credit ratings provided by specialised companies are used, between 1 and 10, with associated one-year probabilities of default. Level 1 stands for the highest probability of default (PD), of 25%, and 10 stands for 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 a 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 level 7 (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:

- First moment when the information emerges;
- 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.

Quantitative disclosures

The information on the client loans portfolio as at 31 December 2017.

a) Breakdown of exposures and related impairment

a.1)

	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

a.1)

	EXPOSURE AS AT 31.12.2016					
SEGMENT	TOTAL EXPOSURE	COMPLIANT LOANS	OF WHICH SETTLED	OF WHICH RESTRUCTURED	DEFAULTING LOANS	OF WHICH RESTRUCTURED
Construction & CRE	36 069 313	36 069 313		3 830 000	4 610	
Corporate	13 969 694	13 969 694		1 500 000	32 277	
Guarantees	6 681 181	6 681 181		–	–	
Individual	12 905 026	12 905 026		6 722 648	7 683	
Non-contracted	–	–		–	133 189	
Transferable securities	3 864 234	3 864 234		–	–	
Total	73 489 448	73 489 448		12 052 648	177 758	–

	IMPAIRMENT AS AT 31.12.2016		
SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS	DEFAULTING LOANS
Construction & CRE	188 987	182 713	6 275
Corporate	330 681	307 628	23 053
Guarantees	10 046	10 046	–
Individual	312 884	305 201	7 683
Non-contracted	131 668	–	131 668
Transferable securities	4 097	3 934	163
Total	978 363	809 522	168 842

a.2)

31.12.2017

TOTAL EXPOSURE AS AT 31.12.2017

SEGMENT	TOTAL EXPOSURE 31.12.2017	COMPLIANT LOANS – DAYS IN ARREARS < 30 – NO EVIDENCE	COMPLIANT LOANS – DAYS IN ARREARS < 30 – WITH EVIDENCE	COMPLIANT LOANS – DAYS IN ARREARS < 30 – SUB-TOTAL	DEFAULTING LOANS – DAYS IN ARREARS <= 90*	DEFAULTING LOANS – 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

SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS – DAYS IN ARREARS < 30	COMPLIANT LOANS – DAYS IN ARREARS ENTRE 30-90	DEFAULTING LOANS – DAYS IN ARREARS <= 90*	DEFAULTING LOANS – 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.

a.2)

31.12.2016

TOTAL EXPOSURE AS AT 31.12.2016

SEGMENT	TOTAL EXPOSURE 31.12.2016	COMPLIANT LOANS – DAYS IN ARREARS < 30 – NO EVIDENCE	COMPLIANT LOANS – DAYS IN ARREARS < 30 – WITH EVIDENCE	COMPLIANT LOANS – DAYS IN ARREARS < 30 – SUB-TOTAL	DEFAULTING LOANS – DAYS IN ARREARS <= 90*	DEFAULTING LOANS – DAYS IN ARREARS > 90
Construction & CRE	36 069 313	10 600 000	3 830 000	14 430 000	49 855	4 610
Corporate	13 969 694	800 000	1 500 000	2 300 000	1 396	32 277
Guarantees	6 681 181	–	–	–	–	–
Individual	12 905 026	–	6 722 648	6 722 648	–	7 683
Non-contracted	–	–	–	–	4 993	133 189
Transferable securities	3 864 234	2 000 000	–	2 000 000	1 631	–
Total	73 489 448	13 400 000	12 052 648	25 452 648	57 875	177 758

	TOTAL IMPAIRMENT AS AT 31.12.2016				
	COMPLIANT LOANS			DEFAULTING LOANS	
SEGMENT	TOTAL IMPAIRMENT	DAYS IN ARREARS < 30	DAYS IN ARREARS ENTRE 30-90	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	188 987	184 378	–	1 665	2 945
Corporate	330 681	307 677	–	49	22 956
Guarantees	10 046	10 046	–	–	0
Individual	312 884	305 201	–	–	7 683
Non-contracted	131 668	–	–	467	131 200
Transferable securities	4 097	2 334	–	163	1 600
Total	978 363	809 636	–	2 344	166 384

* Loan with instalments of principal or accrued interest for less than 90 days, but about which there is evidence justifying its.

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

31.12.2016

	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	280 000	5 653
2012						
2013	2	1 500 000	85 281	2	2 100 000	8 937
Total	2	1 500 000	85 281	3	2 380 000	14 590

c) Breakdown of gross loan exposure and impairment evaluated separately and collectively[8], by segment, sector and geographical spread

c.1) By segment:

	CONSTRUCTION & CRE		CORPORATE		GUARANTEES	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	39 509 326	269 477	12 697 868	18 464	3 985 840	3 644
Collective	6 632 877	27 451	10 562 143	258 643	2 674 125	7 968
Total	46 142 203	296 928	23 260 010	277 108	6 659 965	11 612

	INDIVIDUAL		N/ NON-CONTRACTED		TRANSFERABLE SECURITIES		TOTAL	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	13 735 710	465 486	–	85 278	3 807 521	3 046	73 736 264	845 395
Collective	4 173 943	170 457	–	92 137	73 472	592	24 116 561	557 249
Total	17 909 653	635 943	–	177 415	3 880 993	3 638	97 852 824	1 402 644

8 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.

31.12.2016	CONSTRUCTION & CRE		CORPORATE		GUARANTEES	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	28 798 580	79 970	6 792 588	116 982	4 034 857	3 051
Collective	7 270 733	109 018	7 177 106	213 699	2 646 324	6 996
Total	36 069 313	188 987	13 969 694	330 681	6 681 181	10 046

31.12.2016	INDIVIDUAL		N/ NON-CONTRACTED		TRANSFERABLE SECURITIES		TOTAL	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	10 916 229	276 554	–	84 683	3 747 195	3 161	54 289 450	564 400
Collective	1 988 797	36 330	–	46 984	117 039	936	19 199 999	413 963
Total	12 905 026	312 884	–	131 668	3 864 234	4 097	73 489 448	978 363

c.2) By sector of activity:

31.12.2017	REAL ESTATE ACTIVITIES		PRIVATE		FINANCIAL INTERMEDIATION, EXCEPT INCURANCE AND PENSION FUNDS	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	39 509 326	269 477	15 143 230	547 810	6 690 294	3 445
Collective	6 792 877	28 226	3 314 137	127 826	5 133 644	294 551
Total	46 302 203	297 703	18 457 368	675 636	11 823 938	297 996

31.12.2017	ACCOMODATION		PROPERTY DEVELOPMENT (BUILDING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION		ELECTRICITY, GAS, STEAM, HOT AND COLD WATER AND COLD AIR	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	2 400 000	6 000	3 511 052	8 778	3 985 840	3 644
Collective	3 857 500	5 095	1 175 799	29 395	0	23 575
Total	6 257 500	11 095	4 686 851	38 173	3 985 840	27 219

31.12.2017	RETAIL TRADE, EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		MANUFACTURE OF ELECTRICAL EQUIPMENT	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	2 496 522	6 241				
Collective	6 78 572	33 929	1 220 000	3 050	681 683	1 023
Total	3 175 094	40 170	1 220 000	3 050	681 683	1 023

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

31.12.2017	ACTIVITIES OF AUXILIARY FINANCIAL AND INSURANCE SERVICES		ADMINISTRATIVE SERVICES AND SUPPORT GIVEN TO COMPANIES		SPECIALIZD CONSTRUCTION ACTIVITIES	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	200 584	2 966	29 000	382	15 201	190
Total	200 584	2 966	29 000	382	15 201	190

31.12.2017	CONSULTANCY AND IT SERVICE ACTIVITIES		TOTAL	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			73 736 264	845 395
Collective	–	78	24 116 561	557 249
Total	–	78	97 852 824	1 402 644

31.12.2016	REAL ESTATE ACTIVITIES		PRIVATE		FINANCIAL INTERMEDIATION, EXCEPT INCURANCE AND PENSION FUNDS	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	24 709 749	65 951	14 663 424	364 398	4 100 000	103 519
Collective	6 025 113	100 150	4 598 508	87 875	1 093 271	9 344
Total	30 734 862	166 102	19 261 933	452 273	5 193 271	112 863

31.12.2016	CROPS, ANIMAL PRODUCTION, HUNTING, FORESTRY AND FISHING		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		PROPERTY DEVELOPMENT (BUILDING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION	
	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	3 985 840	2 989	2 692 588	13 463	2 237 848	11 189
Collective	155 777	125	750 000	6 000	191 392	2 003
Total	4 141 617	3 114	3 442 588	19 463	2 429 241	13 192

	HUMAN HEALTH ACTIVITIES		ACCOMODATION		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual			1 900 000	2 890		
Collective	2 185 837	12 014	280 000	5 653	1 000 000	5 000
Total	2 185 837	12 014	2 180 000	8 544	1 000 000	5 000

	ARCHITECTURE, ENGINEERING AND RELATED ACTIVITIES; TESTS AND TECHNICAL ANALYSIS		MANUFACTURE OF ELECTRICAL EQUIPMENT		ACTIVITIES OF AUXILIARY FINANCIAL AND INSURANCE SERVICES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	875 000	4 375	812 500	122	634 383	152 105
Total	875 000	4 375	812 500	122	634 383	152 105

	EDUCATION		ADMINISTRATIVE SERVICES AND SUPPORT GIVEN TO COMPANIES		SPECIALIZD CONSTRUCTION ACTIVITIES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	380 017	950	203 000	5 052	15 201	190
Total	380 017	950	203 000	5 052	15 201	190

	CONSULTANCY AND IT SERVICE ACTIVITIES		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			54 289 450	564 400
Collective	–	23 005	19 199 999	413 963
Total	–	23 005	73 489 448	978 363

c.3) By geographical spread:

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

	S. TOMÉ E PRÍNCIPE		UNITED STATES OF AMERICA		LUXEMBOURG	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	443 113	665	52 699	21	2 042	18
Total	443 113	665	52 699	21	2 042	18

	UNITED KINGDOM		DENMARK		TOTAL	
31.12.2017	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual					73 736 264	845 395
Collective	–	9 973	–	152	24 116 561	557 249
Total	–	9 973	–	152	97 852 824	1 402 644

	PORTUGAL		SPAIN		S. TOMÉ E PRÍNCIPE	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	54 289 450	564 400				
Collective	18 247 680	227 389	634 383	152 105	199 135	159
Total	72 537 130	791 789	634 383	152 105	199 135	159

	BRAZIL		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			54 289 450	564 400
Collective	118 800	34 310	19 199 999	413 963
Total	118 800	34 310	73 489 448	978 363

d) Breakdown of gross loan exposure and impairment by segment, sector and geographical spread

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						

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

2016

	COMPLIANT LOANS			DEFAULTING LOANS		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	6	12 052 648	317 551			
Grace Period						
Reduction of Rate						

	TOTAL		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	6	12 052 648	317 551
Grace Period			
Reduction of Rate			

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

	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»	–
Other	–
Closing balance of the restructured loan portfolio (gross of impairment)	16 286 429

	31.12.2016
Opening balance of the restructured loan portfolio (gross of impairment)	12 052 648
Restructured loans in the period	–
Interest accrued on restructured portfolio	–
Payment of restructured loans (partial or total)	–
Loans reclassified from «restructured» to «normal»	–
Other	–
Closing balance of the restructured loan portfolio (gross of impairment)	12 052 648

