Banco BAI Europa, S.A.

Financial Statements

2018

Contents

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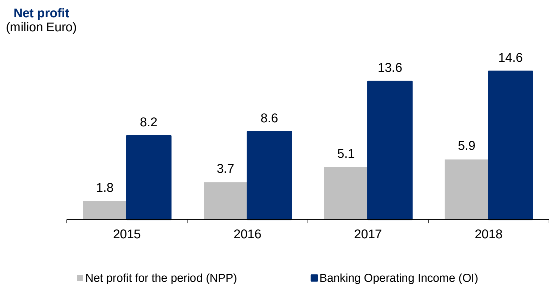
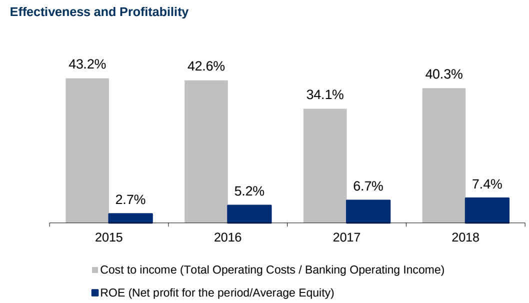
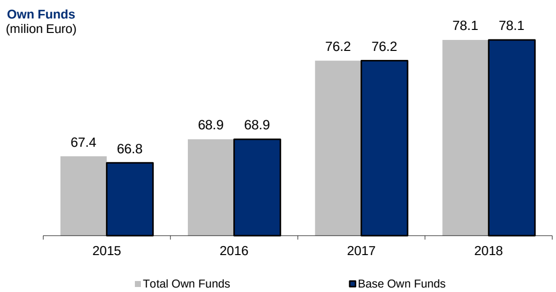
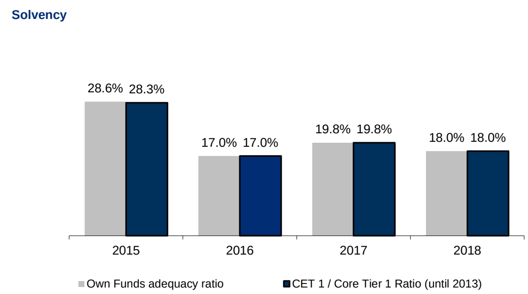
Management Report
2018

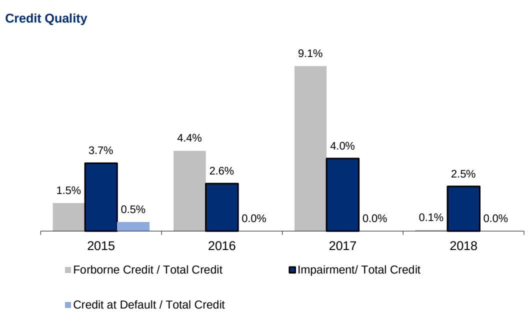
Main indicators

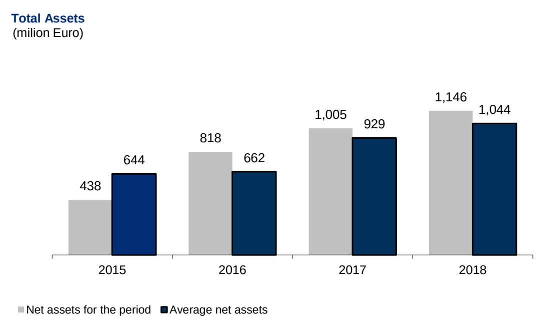












Note 1: The performance, solvency and credit quality indicators presented above follow the Bank of Portugal's methodology defined by in Instruction No. 16/2004 of 16 August and Instruction No. 33/2013 of 15 January.

Note 2: The net profit for 2015 was restated following the NCA's / IAS transition.

Overall Assessment

Based on the (preliminary) national accounts released by INE on 28 February, economic activity in Portugal observed a slowdown in relation to the prior year, an economic downturn which represented real growth of 2.1% of GDP (+ 3.6% in nominal terms), compared with 2.8% in 2017, with nominal GDP increasing to EUR 201.5 billion (EUR 193.1 billion in 2017).

As in 2017, GDP growth in 2018 resulted from an increase of domestic demand by 2.8% (+ 3.1% in 2017) – there was however a slowdown of fixed capital investment (GFCF) that increased by 6.4% following growth of 9.2% in 2017 - while private consumption increased slightly by 2.5% (+ 2.3% in 2017).

As in 2017, the contribution of net external demand to GDP was increasingly negative, reaching -0.7% (-0.2% in 2017), reflecting a deterioration of the trade deficit of goods in Euro 2,670 million, which was a consequence of an increase in imports of goods (+ 8%) higher than the increase in exports (+ 5.3%).

Unemployment also continued to decline in 2018, to a level of 6.6% at the end of the year, compared to 7.9% in December 2017, benefiting from an increase of employment in the services, construction and public administration sectors.

Also significant is the deficit in the Current Balance Account of Euro 1,230 million contradicting the official forecasts that predicted a surplus.

Regarding public finance, the deficit remained at approximately 0.6% of GDP (still to be confirmed). Therefore it is expected that the target for 2018 will be met (deficit not exceeding 0.6% of GDP).

For 2019, most of the forecasts point to a further economic slowdown - in line with the expected trends for the Euro zone - with GDP growing 1.8% according to the IMF (the most recent forecast from the Bank of Portugal also points to an increase of 1.8%), although the growth forecast of the State Budget for 2019 remains at 2.2%.