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

31.12.2017

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

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

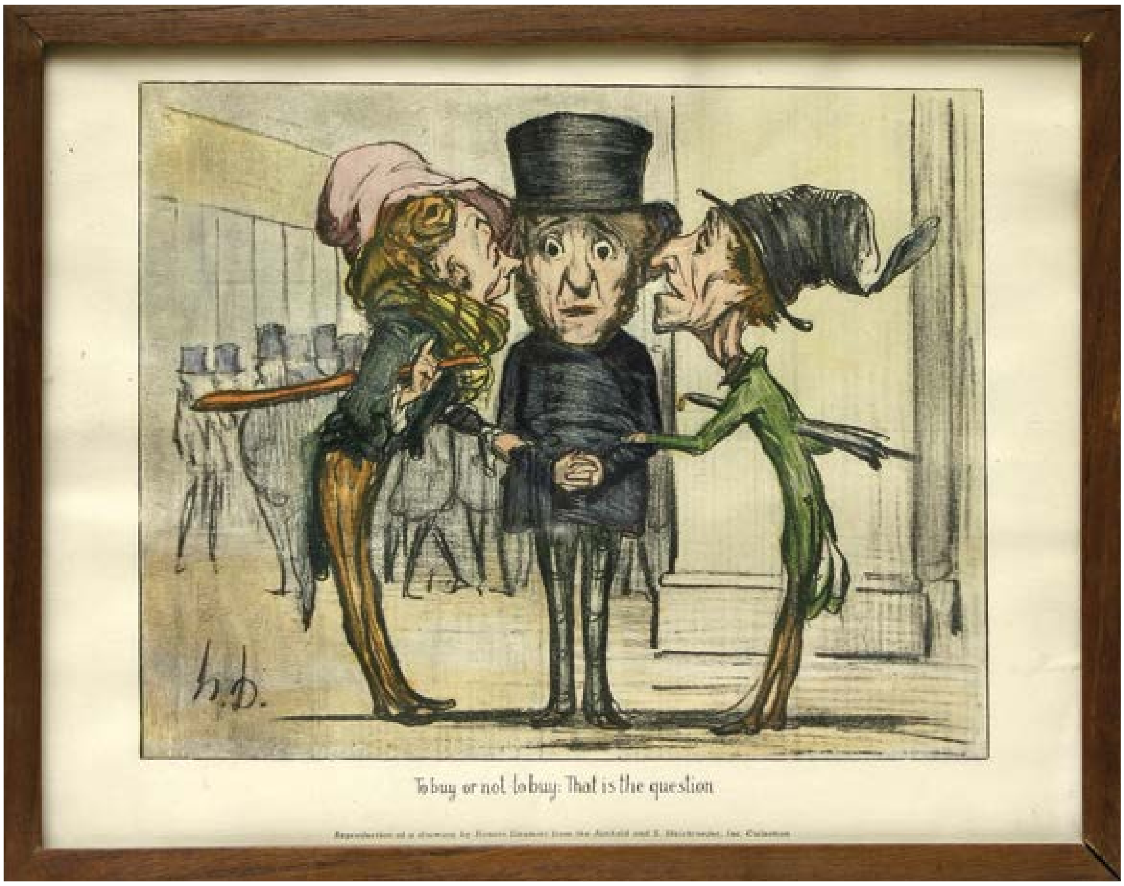
* Example: Shares, bonds, deposits, material assets.

31.12.2016

	CONSTRUCTION & CRE			
	BUILDINGS		OTHER REAL COLLATERAL*	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	25	7 609 000	10	613 072
>=0,5M€ e <1M€	15	10 756 500	3	2 531 021
>= 1M€ e <5M€	7	16 608 000	1	4 312 092
>=5M e <10M€	4	26 868 000	1	6 401 250
>=10M e <20M€			1	10 576 250
>=20M e <50M€				
>=50M				
Total	51	61 841 500	16	24 433 684

	CORPORATE			
	BUILDINGS		OTHER REAL COLLATERAL	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	24	1 620 000	14	1 006 997
>=0,5M€ e <1M€	12	7 591 000	1	525 000
>= 1M€ e <5M€	6	13 181 700	2	4 882 075
>=5M e <10M€				
>=10M e <20M€				
>=20M e <50M€				
>=50M				
Total	42	22 392 700	17	6 414 072

*Example: Shares, bonds, deposits, material assets.



g) LTV ratio of segments

31.12.2017

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral	2 038 004	7 683	43 337
<60%	14 868 175	0	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

31.12.2016

SEGMENT/RATIO	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
Individual			
With no associated collateral		7 683	7 683
<60%	7 858 972		111 268
>=60% and <80%	2 112 025		136 839
>=80% and <100%	438 092		5 755
>=100%	2 495 936		51 338
Transferable securities			
With no associated collateral			
<60%	3 768 290		3 330
>=60% and <80%	95 944		768
>=80% and <100%			
>=100%			
Construction & CRE			
With no associated collateral	118 800	4 610	34 310
<60%	20 919 166		87 104
>=60% and <80%	14 865 728		66 859
>=80% e <100%			
>=100%	165 620		714
Corporate			
With no associated collateral	200 000	23 005	28 053
<60%	6 099 474		28 990
>=60% and <80%	3 185 837	9 272	106 021
>=80% and <100%	3 100 000		9 512
>=100%	1 384 383		158 105
Non-contractualised		133 189	131 668
With no associated collateral			
<60%			
>=60% and <80%			
>=80% and <100%			
>=100%			
Guarantees			
With no associated collateral	29 013		116
<60%	25 773		1 289
>=60% and <80%			
>=80% and <100%			
>=100%	6 626 395		8 642
Total	73 689 448	177 758	978 363

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

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

ASSET 31.12.2016	NO OF PROPERTIES	ASSET FAIR VALUE	BOOK VALUE
LAND			
Urban	1	85 000	85 000
Total	1	85 000	85 000

i) Breakdown of the loan portfolio by internal risk degree

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-contracted				
Transferable Securities		3 880 993		
Total	9 253 490	17 227 055	27 474 638	32 375 240

	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-contracted			0	0
Transferable Securities				3 880 993
Total	1 174 204	1 025 000	9 323 197	97 852 824

2016

	LOW DEGREE			MEDIUM DEGREE		
SEGMENT	**9**	**8**	**7**	**6**	**5**	**4**
Construction & CRE				1 165 620	24 786 069	2 955 000
Corporate		1 562 500	2 000 000	2 249 520	1 300 000	5 172 604
Guarantees				63 691	6 360 183	25 773
Individual			2 337 150	995 731	2 980 442	182 968
Non-contracted						
Transferable Securities				3 864 234		
Total	–	1 562 500	4 337 150	8 338 796	35 426 694	8 336 345

	HIGH DEGREE			TOTAL
SEGMENT	**3**	**2**	**1**	
Construction & CRE	3 031 490	2 126 591	2 004 543	36 069 313
Corporate	1 000 000		685 069	13 969 694
Guarantees		75 000	156 535	6 681 181
Individual			6 408 734	12 905 026
Non-contracted			–	–
Transferable Securities				3 864 234
Total	4 031 490	2 201 591	9 254 882	73 489 448

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

2017

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

2016

	IMPAIRMENT			
	PD (%)			
SEGMENT	**< 30 DAYS WITH NO EVIDENCE**	**< 30 DAYS WITH EVIDENCE**	**BETWEEN 30-90 DAYS**	**LGD (%)**
Construction & CRE	19%		0%	0%
Corporate	31%		0%	2%
Guarantees	1%		0%	0%
Individual	31%		0%	1%
Non-contracted	0%		0%	13%
Transferable Securities	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 assets.

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:

	2017	2016
VaR Trading Portfolio	99 798	46 067

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 indexes 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.

Following Instruction 19/2005 of Banco de Portugal, as at 31 December 2017 and 2016 interest rate-sensitive on-or off-balance sheet positions, by maturity intervals or interest rate reset, are as follows.

This interest-sensitive analysis is based on a parallel shift in the yield curve in 200 bp. The scope of application is the banking book. The results are shown below:

2017 TIME SPAN	ASSETS	LIABILITIES	WEIGHTED POSITION
At sight – 1 month	102 525 623	122 784 297	14 962
1 – 3 months	49 414 957	16 359 408	-115 155
3 – 6 months	24 930 201	19 033 881	-47 244
6 – 12 months	40 852 002	28 224 756	-300 994
1 – 2 years	14 719 053	24 445 503	269 199
2 – 3 years	4 307 896	348 639	-177 771
3 – 4 years	800 473	0	-49 149
4 – 5 years	3 547 733	0	-273 530
5 – 7 years	6 838 930	0	-694 151
7 – 10 years	680 598	0	-90 247
10 – 15 years		0	0
15 – 20 years		0	0
> 20 years	12 899	0	-3 358
	248 630 364	211 196 483	-1 467 437

2016 TIME SPAN	ASSETS	LIABILITIES	WEIGHTED POSITION
At sight – 1 month	96 645 925	108 521 586	9 501
1 – 3 months	13 383 192	13 249 125	-429
3 – 6 months	19 728 662	14 526 125	-37 458
6 – 12 months	29 042 176	20 082 435	-128 124
1 – 2 years	12 965 862	25 675 907	352 068
2 – 3 years	13 291 971	1 424 543	-532 848
3 – 4 years	4 581 328	–	-281 294
4 – 5 years	3 993 545	–	-307 902
5 – 7 years	11 349 979	–	-1 152 023
7 – 10 years	1 019 246	–	-135 152
10 – 15 years		–	–
15 – 20 years		–	–
> 20 years	12 332	–	3 210
	206 014 218	183 479 721	-2 216 871

Given the exposure on 31 December 2017, the impact of an interest rate variation in 200 base points in own funds would be of about 1,467 m€ (2,216 m€ in 2016).

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 2016 and 2017 the exchange risk was residual, as shown in the table below:

CURRENCY	2017	2016
USD	438 562	298 301
GBP	248 315	17 761
SEK	173 963	16 977
DKK	86 742	4 281
CAD	68 126	76 598
AUD	60 646	47 416
NOK	60 364	77 503
JPY	33 677	20 572
CHF	25 944	361 182
NZD	19 540	511
BRL	7 322	614 968
SGD	4 530	
HKD	1 653	395
RUB	1 034	
ZAR	384	
MXN	274	
PLN	10	
CNH	1	
TOTAL	1 231 087	1 536 465

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 policy, 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:

- Determine process-related risks, without regard to existing controls (inherent risk);
- Assess the exposure of various processes to risk, considering the influence of existing controls (residual risk);
- 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:

- Allocation of assets, liabilities and off-balance sheet items;
- Estimates of minimum requirements for own funds;
- Joint venture of counterparts;
- Liquidity profile;
- Other prudential indicators.

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

The contractual maturities of financial instruments as at 31 December are as follows:

31.12.2017

	CURRENT AND AND UP TO 1 WEEK	GREATER THAN 1 WEEK AND UP TO 1 MONTH	GREATER THAN 1 MONTH AND UP TO 3 MONTHS	GREATER THAN 3 MONTHS AND UP TO 6 MONTHS	GREATER THAN 6 MONTHS AND UP TO 12 MONTHS	GREATER THAN 12 MONTHS	TOTAL
FINANCIAL ASSETS							
Cash and Cash Equivalents in Central Banks	57 345 292						57 345 292
Cash and Cash Equivalents in other Credit Institutions	44 789 639	0	490 746	0	0	0	45 280 385
Financial Assets held for trading	5 838 582	0	3 904 216	601 451	12 552	5 473 279	15 830 080
Financial Assets held for sale	5 345 339	1 214 561	1 315 643	438 517	304 237	14 284 897	22 903 194
Creditors	21 468 690	8 341 240	13 830 950	23 602 362	17 194 491	27 980 890	112 418 622
Investments held until Maturity	0	0	0	0	3 315 405	5 326 136	8 641 541
Hedging Derivatives	0	0	10 609	15 053	0	37 019	62 681
Other Assets	2 666 255						2 666 255
	137 453 796	9 555 801	19 552 164	24 657 382	20 826 684	53 102 222	265 148 049
FINANCIAL LIABILITIES							
Liabilities held for trading							0
Deposits from other credit institutions	4 081 234	2 005 808	3 511 170	6 118 880	2 861	0	15 719 953
Deposits from clients and other loans	16 665 288	34 983 208	34 441 280	18 287 747	32 709 436	58 289 571	195 376 530
Other liabilities	7 453 465	4 697 163	1 304 150	1 304 150	1 304 150	7 131 142	23 194 221
	28 199 987	41 686 179	39 256 600	25 710 777	34 016 448	65 420 713	234 290 704
DIFERENTIAL	109 253 809	-32 130 378	-19 704 436	-1 053 395	-13 189 763	-12 318 491	30 857 345

31.12.2016

	CURRENT AND AND UP TO 1 WEEK	GREATER THAN 1 WEEK AND UP TO 1 MONTH	GREATER THAN 1 MONTH AND UP TO 3 MONTHS	GREATER THAN 3 MONTHS AND UP TO 6 MONTHS	GREATER THAN 6 MONTHS AND UP TO 12 MONTHS	GREATER THAN 12 MONTHS	TOTAL
FINANCIAL ASSETS							
Cash and Cash Equivalents in Central Banks	33 031 686	0	0	0	0	0	33 031 686
Cash and Cash Equivalents in other Credit Institutions	9 731 884	3 226	273 187	3 473 549	4 802 502	59 346	18 343 694
Financial Assets held for trading	1 826 130	0	3 210	327 088	4 657	5 475 990	7 637 076
Financial Assets held for sale	11 973 472	98 677	0	496 027	230 582	13 612 570	26 411 328
Creditors	634 780	461 619	13 935 621	17 299 377	26 532 071	27 062 218	85 925 686
Investments held until Maturity	0	0	0	0	0	10 782 954	10 782 954
Hedging Derivatives	0	0	40 102	34 524	45 040	14 925	134 591
Other Assets	3 158 166	0	0	0	0	3 938 537	7 096 703
	60 356 119	563 522	14 252 121	21 630 565	31 614 852	60 946 540	189 363 718
FINANCIAL LIABILITIES							
Liabilities held for trading	0	0	0	0	0	0	0
Deposits from other credit institutions	296 232	7 490 628	1 601 682	1 909 957	3 066 241	409 619	14 774 358
Deposits from clients and other loans	12 027 650	29 369 075	22 602 354	23 296 633	28 157 213	26 620 769	142 073 694
Other liabilities	8 409 663	1 628 474	731 454	731 454	731 454	105 282	12 337 780
	20 733 544	38 488 177	24 935 490	25 938 044	31 954 907	27 135 670	169 185 833
DIFERENTIAL	39 622 574	-37 924 655	-10 683 369	-4 307 479	-340 056	33 810 869	20 177 885

4. EQUITY MANAGEMENT

With respect to equity 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

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

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

In addition to the regulatory requirements, the Bank has, as an integral part of the equity management process, a Recovery Plan in place, 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 adverse event scenarios, some of which in terms of equity.

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

O 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:

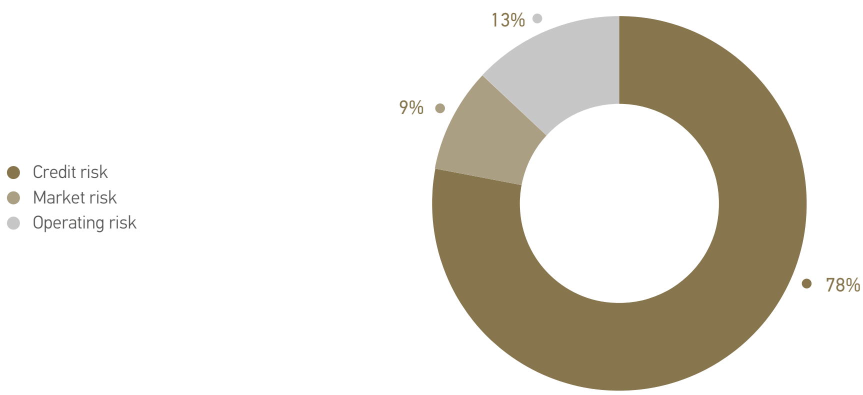
- Regulatory, based on regulatory reports, especially prudential reports, that provide important data for the quantitative and qualitative analysis of capital and risk;
- Economic capital and its requirements, which quantifies the risk according to the confidence level established in its RAS (Risk Appetite 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.

TYPES OF RISK	RISK-WEIGHTED ASSETS (RWA)	REGULATORY CAPITAL REQUIREMENTS
Credit risk	128 696 472 €	10 295 718 €
Market risk	15 431 223 €	1 234 498 €
Operating risk	21 901 796 €	1 752 144 €
Total	166 029 492 €	13 282 359 €



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:

- Standard Method, using the market price for measuring Counterparty Risk;
- 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:

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:

- 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;

- 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 2017 were:

- 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 EUR, fully subscribed and paid;

- 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;

- 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 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:

- 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:

- Deduction of 20% of positive reserves not resulting from potential gains in sovereign bonds and of negative reserves, both resulting from the revaluation of investment portfolio assets;

- Additional filters resulting from the 20% deduction arising from clients' deposits with a rate above the threshold defined by Banco de Portugal, in accordance with Instruction 28/2011 or Instruction 15/2012, depending on their composition, as at 31/12/2013.

ITEMS	VALUE
Paid-in capital	20 000 000 €
Issue premiums	369 257 €
Retained earnings	986 024 €
Legal reserves	13 353 229 €
Intangible assets	70 368 €
Own funds with no transitional provisions	34 638 141 €
Transitional provisions	17 592 €
Additional filters	68 524 €
Economic capital	**34 552 025 €**

CAPITAL IINDICATORS

As at 31 December 2017, risk-weighted assets amounted to 166.0M€, setting capital requirements of 13.3M€ – comfortably hedged by own funds in the amount of 34.6M€.

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 20.81%, well above the legally minimum required (6% and 8%, respectively).

In addition, the gearing ratio stood at 12.85%.

5. NOTES TO THE SEPARATE FINANCIAL STATEMENTS

The balance sheet and statement of profit and loss accounts are compared as at 31 December 2017 and 31 December 2016, in compliance with the International Financial Reporting Standards, and consist of the following headings:

5.01. Cash and liquid assets in central banks — Note 01

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

	31/12/2017	31/12/2016
Cash	75 054	90 528
Liquid assets at demand with Banco de Portugal	57 270 238	32 941 158
	57 345 292	33 031 686

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

5.02. Liquid assets in other credit institutions — Note 02

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

	31/12/2017	31/12/2016
Demand deposits in credit institutions		
Residents	18 117 099	1 602 290
Non-residents	27 163 286	16 741 404
	45 280 385	18 343 694

5.03. Financial assets held for trading — Note 03

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

	31/12/2017	31/12/2016
Trading securities		
Securities	15 817 433	7 560 011
Derivative instruments with positive fair value	12 647	77 065
	15 830 080	7 637 076

This portfolio grew considerably compared to the previous year, explained by purchases and sales arising from favourable market opportunities, the book trading positions of which are shown in detail in the table below:

FINANCIAL ASSETS HELD FOR TRADING

As at 31 December 2017 and 2016, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE		BALANCE SHEET VALUE		CAPITAL				IMPAIRMENT	
			FAIR VALUE		GAINS		LOSSES			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
DEBT INSTRUMENTS										
Issued by residents										
Of Portuguese public debt										
Treasury bonds	279 430		280 250		820		–		–	
Non-subordinated debt		5 000 000		5 000 000		–		–		–
Of other resident issuers										
Sovereign bonds	–	380 452	–	437 149	–	56 697	–	–	–	–
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	340 113	129 118	346 223	–	6 132	558	22	–	
	9 234 954	5 720 565	9 232 286	5 783 372	820	62 829	3 488	22	–	
EQUITY INSTRUMENTS										
Issued by residents										
Of other resident issuers										
Shares	1 310	262 461	1 297	209 654	1	7 893	13	60 700	–	–
Issued by non-residents										
Of other non-resident issuers										
Shares	633 325	1 475 211	408 562	896 721	1 544	4 941	226 307	583 431	–	–
Participation units	31 516	27 375	31 197	27 244	38	179	357	310	–	–
Other	8 486	8 486	10 537	8 486	2 051	–	–	–	–	–
	674 637	1 773 533	451 593	1 142 105	3 634	13 013	226 677	644 441	–	–
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	662 885	658 031	634 534	4 221	4 903	29 002	33 254	–	–
	6 196 687	662 885	6 133 553	634 534	4 221	4 903	67 355	33 254	–	–
DERIVATIVE INSTRUMENTS AT POSITIVE FAIR VALUE										
Other										
Unrealised capital gains from futures	–	–	–	52 400	–	–	–	–	–	–
Unrealised capital gains from options	–	–	12 647	24 665	–	–	–	–	–	–
	–	–	12 647	77 065	–	–	–	–	–	–
TOTAL	16 106 278	8 156 983	15 830 080	7 637 076	8 675	80 745	297 520	677 717	–	–

5.04. Other financial assets at fair value through profit or loss Note 04

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

	31/12/2017	31/12/2016
Securities		
Issued by residents	9 201	4 751
	9 201	4 751

This amount refers to the contribution to the Work Compensation Fund. Fair value accounting in accordance with IAS 39(9)(b), quotation being obtained from the website of the Work Compensation Fund.

5.05. Available for sale financial assets Note 05

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

	31/12/2017	31/12/2016
Issued by residents		
Debt instruments	9 008 797	10 612 131
Equity instruments	551 750	656 900
Other	4 421 904	2 402 585
	13 982 451	13 671 616
Issued by non-residents		
Debt instruments	8 281 123	12 254 563
Equity instruments	6 676	19 336
Other	632 943	465 812
	8 920 742	12 739 711
	22 903 194	26 411 328

As mentioned in the basis of presentation and significant accounting policies, assets are classified under this heading when they are not intended for divestment in the short term. Changes in fair value are recognised directly in equity under «Fair value reserves».

AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31 December 2017 and 2016, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE		BALANCE SHEET VALUE		CAPITAL				IMPAIRMENT	
			FAIR VALUE		GAINS		LOSSES			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
DEBT INSTRUMENTS										
Issued by residents										
Of Portuguese public debt										
Treasury bonds	6 216 985	221 202	6 208 797	225 632	54 474	10 960	62 661	6 530	–	–
Treasury Bills		9 998 473		10 001 500		3 027		–		–
Of other resident issuers										
Non-subordinated debt	2 800 000	407 720	2 800 000	385 000	–	–	–	22 720	–	–
Subordinated debt	4 353 500	4 353 500	–	–	–	–	–	–	4 353 500	4 353 500
Issued by non-residents										
Of other non-resident issuers										
Non-subordinated debt	8 231 545	12 794 180	8 281 123	12 127 403	355 579	345 585	16 761	452 976	289 240	559 386
Subordinated debt	348 110	456 992	–	127 160	–	18 278	–	–	348 110	348 110
	21 950 139	28 232 067	17 289 921	22 866 695	410 053	377 850	79 422	482 226	4 990 850	5 260 996
EQUITY INSTRUMENTS										
Issued by residents										
Of other resident issuers										
Shares	2 138 824	3 687 934	551 750	656 900	–	–	–	1 247 760	1 587 074	1 783 274
Issued by non-residents										
Shares	–	–	6 676	19 336	6 676	19 336	–	–	–	–
	2 138 824	3 687 934	558 426	676 236	6 676	19 336	0	1 247 760	1 587 074	1 783 274
OTHER										
Issued by residents										
Of other resident issuers										
Other	3 993 759	1 883 758	4 421 904	2 402 585	428 145	518 827	–	–	–	–
Issued by non-residents										
Of other non-resident issuers										
Structured products	669 046	503 706	632 943	465 812	781	156	36 885	38 050	–	–
	4 662 805	2 387 464	5 054 847	2 868 397	428 927	518 983	36 885	38 050	–	–
TOTAL	28 751 768	34 307 465	22 903 194	26 411 328	845 655	916 169	116 306	1 768 036	6 577 924	7 044 270

The changes occurred in impairment losses of available for sale financial assets are presented as follows:

	31/12/2017	31/12/2016
Balance on 1 January	7 004 270	6 235 149
Appropriation	1 800	1 169 850
Reversal	(5 248)	(58 671)
Utilisation	(418 474)	(335 490)
Exchange differences and others	(44 425)	33 433
Balance on 31 December	6 577 924	7 044 270

5.06. Investments in credit institutions Note 06

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

	31/12/2017	31/12/2016
Investments		
In the country		
In other credit institutions	500 000	16 000 000
Income receivable	172	4 888
	500 172	16 004 888

5.07. Loans to clients Note 07

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

	31/12/2017	31/12/2016
Domestic loans		
Loans	29 913 689	22 358 730
Current account loans	58 739 771	43 314 251
Overdrafts in demand deposits	3 565 332	182 968
Foreign loans		
Loans	1 175 799	118 800
Current account loans	1 048 965	833 519
Overdue loans and interest	1 372 715	168 512
Income receivable	187 425	105 029
	96 003 696	67 081 808
Impairment for overdue loans and interest	(1 467 082)	(968 346)
	94 536 614	66 113 462

In 2017, the credit portfolio grew considerably, being more and more relevant in the Bank's activity as a whole, 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 are formed in conformity with Notice 5/2015 of Banco de Portugal.