Similarly to 2018, a positive contribution from domestic demand and a negative contribution from net external demand are expected.

With regard to the Angolan economy, it should be noted that 2018 was the third consecutive year of contraction in economic activity, as a consequence of the oil shock that shook the economy from 2014 to 2017, despite the significant recovery of crude oil prices until the beginning of the last quarter of the year.

GDP decreased by 1.7% in 2018, after declining -2.6% in 2016 and -0.2% in 2017. According to the IMF, the decline in GDP in 2018 was due to a decrease of around 8% in oil production - a consequence of the lack of investment in the sector in recent years - and a stagnation of the non-oil sectors.

In contrast with the decline in real GDP, nominal GDP benefited from a sharp increase in the oil price (annual average of USD 71.19 for Brent compared with USD 54.15 in 2017) as well as the exchange rate correction, showing a growth of 35.2% (+ 90.0% in the oil sector).

The increase in the oil price had favorable consequences (i) in the public accounts, (ii) in the pace of foreign currency sales to the economy, (iii) in inflation and also (iv) in the significant reduction of the spread between the official exchange rate and the parallel market rate.

Regarding the public accounts, it should be noted that in 2018 there was a balanced budgetary position or perhaps a slight surplus, after the deficit of 6.3% of GDP in 2017. The improved budgetary balance resulted from the increase in tax revenues, oil and non-oil revenues, as well as the containment of current and investment expenditure .

Regarding foreign currency sales to the economy, the BNA implemented, changes in the exchange rate policy (termination of the fixed exchange rate policy) and also a series of reforms aimed at facilitating foreign currency sales, frequently performing auctions with separation of auctions of foreign currency with spot sales to banks and the fixing of limits for letters of credit (with exchange rates determined at the settlement date) - and eliminating direct sales of foreign currency for specific purposes.

BNA was also able to maintain foreign currency sales that would eventually reach the level of 2017 (which had been a record year, preceding elections), satisfying a more diversified demand and gradually bringing the market closer to a competitive and free regime.

As a consequence of the more regular, efficient and predictable supply of foreign currency (in addition to other factors such as a restrictive monetary policy) and despite the considerable depreciation of the national currency, inflation declined again, from 26.0% at the end of 2017 to 18.6% at the end of 2018 (an annual average decrease from 26.26% in 2017 to 19.7% in 2018).

As a consequence of both a more efficient foreign exchange rate market and the correction of the official exchange rate during the year, the spread between the official rate and the parallel market rate (for the USD and the Euro) reduced, from 150% at the end of 2017 to 25% at the end of 2018 (and remained at that level in the first months of 2019).

Significantly the USD / AKZ and EUR / AKZ exchange rates increased from 165,912 and 185,403 on 8 January 2018 (the last day of the fixed-exchange rate period) to 308,607 and 352,965 at the end of 2018, adjustments of 86% and of 90.4%, respectively.

In 2018 it is important to highlight the further developments made in the reform program undertaken by the new Government and by BNA in order to create conditions for a more diversified economy and to promote macroeconomic stabilization. This includes (i) legal and regulatory measures to facilitate foreign and domestic private investment, (ii) reforms in exchange rate and monetary policies, (iii) the decision to settle domestic (from the State to the companies) and external (commercial) arrears, terminating a situation that seriously constrained the management of the companies and negatively affected the economic activity, (iv) measures aimed at strengthening the solidity of the banking system and compliance with the new requirements regarding the regulatory capital ratios (v) the restructuring of Sonangol, restoring this company to its role as a producer in the hydrocarbons market (upstream and downstream), removing regulatory functions and determining the disposal of investments outside their core area, which have made their management less efficient, (vi) and measures to combat corruption (which has been one of the main factors in the deterioration of the business environment and discouraging of investment).

This entire reform process was concluded with the signature of an Extended Arrangement with the IMF in December 2018 under the Extended Fund Facility, which covers a wide range of objectives and / or measures to be implemented until 2021, covering the following areas: (i) exchange and monetary policy; (ii) budgetary policy and public debt management; (iii) strengthening the soundness of the banking system; (iv) the restructuring of Sonangol and the Public Sector, with the aim of improving economic efficiency and reducing risks to the State Budget; (v) the full regularization of internal arrears (Public Sector debt to private companies) and external (commercial); (vi) anti-corruption and, in particular, money laundering and terrorist financing; (vii) debureaucratisation and other incentives for private investment.

It should be noted that some of these measures included in the Extended Arrangement constitute the deepening and broadening of the reforms promoted by the Executive and BNA during 2018, as described above, in order to promote macroeconomic stability and economy diversification.

This Arrangement was accompanied by the granting of financial support amounting to USD 3.7 billion which, added to a World Bank loan of USD 750 million, to be granted through the State Budget, that together will complete the amount considered necessary for Angola to comply freely, with external debt servicing and ensure the ongoing financing of the economy during the Arrangement period.

A first installment of USD 990.7 million was already paid, shortly after the signing of the Arrangement.
The implementation of this Arrangement will be subject to semiannual evaluations, based on defined performance indicators (benchmarks), on the basis of which future financing disbursements will be decided.