The changes occurred in impairment losses of the credit portfolio are presented as follows:

	31/12/2017	31/12/2016
Balance on 1 January	968 346	942 304
Appropriation	1 171 338	2 300 401
Reversal	(781 898)	(2 274 359)
Utilisation		
Exchange differences and others	109 297	
Balance on 31 December	1 467 082	968 346

5.08. Investments held to maturity

Note 08

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

	31/12/2017	31/12/2016
Investments held to maturity	8 830 258	11 011 818
	8 830 258	11 011 818

INVESTMENTS HELD TO MATURITY

As at 31 December 2017 and 2016, this heading is broken down as follows:

NATURE AND TYPE OF SECURITIES	PAR VALUE		ACQUISITION VALUE		EFFECTIVE RATE		BALANCE SHEET VALUE AMORTISED COST	
	2017	2016	2017	2016	2017	2016	2017	2016
DEBT INSTRUMENTS								
Issued by residents								
Of other resident issuers								
Non-subordinated debt								
EGLPL 5,50 04/19	2 000 000	2 000 000	2 000 000	2 000 000	5.67%	5.67%	2 022 124	2 021 599
Issued by non-residents								
Of other non-resident issuers								
Non-subordinated debt								
BANBRA 3,75 07/18	1 600 000	1 600 000	1 516 000	1 516 000	6.10%	6.10%	1 606 182	1 571 831
TRAFIG 5,00 04/20	1 000 000	1 000 000	915 000	915 000	7.47%	7.47%	982 445	962 995
BNDES 3,625 01/19	2 000 000	2 000 000	1 910 000	1 910 000	5.37%	5.37%	2 033 230	2 001 875
BANBRA 3,75 07/18	400 000	400 000	392 500	392 500	4.62%	4.62%	404 651	401 405
BCOBMG 8,00 04/18	5 253 064	5 976 663	5 253 064	5 976 663	8.24%	8.24%	1 781 626	4 052 113
TOTAL	12 253 064	12 976 663	11 986 564	12 710 163			8 830 258	11 011 818

5.09. Hedging derivatives Note 09

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

	31/12/2017	31/12/2016
Hedging derivatives		
Positive fair value – Cash flow hedge	53 480	129 841
	53 480	129 841

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 2016 and 2017, 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.

5.10. Non-current assets held for sale Note 10

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

	31/12/2017	31/12/2016
Non-current property, plant and equipment held for sale		
Buildings	85 680	85 680
	85 680	85 680

Valor correspondente a um Imóvel adquirido em processo de recuperação de crédito.

5.11. Other property, plant and equipment Note 11

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

	31/12/2017	31/12/2016
Other property, plant and equipment		
Buildings	6 875 172	5 092 866
Equipment	6 587 890	5 827 119
Finance lease assets	63 705	368 570
Property, plant and equipment in progress	82 602 34	223 953
	13 609 369	11 512 507
Accrued amortisations		
Buildings	(188 870)	(73 135)
Equipment	(4 929 371)	(4 735 079)
Finance lease assets	(7 167)	(35 935)
	(5 125 407)	(4 844 149)
	8 483 962	6 668 358

In terms of investment, there was a positive year-on-year variation of 27.20% due to the acquisition of a new building, the exchange of another building purchased earlier on, and rehabilitation and functional upgrading in the *affluent* building, plus the equipment thereof.

Changes recorded in Other property, plant and equipment are shown in the following note.

5.12. Intangible assets Note 12

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

	31/12/2017	31/12/2016
Other intangible assets		
Automatic data processing system (software)	2 414 090	2 381 689
Other	272 187	272 187
	2 686 277	2 653 875
Accrued amortisations		
Automatic data processing system (software)	(2 349 185)	(2 276 170)
Other	(249 402)	(220 671)
	(2 598 587)	(2 496 841)
	87 690	157 034

Changes and balances as at 31 December 2017 and 2016 under «Other property, plant and equipment» and «intangible assets», including amortisations and impairment adjustments are presented in the table below.

Despite a slight increase in investments made in automatic data processing systems (*software*), the pace of amortisations corresponding to net investments made earlier substantially reduces this asset component.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AS AT 31 DECEMBER 2017 | (SEPARATE ACTIVITY)

Amounts stated in EUR

ACCOUNTS	ON 31/12/2016 GROSS VALUE	ON 31/12/2016 ACCRUED DEPRECIATION	INCREASES ACQUISITIONS	DEPRECIATION	WRITE-OFFS (NET)
OTHER INTANGIBLE ASSETS					
Data processing systems (software)	2 381 689	(2 276 170)	32 402	(73 015)	0
Other intangible assets	272 187	(220 671)	0	(28 731)	0
Intangible assets in progress	0	0	0	0	0
	2 653 875	(2 496 841)	32 402	(101 746)	0
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)	0
Financial leasing assets	368 570	(35 935)	0	(956)	0
Property, plant and equipment in progress	223 953	0	1 103 326	0	0
	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 The Board of Directors

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AS AT 31 DECEMBER 2016 | (SEPARATE ACTIVITY)

Amounts stated in EUR

ACCOUNTS	ON 31/12/2015 GROSS VALUE	ON 31/12/2015 ACCRUED DEPRECIATION	INCREASES ACQUISITIONS	DEPRECIATION	WRITE-OFFS (NET)
OTHER INTANGIBLE ASSETS					
Data processing systems (software)	2 334 331	(2 172 108)	47 357	-104 061	0
Other intangible assets	242 529	(201 002)	575	(19 669)	0
Intangible assets in progress	0	0	29 083	0	0
	2 576 861	(2 373 110)	77 015	(123 730)	0
PROPERTY, PLANT AND EQUIPMENT					
Property	522 936	(42 616)	4 569 930	(30 519)	0
Equipment	5 377 388	(4 414 149)	525 981	(397 179)	0
Financial leasing assets	368 570	(30 407)	0	(5 529)	0
Property, plant and equipment in progress	0	0	223 953	0	0
	6 268 894	(4 487 172)	5 319 863	(433 227)	0
TOTALS	8 845 754	(6 860 283)	5 396 878	(556 957)	0

The Certified Accountant The Board of Directors

TRANSF.	SETTLEMENTS GROSS VALUE	DEPRECIATION	ACCRUED DEPRECIATION	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED DEPRECIATION	NET VALUE ON 31/12/2017
0	0	0	0	2 414 090	(73 015)	(2 276 170)	64 905
0	0	0	0	272 187	(28 731)	(220 671)	22 785
0	0	0	0	0	0	0	0
0	0	0	0	2 686 277	(101 746)	(2 496 841)	87 690
1 510 957	0	2 286	(32 011)	7 160 942	(85 153)	(105 146)	6 686 302
38 584	0	0	0	6 825 610	(432 012)	(4 735 079)	1 658 519
(304 864)	0	(2 286)	32 011	63 705	(3 242)	(3 925)	56 539
(1 244 677)	0	0	0	82 602	0	0	82 602
0	0	0	0	14 132 859	(520 407)	(4 844 149)	8 483 962
0	0	0	0	16 819 136	(622 153)	(7 340 990)	8 571 652

TRANSF.	SETTLEMENTS GROSS VALUE	DEPRECIATION	ACCRUED DEPRECIATION	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED DEPRECIATION	NET VALUE ON 31/12/2016
0	0	0	0	2 381 689	(104 061)	(2 172 108)	105 519
29 083	0	0	0	272 187	(19 669)	(201 002)	51 516
(29 083)	0	0	0	0	0	0	0
0	0	0	0	2 653 875	(123 730)	(2 373 110)	157 035
0	0	0	0	5 092 866	(30 519)	(42 616)	5 019 731
0	0	0	0	5 903 369	(397 179)	(4 414 149)	1 092 040
0	0	0	0	368 570	(5 529)	(30 407)	332 634
0	0	0	0	223 953	0	0	223 953
0	0	0	0	11 588 757	(433 227)	(4 487 172)	6 668 358
0	0	0	0	14 242 632	(556 957)	(6 860 283)	6 825 393

5.13 Investment in associate and subsidiary companies — Note 13

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

	31/12/2017	31/12/2016
Valued at historical cost – domestic.		
Domestic	25 000	25 000
	25 000	25 000

The amount corresponds to the investment in CoolLink, Lda.

5.14 Current tax assets — Note 14

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

	31/12/2017	31/12/2016
Current tax assets		
Recoverable corporate income tax	288 300	0
Other	0	289 411
	288 300	289 411

5.15. Deferred tax assets — Note 15

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

	31/12/2017	31/12/2016
Deferred tax assets		
Temporary differences		
Property, plant and equipment/Intangible assets	17 667	31 171
Impairments	307 971	383 060
	325 638	414 231

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.

5.16. Other assets Note 16

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

	31/12/2017	31/12/2016
Other liquid assets	147 081	53
Debtors and other investments		
Miscellaneous debtors	2 412 928	4 351 968
Miscellaneous investments	10 398 254	10 100 467
Other assets	3 829 053	4 535 884
Other interest and similar income		
Of fixed income issued by residents		
Of Portuguese public debt	126 815	4 991
Of other residents	153 288	52 078
Other income receivable		
Other obligations	109 094	255 166
Fees for services provided	113 804	99 641
Costs with deferred charges		
Insurance	90 875	31 170
Other deferred charges	506 862	188 269
Other regularisation accounts	2 666 255	7 096 703
	20 554 309	26 716 390
Accr. impair. NIC/ from accr.imp. NCA		
Loans and overdue interest	(549 975)	(1 549 975)
	(549 975)	(1 549 975)
	20 004 334	25 166 415

(*) Following an extra-judicial agreement signed at the end of 2016, impairment in the amount of 1.45 M€, was recognised, which includes, on the recommendation of Banco de Portugal, 500 k€ on amounts receivable up to 2019, of which 50 k€ euro were received in early 2017.

Following the above extra-judicial agreement, the sale/purchase contract of a 10% holding in the equity of a credit institution, the head-office of which is abroad, was terminated, and the advance payment of 50 k€ was refunded in early 2017.

«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 occurred in impairment losses of Other assets are as follows:

	31/12/2017	31/12/2016
Balance on 1 January	1 549 975	100 000
Appropriation		1 449 975
Reversal		
Utilisation	(1 000 000)	
Exchange differences and others		
Balance on 31 December	549 975	1 549 975

5.17. Financial liabilities held for trading — Note 17

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

	31/12/2017	31/12/2016
Derivative instruments with negative fair value	0	39 256
	0	39 256

Unrealised losses in 2016 intended to hedge part of the exposure of the portfolio in USD.

5.18. Deposits from other credit institutions — Note 18

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

	31/12/2017	31/12/2016
Loans and deposits from domestic credit institutions		
Deposits	15 659 141	13 102 509
Loans	38 216	85 043
Other deposits	1 678	1 167
	15 699 035	13 188 719
Loans and deposits in foreign credit institutions		
Deposits	14 815	403 300
Loans	24 314	1 208 293
	39 129	1 611 593
	15 738 163	14 800 312

5.19. Deposits from clients and other loans — Note 19

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

	31/12/2017	31/12/2016
Deposits from clients		
Deposits		
Of residents		
Demand	83 960 568	49 308 046
Term	87 401 772	70 757 857
Of non-residents		
Demand	15 220 933	16 563 076
Term	8 793 258	5 444 715
	195 376 530	142 073 694
Interest on deposits from clients		
Deposits		
Of residents	367 371	381 383
Of non-residents	31 993	23 282
	399 364	404 665
	195 775 894	142 478 359

5.20. Provisions Note 20

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

	31/12/2017	31/12/2016
Other provisions		
Guarantees and other commitments	13 513	10 046
	13 513	10 046

5.21. Current tax liabilities Note 21

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

	31/12/2017	31/12/2016
Current tax liabilities		
Corporate income tax payable	0	532.648
Other	72 834	15 002
	72 834	547 650

5.22. Other liabilities Note 22

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

	31/12/2017	31/12/2016
Suppliers	705 084	247 929
Suppliers – finance lease assets	8 586	35 125
Creditors – trading in securities	132 211	176 593
Other creditors	365 585	379 060
Creditors – futures & options	1 784 632	4 627 533
Other deposits	20 225 824	6 931 652
VAT payable	121 666	41 543
Withholding and other taxes payable to the State	440 269	366 469
Contributions to Social Security	75 137	67 235
Contributions to other health systems	4 200	4 010
Third party collections	788	752
	23 865 982	12 877 901
Liabilities relating to pensions and other benefits	173 335	190 864
Charges payable		
Staff costs	461 261	455 644
Other charges payable	148 495	122 544
	609 756	578 188
Other revenue with deferred income	79	7 773
Other operations to be regularised	2 968 397	5 406 128
	27 617 549	19 060 854

The amount stated under «Other deposits» refers to the financial balances of clients arising from derivative transactions and from deposits invested in the liquidity of portfolio management contracts.

«Operations to be regularised» includes transactions for the purchase of securities made at the end of the year, pending settlement at the begining of the following financial year.

5.23. Equity Note 23

The annex «Statement of changes in equity capital» presents a positive variation compared to 2016 in the amount of 813 132€, mainly justified by the very result of the year.

Breakdown of equity:

· 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 EUR, fully subscribed and paid;
· 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.

5.24. Fair value of financial assets and liabilities

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is estimated in accordance with IFRS13.

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 market (or more favourable) 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:

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	57 345 292	–	–	–	–	57 345 292	57 345 292
Liquid assets in other credit institutions	45 280 385	–	–	–	–	45 280 385	45 280 385
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
Investments in credit institutions	500 172	–	–	–	–	500 172	500 172
Loans to clients	94 536 614	–	–	–	–	94 536 614	94 536 614
Investments held to maturity	8 830 258	–	–	–	–	8 830 258	9 183 172
Hedging derivatives	–	–	–	53 480	–	53 480	53 480
Other assets	20 004 334	–	–	–	–	20 004 334	20 004 334
	226 497 055	6 906 921	31 274 602	614 431	38 733 273	265 293 009	265 645 923
FINANCIAL LIABILITIES							
Financial liabilities held for trading	–	–	–	–	–	–	–
Deposits from other credit institutions	15 738 163	–	–	–	–	15 738 163	15 738 163
Clients' deposits and other loans	195 775 894	–	–	–	–	195 775 894	195 775 894
Other liabilities	27 617 549	–	–	–	–	27 617 549	27 617 549
	239 131 606	–	–	–	–	239 131 606	239 131 606

2016	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	33 031 686	–	–	–	–	33 031 686	33 031 686
Liquid assets in other credit institutions	18 343 694	–	–	–	–	18 343 694	18 343 694
Financial assets held for trading	–	1 107 714	6 529 362	–	7 637 076	7 637 076	7 637 076
Other financial assets at fair value through profit or loss	–	–	–	4 751	–	4 751	4 751
Available for sale financial assets	–	309 631	25 528 796	572 900	26 411 328	26 411 328	26 411 328
Investments in credit institutions	16 004 888	–	–	–	–	16 004 888	16 004 888
Loans to clients	66 113 462	–	–	–	–	66 113 462	66 113 462
Investments held to maturity	11 011 818	–	–	–	–	11 011 818	11 382 088
Hedging derivatives	–	–	–	129 841	–	129 841	129 841
Other assets	25 166 415	–	–	–	–	25 166 415	25 166 415
	169 671 961	1 417 345	32 058 158	707 492	34 048 403	203 854 957	204 225 227
FINANCIAL LIABILITIES							
Financial liabilities held for trading	–	–	39 256	–	39 256	39 256	39 256
Deposits from other credit institutions	14 800 312	–	–	–	–	14 800 312	14 800 312
Clients' deposits and other loans	142 478 359	–	–	–	–	142 478 359	142 478 359
Other liabilities	19 060 854	–	–	–	–	19 060 854	19 060 854
	176 339 525	–	39 256	–	39 256	176 378 780	176 378 780

Fair value hierarchy

IFRS 13 categorises the inputs used to measure fair value into three levels:

- 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.

- 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.

- 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 2017 and 2016 financial years, the changes in Level 3 class of assets or liabilities in the fair value hierarchy are as follows:

	AVAILABLE FOR SALE FINANCIAL ASSETS
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	–
Others	–
Balance on 31 December 2017	551 750

	AVAILABLE FOR SALE FINANCIAL ASSETS
Balance on 1 January 2016	686 900
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	-114 000
Gains/(losses) recognised in fair value reserves	-
Acquisitions	-
Disposals	-
Transfers from other levels	-
Transfers to other levels	-
Exchange differences	-
Others	-
Balance on 31 December 2016	572 900

The transfer from other levels to level 3 corresponds only to the Cimpor shares, which in 2016 were classified in level 1, as explained in the note on restatements (II).

In 31/12/2017, the holdings in the 2 entities classified in level 3 were valuated through the analysis of their financial statements. One of the entities was subject to impairment in 2013, which is maintained as a result of the recent valuation of the equity.

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[9]:

	2017		2016	
	EUR	USD	EUR	USD
1 week	-0.378	1.480	-0.374	0.723
1 month	-0.368	1.564	-0.368	0.771
2 months	-0.340	1.622	-0.338	0.819
3 months	-0.329	1.694	-0.319	0.998
6 months	-0.271	1.837	-0.221	1.318
1 year	-0.257	1.881	-0.203	1.687
2 years	-0.150	2.060	-0.160	1.450
3 years	0.013	2.147	-0.103	1.674
4 years	0.172	2.191	-0.024	1.843
5 years	0.316	2.226	0.078	1.970
7 years	0.565	2.291	0.309	2.166
10 years	0.886	2.375	0.648	2.350
30 years	1.501	2.518	1.201	2.593

9 The above amounts were obtained from *Bloomberg*.

Exchange rates

The *fixing* values of the Central Bankl[10] are used for exchange rates. The table below shows the exchange rates of some of the relevant currency pairs as at 31 December 2017 and 2016:

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	1,6916	3,9785
USD	0,83299		0,73977	0,97484	8,19175	8,19925	1,28048	1,25686	1,40908	3,31404
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		8,40322	8,41091	1,31354	1,2893	1,44545	3,39959
SEK	0,10169	0,12207	0,09031	0,119		1,00092	0,15631	0,15343	0,17201	0,40456
NOK	0,10159	0,12196	0,09022	0,11889	0,99909		0,15617	0,15329	0,17186	0,40419
AUD	0,65053	0,78096	0,57773	0,7613	6,39739	6,40325		0,98155	1,10043	2,58811
CAD	0,66275	0,79563	0,58858	0,77561	6,51764	6,5236	1,0188		1,12111	2,63676
NZD	0,59116	0,70968	0,525	0,69182	5,81355	5,81887	0,90874	0,89197		2,35192
BRL	0,25135	0,30175	0,22322	0,29415	2,47184	2,4741	0,38638	0,37925	0,42519	

2016	EUR	USD	GBP	CHF	SEK	NOK	AUD	CAD	NZD	BRL
EUR		1,05117	0,85352	1,07209	9,5751	9,0874	1,45969	1,41338	1,5159	3,4288
USD	0,95084		0,81156	1,01939	9,1044	8,64068	1,38793	1,3439	1,44138	3,26025
GBP	1,17162	1,23219		1,25608	11,2184	10,647	1,7102	1,65594	1,77606	4,01725
CHF	0,93276	0,98098	0,79613		8,93125	8,47634	1,36154	1,31834	1,41397	3,19824
SEK	0,10444	0,10984	0,08914	0,11197		0,94907	0,15245	0,14761	0,15832	0,3581
NOK	0,11004	0,11573	0,09392	0,11798	1,05367		0,16063	0,15553	0,16681	0,37731
AUD	0,68508	0,7205	0,58473	0,73446	6,55968	6,22557		0,96827	1,03851	2,34899
CAD	0,7752	0,7441	0,60389	0,75853	6,77461	6,42955	1,03277		1,07254	2,42596
NZD	0,65967	0,69378	0,56305	0,70723	6,31645	5,99472	0,96292	0,93237		2,26189
BRL	0,29165	0,30673	0,24893	0,31267	2,79255	2,65032	0,42572	0,41221	0,44211	

10 Source of exchange rates: https://www.bportugal.pt/taxas-cambio

5.25. Financial margin Note 24 and 25

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

	31/12/2017	31/12/2016
Interest and similar income from:		
Interest on investments in central banks	0	194
Interest on investments in other credit institutions	14 173	3 880
Interest on investments in credit institutions	47 678	130 571
Interest on loans to clients	4 127 983	3 588 475
Interest on overdue loans	83 450	233 675
Interest and similar income from other financial assets	1 659 820	2 218 829
Commissions received associated to amortised cost	27 246	0
	5 960 350	6 175 624
Interest and similar costs on:		
Deposits from Banco de Portugal	(67 032)	(63 060)
Deposits from other credit institutions	(131 730)	(103 045)
Interest from creditors and other deposits		
Interest on deposits from clients	(624 000)	(921 882)
Interest on trading liabilities	(1 257)	(1 761)
Other interest and similar costs	(68 751)	(104 055)
	(892 771)	(1 193 803)
	5 067 579	4 981 821

5.26. Income from equity instruments Note 26

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

	31/12/2017	31/12/2016
Available for sale financial assets		
Issued by residents		
Participation units	126 981	95 200
	126 981	95 200

These results arise from the distribution of dividends of the investment fund Retail Properties, corresponding to 0.015€/0.043€ (2 distribution periods) and to 0.015€, respectively, in 2017 and 2016, per unit held.