The information available up to the date of preparation of this text suggests that there has been a very significant commitment by the Angolan Authorities to comply with the measures and objectives set out in the Arrangement. The continuation of this political willingness may be decisive for the reduction of the macroeconomic risks to which the Angolan economy is subject as well as for the improvement of the business environment.

The growth forecasts for 2019 appear to be more positive, with the IMF anticipating a GDP growth of 2.5%, with the oil sector growing 3.1% and non-oil 2.2%.

The information available at this time suggests that there is some risk that the growth of the oil sector will be lower than expected (in particular because of the additional commitments to cut OPEC production), although this lower contribution may be offset by a better performance of the non-oil sectors.

In summary, the macroeconomic scenario presented to BAIE for the year 2019, without being risk free, is not significantly different from the previous year, making it possible to budget the Bank's activity within conditions of some stability.

Additionally the instability of the banking sector in Portugal, despite certain outstanding issues awaiting resolution, has continued to recede throughout 2018, with a clear improvement in the operating conditions of the main national banks (CGD, BCP), with Grupo Montepio and Novo Banco in a less satisfactory condition.

Regarding Grupo Montepio, the question remains how and when the share capital of Banco Montepio will be dispersed, after the announcement, which has not been concluded to date, of the acquisition by social solidarity institutions, of a part of the share capital which continues to be held almost exclusively by Associação Mutualista do Montepio Geral.

Recently, Associação Mutualista subscribed for an additional capital increase of Banco Montepio of Euro 50 million, to reinforce the capital ratios of the bank.

Regarding Novo Banco, there is a continuation of very significant negative results, which, according to the information provided by the Bank, are still a consequence of a portfolio of damaged legacy exposures of BES, that the directors of Novo Banco are trying to dispose of at an accelerated pace. In 2018, the negative results reached Euro 1,412 billion (with accumulated losses since the resolution of BES rising to Euro 6 billion), which, based on information disclosed, will give rise to a new request for capital to the Resolution Fund (FR) of Euro 1,149 million, under the guarantee provided on the sale (in October 2017) of 75% of the share capital to the Lone Star Fund.

It should be remembered that as a condition of this transaction, the FR issued a guarantee in favor of the buyers, of (up to) Euro 3,900 million, valid for 8 years, which can be forfeit in the event that the impairments of the portfolio of distressed assets and / or capital losses arising from their disposal, reduce the Core Tier 1 ratio to a level below 11.5% and for an amount necessary to restore that level.

The level of non-performing loans, officially published (BoP Statistical Bulletin), has accentuated the downward trend of recent years, equivalent to 4.7% of the total portfolio at the end of 2018 (7.23% at the end of 2017), with a larger decrease in the segment of credit to non-financial companies, reaching 7.8% at the end of the year (12.66% at the end of 2017) and less pronounced in the private segment with 2.84% at the end of the year, compared to 3.78% at the end of 2017.

It should also be noted that the total balance of credit to non-financial companies continued to decline during 2018, reaching Euro 69,572 billion, a decrease of 4.9% when compared to the end of 2017 (Euro 73,126 million).

Conversely, the total balance of loans to the Private segment increased from Euro 114,692 million to Euro 115,314 million, an increase of 0.55% against 2017. It is important to highlight the 10.5% growth in the total balance of Consumer credit and the stagnation, after successive years of decline, in Mortgage loans.

At a macroeconomic level, the trade between Portugal and Angola also decreased in 2018, reflecting a decline of approximately 15.2% in the Portuguese exports of goods to Angola (from Euro 1,787.2 billion to Euro 1,515 billion).

Notwithstanding this decline in bilateral business between Portugal and Angola, BAIE has taken full advantage of the closer relationship with its parent company, as well as with other Angolan banks of which it is a correspondent, pursuing its traditional business strategy with remarkable success in providing support to companies from Portugal and other economic areas. The Angolan market continues to be an important location for development of their businesses through the negotiation of letters of credit mainly issued by the Parent Company, but also by other Angolan banks.

The Bank maintained the high standards of risk management in its business, especially for credit risk without compromising new business opportunities, having significant support from its Parent Company, Banco Angolano de Investimentos, S.A., through a significant increase in the number and amount of letters of credit issued to Portuguese export companies.

Regarding risk management, there was a heightened focus on anti-money laundering and anti-terrorist financing (BC-FT) measures and the risk of information security systems, which resulted in several initiatives including the strengthening of human and technological resources dedicated to control and prevention of these specific risks.

The Risk Monitoring and Management Committee, as well as the Credit Committee, maintained their regular activity throughout the year, contributing to a consolidated risk culture throughout the Bank which helps to maintain identified risks at very acceptable levels. .

It should also be noted that, within liquidity management, the Liquidity Coverage Ratio (LCR) during the year was complied with, by investing in high quality liquid assets (HQLA), which has a negative impact on the interest income as the HQLA portfolio provides a very low return (especially in Euros).

Regarding liquidity rules, it should also be mentioned that the deadline for starting the Net Stable Funding Ratio (NSFR) has been postponed for at least two years and the expectations are that it will not be implemented before 1 January 2020.

Within the context of the maintenance of an extremely challenging legal and regulatory banking framework in 2019, the following initiatives are planned:

i) The transposition of the 2nd Payments Directive (PSD2) that drives the open banking movement, creating new challenges and business opportunities for both Banks and Fintechs;
ii) The entry into force in May 2018 of the General Data Protection Regulation (RGPD) resulting in a wide range of new formal and specific obligations for the Bank in a number of areas to ensure the management and control of personal data to which the Bank has access;
iii) The transposition of the Payment Accounts Directive rules on the change of payment accounts, the comparability of the respective commissions and the access to payment accounts with basic characteristics;
iv) Entry into force of new EBA guidelines - EBA / GL / 2017/11 on Internal Government (replaces GL / 2012/44) and EBA / GL / 2017/12 on evaluation of the appropriate qualities of the members

of the corporate bodies and the holders of essential functions (which replaces EBA / GL / 2012/06), which require the adoption of compliance measures ;

v) Entry into force, for periods beginning on or after 1 January 2018, of the new financial reporting standard, IFRS 9 - Financial Instruments, approved by the European Union in November 2016, and replacing IAS 39 - Financial Instruments: Recognition and Measurement;

vi) Transposition of the NIS / SRI (Network and information security) Directive, which is an instrument for achieving a high level of network and information system security in the European Union, both for digital service providers and essential service providers (which includes, the banking sector); and

vii) Supervisory Review and Evaluation Process (SREP) - In 2019 the Bank will be subject to an overall assessment for the year ended 31 December 2018. BAIE is subject to an overall review every 3 years.

At the end of 2018, the loans and advances to customers' portfolio, net of impairment, of Euro 74,424,105, represented 6.5% of the total Assets, representing a slight reduction compared to 2017 (6.9%). This reduction of 0.4 pp is explained by the increase in the value of remaining Assets, which at the end of 2018 was 14.0% higher than at the end of 2017 (Euro 1,146,002,232 versus Euro 1,005,127,120).

Equity amounted to Euro 83,135,138 at the end of 2018, an increase of approximately Euro 5.3 million when compared to 2017, allowing both the Total Own Capital Ratio and the Tier 1 Core Capital Ratio to remain at a very stable level (18.0%).

The Bank's activity generated a profit before tax of Euro 9,112,828, 22.9% higher than the profit before tax of the previous year, enabling net profit for the year, to again exceed EUR 5 million, amounting to Euro 5,907,569, which is also 15.0% higher than net profit in 2017.

The improvement in income before taxes was due to an increase in Operating Banking Income from Euro 13,584,881 in 2017 to Euro 14,566,471 in 2018, a +7.2% increase, which is mainly explained by the following:

- Net interest income increased by approximately 16.0%, from Euro 7,942,688 in 2017 to Euro 9,212,872;
- A very significant increase in income from commissions (net), from Euro 4,396,337 in 2017 to Euro 5,897,287 in 2018, mainly due to the significant increase in the number and volume of trade finance operations as well as foreign payment orders;

- Decrease in income from financial operations, from Euro 2,290,826 in 2017 to Euro 1,416,227, which represents a decrease of over 38.2%
- 83.3% increase in losses recognised as other operating results in 2018, when compared to the previous year.

Future prospects

As stated above, forecasts for BAIE's activity at the beginning of 2019 present a degree of uncertainty which is no greater than at the beginning of2018, taking into account a more favorable economic situation in Portugal and the progressive resolution of the issues that the Portuguese banking sector has been facing, as well as an expected recovery of the Angolan economy.

In spite of the expected deceleration of economic growth in Portugal, it seems reasonable to expect economic dynamism to continue in 2019, particularly as a result of domestic demand that has been the main driver of growth in recent years.

Also, as discussed above, the instability in the banking sector is somewhat contained, operations are expected to produce positive results in 2019,with a few exceptions, benefiting from a continuing positive macroeconomic environment.

Additionally, the uncertainty regarding future contributions to the Resolution Fund (RF), resulting from commitments by the Resolution Fund to repay the debt to the State (Euro 3.9 billion) and to other banks (Euro 500 million) which was used to finance Novo Banco's capital increase as part of the restructuring of BES, seems to have been resolved with the definition of a term of 30 years for reimbursement.

This period should be long enough for banks not to be required to make significant additional contributions to the Resolution Fund to enable reimbursement, despite the significant risks that the Resolution Fund has assumed as part of the sale of 75% of Novo Banco's share capital to the Lone Star Fund and which may necessitate a considerable additional financial burden for the Resolution Fund in 2019 and subsequent years.

Prospects in Angola are more favorable as the implementation of the Extended Arrangement with the IMF should gradually reduce macroeconomic risks and provide for a new phase of more active contribution of private investment towards economic growth.

In this context a recovery of trade between Portugal and Angola is expected, which could benefit BAIE's activity, with the support of its Parent Company.

BAIE will continue to pursue an agile commercial strategy, offering versatile solutions to its customers, intensify its efforts to increase its company and institutional client portfolio and, simultaneously, take advantage of any business opportunities that may arise within its current customer portfolio.

Risk management policies, particularly credit risk requirements, are expected to be maintained at levels historically imposed by the Bank which have contributed to satisfactory levels of profitability, and released resources from the management of non-performing loans and kept the cost of credit low, compared with the market.

Acknowledgements

The commitment of all employees, who continue to demonstrate high levels of responsibility and competence in the performance of their tasks, is greatly appreciated. The professionalism and dedication demonstrated by this team makes it possible to meet our goals and objectives.

The trust that the Customers have placed in the Bank is also appreciated, which encourages us to continue to provide a quality and value added service, especially aimed at further development of trade and economic relations between Portugal and Angola.