5.27. Revenue and charges – fees/commission services — Note 27 and 28

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

	31/12/2017	31/12/2016
Income – services and fees/commissions from:		
Guarantees and sureties	101 959	100 581
Deposits and values under custody	27 619	21 711
Collection of securities	118 942	69 064
Administration of securities	1 011 077	866 417
Collective investment undertakings	248 528	198 937
Other services provided	1 694 748	348 462
Operations carried out on behalf of third parties	2 410 662	2 581 117
Other fees/commissions received	864 116	1 175 331
	6 477 651	5 361 619
Charges – services and fees/commissions for:		
Deposits and values under custody	(66 759)	(50 685)
Other banking services provided by third parties	(45 754)	(21 461)
Operations carried out by third parties	(2 162 843)	(1 998 689)
	(2 275 357)	(2 070 834)
	4 202 294	3 290 785

5.28. Income from assets and liabilities evaluated at fair value — Note 29

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

	31/12/2017	31/12/2016
Gains from:		
Financial assets held for trading		
Securities	2 756 539	3 116 730
Derivative instruments	630 211	3 084 904
	3 386 750	6 201 634
Losses from:		
Financial assets held for trading		
Securities	(1 820 304)	(3 042 284)
Derivative instruments	(460 306)	(3 273 104)
	(2 280 610)	(6 315 388)
	1 106 140	(113 754)

5.29. Income from available for sale financial assets Note 30

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

	31/12/2017	31/12/2016
Gains from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	1 527	3 032
Equity instruments	300 000	0
Other (*)	0	2 324 472
Issued by non-residents		
Debt instruments	437 482	904 263
Equity instruments	176	22
	739 184	3 231 789
Losses from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	(5 714)	(64 655)
Issued by non-residents		
Debt instruments	(270 198)	(383 360)
	(275 912)	(448 015)
	463 272	2 783 775

According to the applicable rules, this heading shows the amounts relating to the derecognition of financial assets, normally through their disposal. Considering the normally longer period in which investment are made for this portfolio, the disposal of securities generally results from particularly favourable opportunities found for their disposal. Therefore, 2016 saw a positive result from the sale of 4 304 243 participation units of the Retail Properties Real Estate Fund, which alone represented a result of 2.3M€, which was not repeated in 2017.

5.30. Income from currency revaluation Note 31

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

	31/12/2017	31/12/2016
Gains from:		
Exchange differences		
Other items in foreign currency – foreign currencies	245 567	1 448 852
Losses from:		
Exchange differences		
Other items in foreign currency – foreign currencies	(468 735)	(1 487 550)
	(223 167)	(38 697)

These results were mainly due to the exchange fluctuation of USD against the euro, a acurrency to which the bank was most exposed in the two financial years, but mostly in 2017.

5.31. Income from the disposal of other assets Note 32

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

	31/12/2017	31/12/2016
Gains from:		
Non-financial assets	37 862	10 500
Other gains in financial transactions	0	3 990
	37 862	14 490

5.32. Other operating income Note 33

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

	31/12/2017	31/12/2016
Gains from:		
Other gains and operating income	53 414	10 420
	53 414	10 420
Losses from:		
Other taxes	(251 710)	(209 611)
Donations and membership fees	(71 235)	(73 995)
Contributions to the Deposit Guarantee Fund (FGD)	(110)	(80)
Contributions to the Investor Compensation Scheme	(5 000)	(4 000)
Failure of computer systems or telecommunications	(1 058)	(2 919)
Other property, plant and equipment	(27 838)	0
Other costs and operating expenses	(141 872)	(330 198)
	(498 823)	(620 804)
	(445 409)	(610 384)

5.33. Staff costs Note 34

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

	31/12/2017	31/12/2016
Remuneration		
Management and supervisory bodies	(346 919)	(362 830)
Employees	(2 711 576)	(2 456 765)
Mandatory social security contributions		
Remuneration-related charges	(738 285)	(691 499)
Other mandatory social security contributions		
Pension fund	(61 565)	(73 426)
Insurance against accidents at work	(14 899)	(14 150)
Other staff costs	(222 282)	(244 095)
	(4 095 526)	(3 842 764)

In December 2017, the Bank had 88 staff in Portugal, as shown below in the job descriptions.

DISTRIBUTION BY PROFESSIONAL CATEGORY	31/12/2017	31/12/2016
Management Board	4	4
Management	19	20
Technical staff	20	15
Admin. staff	15	14
Commercial/operations	22	22
Others	8	9
	88	84

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:

- Old-age retirement or presumable disability pension;
- Deferred survivors' pension;
- Immediate survivors' pensions;
- Post-retirement contributions to SAMS (medical-social aid assistance for bank employees);
- 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. Responsibility for services provided in the past by eligible employees is 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 benefits relating to disability pensions and immediate survivors pensions are covered by a life insurance policy.

In addition, the Bank also has responsibilities and costs of health care of 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 MULTICARE 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 2017, Banco Carregosa's pension plan included 14 active employees, 49 with acquired rights and 4 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:

	2017	2016
Current workers	14	16
Former participants with acquired rights	49	47
Pensioners	4	5
TOTAL	67	68

Assumptions

The liabilities of the pension scheme were assessed on the basis of the following assumptions:

	2017	2016
ACTUARIAL EVALUATION METHOD	PROJECT UNIT CREDIT METHOD	PROJECT UNIT CREDIT METHOD
Demographic assumptions		
Mortality tables	TV88/90	TV88/90s
Invalidity tables	SR88	SR88
Turnover tables		
Financial assumptions		
Rate of return on Fund	2.00%	2.00%
Wage growth rate	1.25%	1.25%
Pension adjustment rate	2.00%	2.00%
Pension growth rate	1.00%	1.00%
General information		
Number of benefit payments	14	14

Rate of Return on Fund – The discount rate, which should reflect 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 2017 and 2016 financial years and values actually recorded is shown below:

	2017		2016	
	PLANNED	OBSERVED	PLANNED	OBSERVED
Mortality	0.31%	0.00%	0.30%	1.46%
Wage growth rate	1.25%	0.75%	1.25%	0.75%
Pension growth rate	1.00%	11.12%	1.00%	1.61%
Return rate	2.00%	3.10%	2.00%	2.34%

Mortality table – In view of the history of death rate, the TV88_90 mortality table is maintained.

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 aforementioned changes have influenced a percentage increase of pensions in an amount greater than the actuarial assumption, as mentioned in the related Actuarial Report.

Return rate – As in recent years, the return rate in 2017 was higher than the planned rate. 10-year projections, until 2027, in a best estimate scenario, point to an average annual return rate of 5.5%. 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 liabilities

Pension liabilities as at 31 December are as follows:

	2017	2016
Pension payment liabilities	727 740	741 385
Asset liabilities	2 863 223	2 750 845
	3 590 963	3 492 230

Pension payment liabilities

The current value of liabilities with pensions in payment as at 31 December 2017 is as follows:

	CURRENT VALUE OF PENSIONS IN 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

The current value of pension liabilities as at 31 December 2016 is as follows:

	CURRENT VALUE OF PENSIONS IN PAYMENT	SAMS	DEATH GRANT	TOTAL
Old-age pensions	194 685	19 977	1 132	215 794
Invalidity pensions	-	-	-	-
Survivors' pensions	497 383	12 470	-	509 854
Orphans' pensions	15 212	526	-	15 738
Total	707 280	32 973	1 132	741 385

Asset liabilities

The current value of asset liabilities as at 31 December 2017 is as follows:

CURRENT VALUE OF LIABILITIES PAST SERVICE LIABILITIES	ASSETS	ACQUIRED RIGHTS	SAMS ASSETS	DEATH GRANT ASSETS	TOTAL
<65 anos	1 438 508	1 051 083	156 817	14 664	2 661 073
≥ 65 anos	179 700	2 945	18 380	1 125	202 150
Total	1 618 209	1 054 028	175 197	15 789	2 863 223

O valor atual das responsabilidades com ativos em 31 de dezembro de 2016 apresenta-se como segue:

CURRENT VALUE OF LIABILITIES PAST SERVICE LIABILITIES	ASSETS	ACQUIRED RIGHTS	SAMS ASSETS	DEATH GRANT ASSETS	TOTAL
<65 anos	1 496 105	860 626	165 522	14 438	2 536 691
≥ 65 anos	190 857	3 124	19 060	1 113	214 154
Total	1 686 962	863 750	184 582	15 551	2 750 845

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:

	2017	2016
FP OCP Equilibrado	885 259	875 803
FP OCP Moderado	1 403 490	1 368 615
FP OCP Ações	1 128 880	1 056 947
Total	3 417 628	3 301 366

In 2017 and 2016, the three funds developed as follows:

	2017			2016		
	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE	UNIT VALUE OF PART. UNIT	PART. UNITS	FUND VALUE
Opening balance	6.8723	480 387.8095	3 301 366	6.7151	483 619.3127	3 247 540
Pensions + Costs	–	-15 839.9366	-111 113	–	-11 673.4627	-76 807
Contributions + Other receipts	–	17 791.0911	123 683	–	8 441.9595	54 942
Total movements	–	1 951.1545	12 570	–	-3 231.5032	-21 865
Fund return rate	3.10%	–	103 693	2.34%	–	75 690
Closing balance	7.0855	482 338.9640	3 417 628	6.8723	480 387.8095	3 301 366

Below is an analysis of the differences in each financial year:

	2017			2016		
	ESTIMATED	REAL	DIFF.	ESTIMATED	REAL	DIFF.
Pensions + Costs	-69 297	-111 113	-41 815	-67 305	-76 807	-9 502
Contributions + Other receipts	–	123 683	123 683	–	54 942	54 942
Total movements	-69 297	12 570	81 867	-67 305	-21 865	45 440
Fund return rate	65 334	103 693	38 359	64 278	75 690	11 413
Closing balance	3 297 402	3 417 628	120 226	3 244 513	3 301 366	56 853

Estimates were based on the pensions and the estimated return rate of the previous year.

Since the Bank made contributions in each year and the real return was higher than the estimated return, the differences were positive.

Defined benefit liability

As at 31 December 2017 and 2016, the Bank's past service liabilities and their hedges are broken down as follows:

	2017	2016
Liabilities as at 31 December		
Pensions in payment	727 740	741 385
Assets	2 863 223	2 750 845
	3 590 963	3 492 230
Value of funds	3 417 628	3 301 366
Net asset/(Liability) in the balance sheet	-173 335	-190 864
Actuarial differences recognised in other comprehensive income	28 978	566

As at 31 December 2017 and 2016, past service liabilities developed as follows:

	2017	2016
Opening liabilities	3 492 230	3 380 684
Current service cost	57 055	70 090
Interest cost	69 844	67 614
Actuarial losses/(gains)	9 381	10 847
Payments	-37 547	-37 005
Closing liabilities	3 590 964	3 492 230

The development of the pension funds value in the years ended 31 December 2017 and 2016 is broken down as follows:

	2017	2016
Opening balance	3 301 366	3 247 540
Net yield	57 300	55 187
Contributions	96 510	35 643
Pensions paid	-37 547	-37 004
Closing balance	3 417 628	3 301 366

In February 2018, the Bank made an additional payment of 82 875€.

As at 31 December 2017 and 2016, the weight by class of financial asset for each of the 3 funds is shown below:

ASSET CLASS 2017	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	–	–	–

ASSET CLASS 2016	FP OCP EQUILIBRADO	FP OCP MODERADO	FP OCP AÇÕES
Shares	32.60%	13.60%	46.50%
Liquidity	1.10%	5.00%	2.40%
Real estate	–	–	–
Bonds	65.40%	81.20%	49.90%
Other	0.90%	0.20%	1.20%

The financing level of pension payment liabilities as at 31 December is as follows:

	2017	2016
Liabilities (VAPP+VASP)	3 590 963	3 492 230
Fund value	3 417 628	3 301 366
Overall funding level	95.17%	94.53%

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 pension in 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 2017 the Current Value of Past Service Liabilities totals 3 590 963€, of which 727 740€ correspond to the Current Value of Pensions in Payment. At the same date, the fund is worth 3 417 628€, which means an overall financing hedge of 95.17%.

As at 31 December 2017, 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	-346 998
- 0.5 bp	398 622
Wage growth rate	
+ 0.5 bp	228 605
- 0.5 bp	-200 078
Pension growth rate	
+ 0.5 bp	200 680
- 0.5 bp	-183 687
Mortality	
Up 1 year	131 682

Maturity periods for defined benefit obligation as at 31 December 2017 and 2016 is as follows:

	31/12/2017	31/12/2016
Duration of defined benefit obligation	21 56	21 84
Maturity of defined benefit obligation		
up to 12 months	38 033	35 927
between 1 and 3 years	78 515	73 401
between 3 and 6 years	135 998	116 039
between 6 and 11 years	291 688	252 325
between 11 and 16 years	541 893	496 861
> more than 16 years	3 157 047	3 602 745

The actuarial report is available at the Bank's head-office for consultation.

5.34. General administrative costs Note 35

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

	31/12/2017	31/12/2016
Supplies:		
Water, electricity and fuel	(196 696)	(182 335)
Consumables	(10 633)	(4 610)
Publications	(7 533)	(6 934)
Hygiene and cleaning products	(17 771)	(13 023)
Other third party supplies	(205 490)	(135 572)
	(438 123)	(342 474)
Services:		
Leases and rentals	(133 191)	(267 688)
Communications	(230 576)	(253 062)
Travel, hotel and representation costs	(269 778)	(272 321)
Advertising and publishing	(591 167)	(506 166)
Repairs and maintenance	(121 369)	(131 897)
Insurance	(57 877)	(50 107)
Specialised services		
Retainers and fees	(78 207)	(63 412)
Legal, litigation and notaries	(10 753)	(5 076)
IT services	(1 033 674)	(932 345)
Security and surveillance	(19 221)	(17 489)
Cleaning services	(2 598)	(608)
Information	(485 363)	(473 427)
Databases	(48 385)	(50 135)
Other specialised services		
Advisory services	(1 068)	(2 676)
Consultants and external auditors (*)	(495 849)	(500 547)

	31/12/2017	31/12/2016
Other third party services		
Public relations and advisory services	(41 666)	(59 976)
Banco de Portugal – Bpnet Service	(3 939)	(2 899)
Housekeeping services	(7 409)	(6 900)
Temporary manpower	(1 650)	(10 004)
Unicre – Card management fee	(1 483)	0
Other	(30 842)	(19 572)
	(3 666 066)	(3 626 308)
	(4 104 189)	(3 968 782)

Consultants and external auditors

In compliance with Chapter VI Article 66-A(1)(b) of the C.S.C. (Companies Code), the following fees payable to the SROC were posted, there being no other type of service provision:

STATUTORY AUDIT FIRM	
Statutory audit	42 800
Assurance and reliability services	8 500
	51 300

5.35. Depreciations and amortisations Note 36

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

	31/12/2017	31/12/2016
Property, plant and equipment		
Buildings	(87 439)	(30 519)
Equipment	(432 012)	(397 179)
Financial lease assets	(956)	(5 529)
	(520 407)	(433 227)
Intangible assets	(101 746)	(123 730)
	(622 153)	(556 957)

As mentioned in Notes 11 and 12, 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.

5.36. Provisions net of write-offs Note 37

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

	31/12/2017	31/12/2016
Gains:		
Provisions for guarantees and commitments made	19 604	90 515
Losses from:		
Provisions for guarantees and commitments made	(23 071)	(52 748)
	(3 466)	37 767

5.37. Credit impairment net of reversals and recoveries — Note 38

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

	31/12/2017	31/12/2016
Normal loans	90 455	(36 769)
Overdue loans (includes other debtors)	(479 894)	(1 439 248)
	(389 440)	(1 476 017)

5.38. Impairment of other financial assets net of reversals and recoveries — Note 39

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

	31/12/2017	31/12/2016
Available for sale financial assets		
Securities	5 248	(1 073 379)
Equity instruments	(1 800)	(37 800)
	3 448	(1 111 179)*

* Restated amounts.

IMPAIRMENTS

2017		2016	
SECURITY	VALUE	VALUE	SECURITY
Debt instruments			Debt instruments
OIBRBZ 5,75 02/22 (Reversão)	5 248	210 700	BESPL 7,25 11/23
Equity instruments		1 235	ESFG 6,875
Cimpor – Cimentos de Portugal S.A.	-1 800	318 594	OGXPBZ 8,50 06/15
		601 521	OI 5,75 02/22
		-58 671	OIBRBZ 5,75 02/22 (Reversal)
		1 073 379	Total 2016
		37 800	Cimpor (*)
	3.448	1 111 179	Total 2016 – Restated

(*) Recognition of impairment from 2016 (share price variation from 0.348 to 0.24).

5.39. Taxes — Note 41 and 42

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

	31/12/2017	31/12/2016
Current	(234 978)	(232 426)
Deferred	(88 593)	358 298
	(323 571)	125 872

Impact of postings in the following note and table:

Current taxes

The difference between taxes calculated at the legal rate and taxes calculated at the effective rate. In the periods 2017 and 2016 may be explained as follows:

		2017	2016 (*)
1	Profit before tax	1 124 224	-514 697
2	Legal tax rate(corporate income tax+municipal tax)	22.50%	0.00%
3	Normal tax load (1x2)	252 950	0
4	Tax effect of non-deductible expenses	675 703	1 782 988
5	Tax effect of non-taxable income	-830 715	-2 532 774
6	Variations in assets	405 780	5 766 355
7	Taxable income / Reportable tax loss (1+4+5+6)	1 374 992	4 539 672
8	Reportable tax loss	-3 877 841	-7 055 607
9	Tax (corporate income tax + municipal tax)	107 249	445 285
10	Autonomous taxation	127 729	114 256
11	Total tax (9+10)	234 978	559 541
12	Effective rate (11/1)	20.90%	-117.33%

(*) Restated.

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 2017 in the amount of 88 593€ result from the impact of temporary differences in income tax on both property, plant and equipment and intangible assets, and on impairments.

5.40. Off-balance sheet accounts Note 43

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

	31/12/2017	31/12/2016
Commitments to third parties:		
Irrevocable commitments		
Potential commitments to SII	442 626	358 569
Revocable commitments		
Credit lines	9 674 698	14 485 425
Account overdraft facilities	2 510 168	17 032
	12 627 493	14 861 026
Liability for service provision:		
Of deposits and values under custody	588 443 127	399 045 419
Administrative amounts of the institution	166 464 320	124 243 186
	754 907 537	523 288 605
Services provided by third parties:		
For deposits and values under custody	351 862 830	316 188 895
	351 862 830	316 188 895
Foreign exchange transactions and derivative instruments:		
Trading instruments		
Futures and forward options	0	11 300 044
Options	12 647	24 665
Hedge instruments		
Options	50 851	115 413
	63 498	11 440 121
Guarantees provided and any other services:		
Personal guarantees	10 215 994	11 090 313
Real guarantees	5 586 000	10 180 000
	15 801 994	21 270 313
Guarantees received:		
Personal guarantees	71 167 797	64 356 150
Real guarantees	334 661 434	178 964 929
	405 829 231	243 321 079
Other off-balance sheet items:		
Write-offs	1 340 261	1 340 261
Accrued interest	71 477	43 649
Miscellaneous accounts	(1 542 504 321)	(1 131 753 949)
	(1 541 092 582)	(1 130 370 038)

5.41. 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.

Pursuant to the previous paragraph and as reported in December 2015, Banco de Portugal decided to hold the RF liable for any negative effects of future decisions arising from the Banco Espirito Santo SA resolution process, which entails responsibilities and contingencies. According to the publicly available information, the sum of claims is high and the amount of claimed losses that the FR may incur remains unclear, as well as any losses arising from the sale of Novo Banco.

A similar situation was also clarified by Banco de Portugal on 19 and 20 December 2015 regarding BANIF.

On 31 March 2017, Banco de Portugal issued a statement on the selection of Lone Star for completing the sale of Novo Banco. The statement is transcribed below:

«Under the terms of the agreement, LONE STAR will inject a total of € 1,000 million in Novo Banco, of which € 750 million at completion and € 250 million within a period of up to 3 years. Through the capital injection, LONE STAR will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital. The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are to be met related to: i) the performance of a specific portfolio of assets and ii) the capital levels of the bank going forward. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the agreement and are subject to an absolute cap.»

On 18 October 2017, Banco de Portugal and the RF announced the completion of the sale of Novo Banco to Lone Star.

To repay the loans obtained and other liabilities it may take on in connection with the aforementioned resolution measures, the RF receives periodical and special contributions from participating institutions (one of which is the Bank) and the contribution of the banking sector. Pursuant to Article 153-I of Decree-law 345/98, of 9 November, if the RF's resources are insufficient to fulfil its obligations, a special diploma may determine that participating institutions are required to make special contributions, and define the amounts thereof, instalment payments, deadlines and other terms and conditions of these contributions. Pursuant to Decree-law 24/2013 on the operation of the RF, since 2013 the Bank has paid the required contributions in accordance with the said decree.

In the context of the sale of Novo Banco, S.A., the Council of Ministers approved a resolution on 2 October 2017 authorising the Portuguese State, as the ultimate guarantor of financial stability, to conclude a framework agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when necessary, to meet the contractual obligations that may arise from the sale of 75% of the share capital of Novo Banco, S.A.

Accordingly, as at 31 December 2017 there is no estimate as to the amount of possible losses in connection with the sale of Novo Banco, with the claims and other contingencies related to the resolution of the Banco Espírito Santo process, and with possible losses to be incurred by FR following the resolution of BANIF.

Although the relevant law provides for the collection of special contributions, given the renegotiation of the terms and conditions of loans granted to the RF by the State and a banking union, and the press releases issued by the RF and the Office of the Minister of Finance, who said that the provision would not be used, the financial statements as at 31 December 2017 reflect the expectations of the Bank's Board of Directors that the institutions will not be called to make special contributions to the Resolution Fund or any other type of extraordinary contributions to finance the resolution measures applied to BES and Banif.

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 and will be recognised as a cost in each financial year, in accordance with IFRIC 21 – Taxes.

5.42. Assets given as collateral

Estes Ativos estão segregados conforme quadro abaixo:

ATIVOS FINANCEIROS ONERADOS	31/12/2017	31/12/2016
Available for sale financial assets		
Debt securities	6 010 705	10 193 160
Other assets		
Receivables from futures and options transactions – margins	3 791 170	4 496 471
Various investments – uncleared values	10 395 180	10 050 467
	20 197 055	24 740 099

5.43. Related parties

As at 31 December 2017 and 2016, the Bank is controlled by the following shareholders with a holding of more than 2%:

SHAREHOLDING COMPOSITION:			31/12/2017
	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7.94	15 880
Groupe Norwich S.A.	9 999 990	5.00	9 999
Mauricio Zlatkin	9 999 000	5.00	9 999
Sophia Capital – Fundo de Capital de Risco	8 510 000	4.26	8 510
António José Paixão Pinto Marante	8 200 000	4.10	8 200
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 358 751	3.68	7 358
Ruasgest, SGPS, SA	4 764 223	2.38	4 764

SHAREHOLDING COMPOSITION:			31/12/2016
	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7.94	15 880
António José Paixão Pinto Marante	10 000 000	5.00	10 000
Groupe Norwich S.A.	9 999 990	4.99	9 999
Mauricio Zlatkin	9 999 000	4.99	9 999
Sophia Capital – Fundo de Capital de Risco	8 510 000	4.26	8 510
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 068 342	3.53	7 068
Ruasgest, SGPS, SA	4 764 223	2.38	4 764

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 2017 and 2016 are shown in Note 35 to this annex.