We also like to thank the support and special collaboration of the Parent Company in Angola, which has greatly contributed to the success of our business and with which we hope to continue to count, as well as the collaboration of the Angolan banks and other institutional customers to which BAIE provides services as a correspondent bank in Portugal.

2018 Macroeconomic Framework

I. Introduction

The World Economic Outlook update, released by the IMF in January 2019, reported growth of the world economy in 2018 at a very similar rate to the previous year, with a GDP variation of +3.7% (+3.8% in 2017), although some advanced economies (Eurozone, Japan) showed signs of slowdown over the second half of the year, more marked in the last quarter.

In the group of the most advanced economies the acceleration of activity in the USA is notable, with GDP growth of 2.9%, compared to 2.2% in 2017.

In the Eurozone the opposite was observed with a marked deceleration in activity in the second half of the year, resulting in annual GDP growth of 1.8%, compared to 2.4% in 2017.

Amongst emerging and developing economies there were several of note: (i) the slowdown in China to 6.6%, after 6.9% in 2017, (ii) the acceleration in India, with a 7.3% growth following 6.7% in 2017, and (iii) the improvement of the Brazilian economy, with a 1.3% growth following 1.1% in 2017, and Russia, with a 1.7% growth compared to 1.5% in 2017.

Within the more advanced economies, the monetary policies of recent years were maintained, despite the progressive normalization of monetary policy in the USA, where the Federal Reserve (FED) continued to gradually increase interest rates.

After a first increase in December 2015 to a range of 0.25%-0.5%, there were increases in December 2016 to the range 0.5%-0.75%, in March 2017 to the range 0.75%-1.0%, in June 2017 to the range 1.0%-1.25%, and in December 2017 to the range 1.25%-1.50%.

During 2018, new increases were observed: March saw an increase to the range 1.50-5-1.75%, in June to 1.75%-2.0%, in September to 2.0%-2.25% and, finally, in December to 2.25%-2.5%.

This adjustment of monetary conditions by the FED was based on the continuation of a very favorable labor market, with unemployment falling to 4.0% and the persistent rise in wages having only a moderate impact of inflation that remains close to 2%.

In the Eurozone, the pace of activity was below expectations, as a consequence of a marked deceleration of the main national economies – Germany from 2.5% to 1.5%, France from 2.3% to 1.5% and Italy from 1.6% to 1%.
In this context, ECB has maintained the approach of gradually decreasing its (additional) debt (Securities Market Program or SMP). Through this Program, in March, the debt has been reduced from EUR 60 billion/month to EUR 30 billion/month. This program was discontinued at the end of 2018.

However, given less favorable economic developments, the ECB has expressed its willingness to adopt other forms of discontinued support such as the long-term financing for specific purposes and negative interest rates (TLTRO).

Meanwhile, ECB announced that the new TLTRO financing facility will be opened in September 2019 and will be available until March 2021, with operations maturing in two years (four years in the previous version).

At the same time, there was a recognition that the circumstances necessary for a first increase in interest rates would be postponed, thus virtually excluding the possibility of an increase in 2019.

Regarding foreign exchange markets, the trend of a strengthening of the USD throughout the year was notable, both in terms of the effective rate and in relation to the Euro, as a consequence of the greater dynamism of the American economy and, especially, of the increasing differences in remuneration between monetary assets and financial assets denominated in the two currencies resulting from FED interest rate policy.

As for raw materials markets, the recovery of oil prices started in 2017 was confirmed in 2018, with the average Brent price reaching USD 71.19 (2017: USD 54.15). Nevertheless prices in the last quarter were highly volatile and in steep decline., At the beginning of 2019, the oil market again recovered as a result of a new agreement between the OPEC countries and their allies to further decrease production (an additional cut in production of 1.25 million of barrels/day from the beginning of 2019), although price levels remain somewhat below the 2018 average.

For 2019, the WEO/IMF points to a slowdown in activity worldwide, with GDP growing 3.5%, due to the slowdown of the main economies in an environment of high uncertainty, especially regarding the performance of investment and international trade.

II. American economy

As already mentioned, economic activity in the US in 2018 grew significantly compared to the prior year, with an increase of GDP of 2.9% (2.2% in 2017).

These developments are a result of the continued favorable performance of private investment (with investment in the oil sector deserving particular attention, driven by the improvement in prices in international markets, leading to US crude production at levels close to 12 million barrels/day in the end of 2018 and so being the largest producer in the world) and private consumption which benefitted from a prolonged increase in employment and wages, despite the negative performance of the securities market (shares).

Regarding investment, it should be noted that there are still no clear signs of the expected increase in public investment in infrastructure, which had been one of the main promises of the new Presidency.

Together with this acceleration of activity, the labor market continued to show signs of improvement, with very significant growth in new jobs created, resulting in a 4.0% decrease in unemployment by the end of 2018 (meaning that unemployment remains below the level considered to be the "natural" floor.) at the same time the increase of wages has been constant although contained, not generating inflationary pressures.

Securities markets (shares) performed less favorably than in 2017, as a result of external factors such as trade tensions with China and the European Union and the expectation of some slowdown in the world economy.

Regarding the outlook for 2019, the IMF/WEO anticipates a slowdown in activity, albeit with GDP growth of 2.5%, still above potential growth, a slowdown attributable to the gradual decrease in the effects of the fiscal stimulus approved in 2018 and the progressive impact of FED interest rates increase to companies.

This prospects of deceleration, together with greater uncertainty about the performance of the world economy, led the FED to change its intentions of further interest rate increases in 2019, which markets were only recently considering to be certain, adopting a "wait and see" stance, which means placing monetary policy decisions on hold throughout 2019 pending an assessment of the evolution of the main variables, namely the labor market, inflation and the performance of securities markets.

III. Eurozone economy

In 2018, the Eurozone economy had a significantly slower pace of activity than in the previous year, with an estimated GDP growth of 1.8% (2.4% in 2017), mainly as a result of a less favorable external demand, with domestic demand becoming the main driver of growth.

The economy continued to benefit from very favorable financing conditions, with the maintenance of the ECB's highly accommodative policy, despite the gradual decline in the ECB's Securities Market program (SMP) mentioned above.

Economic activity was also supported by some relief from budget constraints, which in previous years had been a necessary brake on activity, a fact which is explained by the progress made in the reduction of deficits, and the gradual reduction of public debt yields which, with the exception of Italy, are now at very low levels.

Regarding inflation, it should be noted that the absence of pressure factors on consumer prices, despite the rising price of oil derivatives, remained at levels well below the ECB's reference value throughout the year (2%).

In the labor market, the improvements recorded in previous years continued, with the unemployment rate falling from 8.7% in the fourth quarter of 2017 to 7.8% at the end of 2018, due to the creation of new jobs, with special emphasis on services sectors such as communications and information technology, as well as services related to tourism (hotels, catering, transport), and also in the construction sector, which has recovered after several years of contraction.

In the 2019 prospects, the IMF anticipates a further deceleration in activity, with GDP growth moving from 1.8% in 2018 to 1.6%, a slowdown that seems to be sustained by the advance indicators for the first quarter of the year.

A less dynamic external demand, together with uncertainties associated with Brexit and the end to trade tensions, appear to be weighing heavily on the economic activity of the Eurozone. Therefore, at this time, we cannot exclude a rhythm of activity below that anticipated by the IMF.

It should be noted that the latest OECD forecast, released in March 2019, points to a growth of only 1%, and that shortly thereafter the ECB announced a significant decrease in its prospects, with growth not exceeding 1.1%.

IV. Other economies

Regarding other economies,:

- In the case of Japan, after the deceleration of activity in 2018, representing GDP growth of 0.9% (+1.9% in 2017), a slight acceleration is expected in 2019, to 1.1%, with the fiscal stimulus of 2018 contributing to a recovery in domestic demand;

- The UK economy, which saw a slowdown in 2018, with GDP growing 1.4% after 1.8% in 2017, is expected to maintain a somewhat similar growth rate in 2019, or slightly higher (1.5% according to IMF forecasts). However, the IMF/WEO highlights the high level of uncertainty due to the outcome of the negotiations on setting the legal framework for the exit from the European Union and the impact of the fiscal stimulus announced in the 2019 Budget;

- In Canada, after a sharp deceleration in 2018 (with GDP growing 2.1% after 3.0% in 2017), the economy is expected to slow slightly to 1.9% as a result of a lower rate of investment – explained by the uncertainty regarding the commercial tensions and the fears of an unfavorable impact of the fiscal incentives approved in the USA on the competitiveness of the Canadian economy;

- In China, following the deceleration of activity in 2018 – IMF/WEO predicts GDP growth of 6.6% after 6.9% in 2017 – the economy is expected to continue to slow in 2019, with the forecast GDP growth decreasing to 6.2% as a combined effect of the need to tighten financial regulation to control excessive credit growth in the economy by the shadow-banking sector and the trade tensions with the US;

- In India, prospects point to the continued dynamism of 2018, with GDP growth rising from 7.3% in 2018 to 7.5% in 2019, together with more positive performances of domestic demand, both in private consumption and investment, following a less restrictive monetary policy and a reduction in inflationary pressures;

- In Latin America, prospects for 2019 are more positive, with GDP growth recovering from 1.1% in 2018 to 2% in 2019, thanks to the acceleration of growth in Brazil, with GDP growing 2.5% after 1.3% in 2018, benefiting from a higher rate of investment, and maintaining the pace of growth in Mexico, which is expected to repeat the 2018 GDP growth (2.1%). The expected fall of GDP in Argentina by 1.6% in 2019, is preventing a better performance in this group of countries, as a consequence of the adoption of very restrictive fiscal and monetary policies aimed at correcting the high macroeconomic imbalances (inflation, fiscal deficit, external deficit, exchange devaluation). These imbalances made it imperative to conclude a Stand-by Arrangement with the IMF in 2018, including a record financial level of support of USD 57 billion.
- In sub-Saharan Africa, prospects are more positive in 2019, with a GDP growth forecast of 3.5%, after 2.9% in 2018, with a slight acceleration in Nigeria, from 1.9% in 2018 to 2.0% in 2019, and a more significant improvement in South Africa, with GDP increasing from 0.8% in 2018 to 1.4% in 2019.

The WEO highlights the fact that in this region there are significant disparities in growth rates, with some countries (more than 1/3 of the total) showing GDP growth rates above 5%.

V. Angolan economy

As already mentioned in the General Assessment, in 2018, economic activity in Angola continued to suffer the impact of the prolonged oil shock that began in the third quarter of 2014, an impact that has now been mitigated by the recovery of the oil price, as well as the wide range of reforms that were launched by the new Government and the BNA, highlighting the BNA's policy of greater transparency and efficiency around the sale of foreign currencies..