Transactions and balances between related parties

At the end of the 2017 reporting period, the balances resulting from transactions with related parties are as follows:

	ASSETS	LIABILITIES		
	MISCELLANEOUS DEBTORS	DEPOSITS FROM CLIENTS		MISCELLANEOUS DEBTORS
		DEMAND DEPOSITS	TERM DEPOSITS	
Participated comp.				
CoolLink, Lda	308	3	0	0
FII Arquimedes	0	5 979 000	0	0
	308	5 979 003	0	0

Transactions and balances between related parties

At the end of the 2016 reporting period, the balances resulting from transactions with related parties are as follows:

	ASSETS	LIABILITIES		
	MISCELLANEOUS DEBTORS	DEPOSITS FROM CLIENTS		MISCELLANEOUS DEBTORS
		DEMAND DEPOSITS	TERM DEPOSITS	
Participated comp.				
CoolLink, Lda	615	3	0	52 064
	615	3	0	52 064

Transactions and balances between related parties

At the end of the 2017 reporting year, the bank made the following transactions with the related parties:

	INTEREST ON TERM DEPOSITS	FEES/ COMMISSIONS RECEIVED	INCOME FROM EQUITY INST.	SERVICE PROVISION	SERVICES RECEIVED
Participated comp.					
CoolLink, Lda	0	0	0	3 000	660 629
FII Arquimedes	0	6 054	0	0	0
	0	6 054	0	3 000	660 629

Transactions and balances between related parties

During the 2016 reporting year, the Bank made the following transactions with the related parties:

	INTEREST ON TERM DEPOSITS	FEES/ COMMISSIONS RECEIVED	INCOME FROM EQUITY INST.	SERVICE PROVISION	SERVICES RECEIVED
Participated comp.					
CoolLink, Lda	0	0	0	3 575	643 763
	0	0	0	3 575	643 763

Porto, 04 May 2018

The Certified Accountant
Eugénia Santos

The Board of Directors
Chairwoman: Maria Cândida Cadeco Rocha e Silva

Jorge Manuel Conceição Freitas Gonçalves
António José Paixão Pinto Marante
João Pedro Portugal da Cunha
Francisco Miguel Melhorado de Oliveira Fernandes
Paulo Martins de Sena Esteves
Paulo Armando Morais Mendes

14 Legal Certification of Accounts

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco L. J. Carregosa, S.A. (the Group), which comprise the consolidated balance sheet as at 31 December 2017 (showing a total of 269 328 309 euro and total equity of 35 956 125 euro, including a net result of 774 119 euro), the consolidated statement of profit and loss by nature, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated 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 consolidated financial position of Banco L. J. Carregosa, S.A. as at 31 December 2017, of its financial performance, and of the consolidated 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 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 consolidated financial statements» below. Under the law in force, we are independent of the Entities that form the Group 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 (Items: 1.2.10, 1.2.15, 3.07 and 3.19)

As at 31 December 2017, the balance of «Loans to clients» amounts to 94 536 614€, net of accumulated losses on accumulated impairment losses on loans recorded by the Bank («impairment losses») in the amount of 1 467 082 €.

Taking into account the significant amounts involved, this was considered as a critical area for audit.

Provisions for guarantees and other commitments assumed by the Bank have also been recorded in the amount of € 13 513.

Summary of the response to the risks of material misstatements analysed

Impairments on loans to clients (Items: 1.2.10, 1.2.15, 3.07 and 3.19)

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses on its loan portfolio in a separate analysis.

We based our analysis on a sample of clients significantly representative of the loan portfolio to examine the fairness of the impairment loss estimate in the consolidated financial statements based on the Bank's understanding of the clients' economic and financial situation, and the rationale for the impairment performed.

We have reviewed the disclosures on loan impairment, taking into consideration the applicable accounting rules.

Responsibilities of the management body and supervisory body for the consolidated financial statements

The management body is responsible for:

- preparing the consolidated 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 Group's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to be reasonably assured that the consolidated 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;

- of the matters we inform the persons in charge of governance, including the supervisory body, we determine what the most important were in 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. (the Group's parent company) for the first time at the General Shareholders' Meeting of 27 May 2015, for a term between 2015 and 2017.

- 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 14 May 2018.

- 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, 14 May 2018.

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 2017 (showing a total of 274 589 280 euro and total equity of 35 371 327 euro, including a net result of 800 654 euro), 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 2016, 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 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 (Items: 2.2.10, 2.2.15, 5.07 and 5.20)

As at 31 December 2017, the balance of «Loans to clients» amounts to 94 536 614€, net of accumulated losses on accumulated impairment losses on loans recorded by the Bank («impairment losses») in the amount of 1 467 082€.

Taking into account the significant amounts involved, this was considered as a critical area for audit.

Provisions for guarantees and other commitments assumed by the Bank have also been recorded in the amount of 13 513€.

Summary of the response to the risks of material misstatements analysed

Impairments on loans to clients (Items: 2.2.10, 2.2.15, 5.07 and 5.20)

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses on its loan portfolio in a separate analysis.

We based our analysis on a sample of clients significantly representative of the loan portfolio to examine the fairness of the impairment loss estimate in the financial statements, based on the Bank's understanding of the clients' economic and financial situation, the prospects for the progress of their activity, the valuation of existing collateral and the rationale for the impairment performed.

We have reviewed the disclosures on loan impairment, taking into consideration the applicable accounting rules.

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 Group'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;

- of the matters we inform the persons in charge of governance, including the supervisory body, we determine what the most important were in 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. (the Group's parent company) for the first time at the General Shareholders' Meeting of 27 May 2015, for a term between 2015 and 2017.

- 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 14 May 2018.

- 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, 14 May 2018.

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

15 Report and Opinion of the Supervisory Committee

To the Shareholders,

1. The Supervisory Committee presents its report and opinion on the accounting documents submitted by the Board of Directors of Banco L.J.Carregosa, S.A. for the year ended 2017, in compliance with legal requirements – Article 420(1)g) and Article 508-D of the Companies Code – and statutory requirements.

2. It needs to be emphasised that the list of members part of this Committee as at 31 December 2017 is the result of the reorganisation approved by the Shareholders at the General Meeting on 30 May 2017, which elected its Chairman and a voting member, who took up office only on 1 September 2017, after receiving the authorisation to do so issued by Banco de Portugal on 30 August 2017. This report therefore concerns only the activity carried out by the Committee in the first four months from the above date of entering into service.

3. Notwithstanding the preceding paragraph, the *ex novo* members have taken note of the work carried out by the Committee in its former composition, thus accepting in good faith the démarches taken to comply with its duties to supervise the Bank.

4. During its term of office, the Committee took note of the business model adopted by the Bank and of its governance structure and internal organisation. To this end, necessary contacts were made with the various departments of the Bank to obtain and analyse the information, whilst continuously monitoring the activities in progress. Over the four months of office, the Committee met four times.

5. 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 on its work;

b. The relationship with the supervisory authorities of the financing system, in particular taking note of the correspondence exchanged with the Bank; still in this respect, on 27 September the Chairman represented the Committee at a conference organised by Banco de Portugal on the topic 'Guide on the Assessment of the Adequacy of the Members of the Administration and Supervisory Bodies of Supervised Institutions (*Fit and Proper Guide*)', following the ECB's initiative on the matter.

c. Supervise the Bank's Internal Control System, by continuously monitoring the essential functions of Compliance, Risk Management and Internal Audit that together for, the internal structure of that System; more specifically, in this regard, the Committee:

- analysed the proposed Internal Audit Regulation of the Bank and the Annual Internal Audit Plan (PAINT) for the 2018 financial year;
- assessed the Bank's proposed Recovery's Plan and took note of the significant contingencies related to the Bank's activity;
- assessed the proposed regulations on 'Conflict of Interest Policy' and 'Personal Transactions Policy' in effect at the Bank, issued by the Board of Directors;

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 and operational indicators. In this connection, the Committee met regularly with the Statutory Auditor to take note of criteria, methods and other external audit procedures for the Bank's account; and

e. Supervise the work of the Statutory Auditor, in particular with respect to the supervision of its independence. Specifically in this context, the Committee informs that between 1 September and 21 December 2017 it has not received a request for a prior opinion with a view to contracting services for the provision of different audit services with the Statutory Auditor.

6. 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.

7. All clarifications were always provided by the Board of Directors, the services and departments at the Bank and by the Statutory Auditor.

8. 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 2017 and their legal certification of accounts issued by the Statutory Auditor, unconditional and without remarks, which the Supervisory Committee agrees, having for that purpose made the appropriate and timely verifications.

9. 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 and of other employees of the Bank and of the Group.

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 2017;

   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, 14 May 2018

The Supervisory Committee,

Álvaro José Barrigas do Nascimento
(Chairman)

Maria da Graça Alves Carvalho
(Voting member)

Ricardo Jorge Mendes Fidalgo Moreira da Cruz
(Voting member)

16 Minutes of the Annual General Meeting of Shareholders Held on the 30th of May 2018

THE UNDERSIGNED HEREBY CERTIFIES, based on the Minutes of the General Annual Shareholders Meeting of «Banco L. J. Carregosa, S.A.», held on 30 May 2018, that the following deliberations were taken:

1) The Management Report and Accounts and Consolidated Accounts for the 2017 financial year were unanimously approved.

2) The decision to record the net profit for the year (positive), in the amount of € 800 653.58 (eight hundred thousand, six hundred and fifty-three euro and fifty-eight euro cents) as Retained Earnings was unanimously approved.

3) A motion praising the Board of Directors, the Company's Supervisory Committee and each and every member thereof in office for their work in 2017 was passed.

4) The proposal to reduce the minimum number of Board of Directors members from seven to six and the consequent new wording of Article 17 of the Articles of Association was unanimously approved, which shall read as follows:

Article 17
Composition and term of office of the Board of Directors

1. The Board of Directors consists of no less than six and no more than fifteen members, one of which is the Chairman and another is the Vice-Chairman.

2. The Chairman, or in his or her absence the Vice-Chairman, will coordinate the activities of the Board, chairing the Board meetings and overseeing the implementations of its decisions.

5) The proposal for the election of the Governing Bodies for the three-year period 2018-2020 was unanimously approved, now having the following composition:

Management Body
Board of Directors:
Chairwoman: Maria Cândida Cadeco da Rocha e Silva.
Vice-Chairman: Jorge Manuel da Conceição Freitas Gonçalves.
Voting member: António José Paixão Pinto Marante.
Voting member: Francisco Miguel Melhorado de Oliveira Fernandes.
Voting member: Paulo Armando Morais Mendes.
Voting member: Paulo Martins de Sena Esteves.
Voting member: Fernando Miguel da Costa Ramalho.

Supervisory Body
Supervisory Committee:
Chairman: Álvaro José Barrigas do Nascimento.
Voting member: Ricardo Jorge Mendes Fidalgo Moreira da Cruz.
Voting member: Maria da Graça Alves Carvalho.
Alternate voting member: Rodrigo de Melo Neiva Santos.

Presiding Board to the General Meeting:
Chairman: Luís Manuel de Faria Neiva dos Santos.
Secretary: Maria Manuela Pereira Antunes Matias.
Secretary: Ana Mafalda Mateus Freitas Gonçalves Malafaya.

6) The election of the Statutory Auditor for the three-year period 2018-2020 was unanimously approved, now having the following composition:

Statutory Audit Firm:
Full member: Marques da Cunha, Arlindo Duarte & Associados - SROC, Lda., with registered office at Rua Júlio de Brito, nº 108, Porto, TIN 502 152 567, registered with the Portuguese Official Auditors Association under number 52, represented by partner Dr. Joaquim Manuel Martins da Cunha, - Statutory Auditor no. 859;

Alternate member: António Magalhães & Carlos Santos, SROC, with registered office at Rua do Campo Alegre, n.º 606 – 2.º, salas 201/203, Porto, TIN 502 138 394, registered with the Portuguese Official Auditors Association under number 53, represented by Carlos Afonso Dias Leite Freitas dos Santos, Statutory Auditor no. 1314, married, bearer of citizen card number 10202311 5ZZ7.

7) 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.

8) The proposal for the amendment of the Remuneration Policy of the Management and Supervisory Members was unanimously approved.

9) The report of the Remuneration and Assessment Committee was unanimously approved.

10) The proposal for the acquisition or disposal of own shares, in accordance with articles 319 and 320 of the Portuguese Companies Code, was unanimously approved.

Porto, 30 May 2018.

The Chairman of the Presiding Board to the General Meeting,

(Luís Neiva dos Santos)

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