The main consequences of this shock on the economy were:

- (i) Economic activity contraction, with three successive years of GDP decline – 2.6% in 2016, 0.2% in 2017 and 1.7% in 2018;
- (ii) High inflation, albeit slowing down, reaching an annual average of 19.7% in 2018, after 26.26% in 2017 and 42% in 2016. This slowdown is partly explained by the policy of greater transparency around the sale of foreign currency deployed by the BNA in 2017 and 2018, which enabled a better supply of current consumer goods;
- (iii) Persistent imbalance in the balance of payments, which resolved in 2018 thanks to the rise in the price of oil, which more than offset the decrease in quantities produced and exported;
- (iv) Exchange market imbalance, also due to the scarcity of foreign exchange and the political decision to keep the official exchange rate fixed in 2016 and 2017, leading to a large widening of the spread between the official exchange rate and the parallel market exchange rate (Euro and USD), which exceeded 200%, a situation that was largely corrected in 2018 after the decision to abandon exchange rate rigidity, replacing it with an adjustable exchange rate regime established in regular auctions of foreign exchange promoted by BNA, reducing the spread to approximately 25% at the end of the year;
- (v) Accumulation of a high amount (more than USD 3 billion at the end of 2017 according to the IMF) of foreign payment orders in the banking sector, pending settlement, related to commercial (goods and services) and invisibles, as a result of the shortage of foreign exchange, a situation which also began to be corrected in 2018 through a program for the settlement of arrears agreed and monitored by the IMF under the Extended Arrangement concluded at the end of 2018;
- (vi) Difficulties for national companies, from non-oil, industrial and agricultural sectors, mainly for the import of raw materials, intermediate and capital goods indispensable for their normal operations. These difficulties naturally intensified by the valuation of AOA due to the rigidity of the official exchange rate, which also began to be corrected in 2018, through changes that the

BNA introduced during foreign exchange auctions and which would allow wider and varied access for economic agents to purchase foreign exchange;

(vii) Decrease in official foreign exchange reserves from USD 20.8 billion at the end of 2016 to USD 13.3 billion at the end of 2017, following the BNA policy to increase foreign exchange sales to allow (mainly) more imports of consumer goods, a situation that in 2018 was partly mitigated by the recovery of oil prices as well as the issuance of Eurobonds, which allowed for a slower decrease of official net foreign exchange reserves, which fell from USD 13.3 billion to USD 11.1 billion throughout 2018, despite the maintenance of a fairly high sales activity by the BNA;

(viii) The need to maintain a restrictive monetary policy by the BNA, in order to compensate for the rigidity of the official exchange rate and the effects of the increase in fiscal deficit, resulting in the imposition of more difficulties on production activities. This policy that was partially reversed in 2018 through several declines in BNA rates, although the significant sales of foreign currency to banks have had a restrictive effect on liquidity of national currency;

(ix) Difficulties in the management of bank credit, due to the contraction of economic activity – increasing risk aversion by banks – and the need to impose a restrictive monetary policy, resulting in the accumulation of a very high credit balance in default (which in December 2018 accounted for 28.3% of the total credit to the economy).

It should also be noted the change in fiscal policy, in 2018, towards effective consolidation with the expected elimination of the fiscal deficit (or even a slight suplus) after a GDP deficit of 6.3% in 2017. This turnaround in fiscal policy is due to the growth of Fiscal Revenue, both in Oil and non-Oil, as well as to an effective containment of Expenditure which should continue into 2019, and result in a surplus.

As already mentioned in the Overall Assessment, the new Management, in office since the end of September 2017, undertook a comprehensive reform program, including urgent measures to (i) stabilize the economy, (ii) make resource allocation processes more efficient, specially the sale of foreign currency by the BNA, and (iii) create conditions for an effective diversification of the economy.

This program was developed during 2018, and the following measures should be highlighted:

(i) a continued fight against corruption, considered as the most damaging factor to productive investment and a brake on the diversification of the economy;

(ii) the BNA's new exchange rate policy, which was referred to in the Overall Assessment and which made it possible to make considerable improvements in the mechanisms for allocating foreign exchange and rebalancing the foreign exchange market;
(iii) approval of a proposal to amend the private investment law which will provide a much more attractive framework for investment in general and in particular for foreign direct investment;
(iv) approval of a program to regularize commercial debts overseas and of state debts to resident companies, to be complied with over the term of the Extended Arrangement;
(v) changes in public debt management, aiming to lengthen its average maturity and including directives such as the prohibition of contracting new debts with oil collateral, while providing more complete disclosures on debt and its evolution;
(vi) measures to increase competition in certain sectors such as telecommunications and cement;
(vii) strengthening of the banking system through greater regulatory capital requirements and more effective supervision (prudential and sanctioning) by the BNA;
(viii) restructuring of Sonangol, aiming to concentrate the Company on its core hydrocarbon production and distribution business, selling shares in non-core companies and transferring concessionaire functions to a newly created oil and gas agency;
(ix) restructuring of the public sector business, aiming to reduce the risks that this sector represents for the State Budget and to increase the efficiency of its management;
(x) approval of new legislation on the combat to money laundering and terrorist financing, together with anti-corruption measures, bringing this legislation in line with the most advanced standards.

The new Management has been working simultaneously on the objectives of stabilizing the economy and diversifying productive activity, considering the economic consequences of their effects: a more stable economy encourages investment decisions and, in turn, a better environment for investment facilitates stability by increasing production, employment and tax revenues.

It is hoped that the conclusion of the Extended Arrangement with the IMF will be an additional stimulus to the continuity and substance of the ongoing reform program, allowing compliance with the objectives of macroeconomic stabilization and diversification of the economy.

Half-yearly assessments of the Arrangement deployment should be an important instrument for measuring the pace of the reforms implementation, as well as their expected effects.

A more favorable economic environment together with an expected stabilization of oil and gas production explains the expected GDP recovery in 2019, when the IMF anticipates growth of 2.5%.

VI. Portuguese economy

As mentioned in the Overall Assessment, the performance of the Portuguese economy in 2018 was characterized by a clear deceleration of the activity, in line with that in the Eurozone, which translated into a GDP average variation of 2.1%, after a growth of 2.8 % in 2017, still continuing to surpass the average growth of the Eurozone (+1.8%).

This deceleration was due to the combined effect of (i) sustained domestic demand, which grew 2.8% - with FBCF investment remaining at a significant level (+5.8%), although lower than in 2017 (+9.2%) and consumption accelerated from 2.3% in 2017 to 2.5% in 2018, - and (ii) an increase in net external demand to GDP (from -0.2 pp in 2017 to 0.7 pp in 2018).

The slower pace of the economy was in line with the performance of the Eurozone, which did not prevent Portuguese exports of goods to its main markets – Spain (+5.9%), France (+6.3%), Germany (+6.6%), the Netherlands (+0.2%) and Italy (+26.9%) continuing to register satisfactory increases.

It should also be noted the increase in exports to the US (+1.2%) and the drop in exports to the Angolan market (-15.2%) and to Brazil (-14%).

Net external demand contributed negatively to GDP, as a result of an increase in the goods deficit which was higher than the increase in the surplus of Services, which was partly explained by the maintenance of a high rate of fixed capital investment, as well as the persistent recovery in private consumption and by some slowdown in exports of Services (especially Tourism).

In this context the current account balance, should also be highlighted which went from a surplus of Euro 878.5 million in 2017, to a deficit of Euro 1.230 million in 2018, contrary to the official forecasts pointing to a new surplus.

The acceleration of economic activity made it possible to further reduce the level of unemployment from 8.7% in the fourth quarter of 2017 to 6.7% in the fourth quarter of 2018, being 1.1 pp below the average level of unemployment in the Eurozone.

Regarding public finances, according to preliminary data, the compliance with the official government deficit target of no more than 0.7% of GDP, which was possible thanks to the increase in tax revenues and social security, resulting from the improved pace of economic activity as well as lower expenditure on unemployment benefits.

In the banking sector, and as mentioned in the Overall Assessment, there was an improvement, in 2018, in the operating conditions of the two main national banks, CGD and BCP, with less satisfactory situations in the cases of Montepio and Novo Banco.

In 2019, BCP successfully completed a subordinated debt issue that allowed it to strengthen its capital ratios. Also, both CGD and BCP announced their intention to distribute dividends to capital holders, which has not occurred since 2010 (CGD) and 2011 (BCP).

As for the economic outlook for 2019, the official growth forecast of the 2019 State Budget was to maintain a growth rate similar to 2018 (2.1/ 2.2%), an objective that presently and based on the information available will be difficult to achieve. According to the most recent forecasts by Bank of Portugal (December 2018), GDP growth in 2019 is expected to decline to 1.8%, although meeting this forecast also appears to be dubious at this time.

Regarding public finance, a deficit reduction target of up to 0.2% of GDP has been set, which is certainly desirable and involves some risks in the face of the prospects of a more pronounced slowdown in economic activity, with an unfavorable impact on the level of tax revenue.

BAI Europa's activity framework

Business areas

- Commercial banking

The Commercial Banking area is intended to provide high quality services primarily to the business sector, under a clearly defined business strategy, which involves the selective acquisition of new clients.

The main market for this business area are the Portuguese companies operating in Angola or developing commercial relations with this country. In this market, of trade finance operations between Portugal and Angola, BAIE is distinguished by its capacity to create value for its customers through the provision of financial services in an agile and flexible way and taking advantage of the experience and synergies that result from the fact that its Parent Company, BAI, is a leading institution in the Angolan financial market. Additionally, the other market in which BAIE operates regarding Commercial Banking consists of Portuguese exporting companies to Cape Verde, a country where the BAI group is also present.

The fact that the financial structure of Portuguese companies in general shows an excessive level of indebtedness requires financial institutions to be very cautious when lending money.

On the other hand, the substantial drop in oil prices in the international market, triggered from the last quarter of 2014, has led to delays in payments by public sector entities in Angola and shortages of foreign exchange currency available from their credit institutions, with inevitable negative effects on the activity and risk faced by exporting companies to the Angolan market.

Given the need to maintain the deleveraging process by the Portuguese economic agents, both private and public, and given the uncertainties affecting the behavior of the Angolan economy in the face of a sharp reduction in oil prices, the Bank maintained its strategy, conditioning the development of its activity to high standards of prudence.

The strategy of strong commercial focus on supporting exporters and companies operating internationally for the Angolan market was maintained, both in the acquisition of new clients and in the strengthening of the relationship with the current ones, taking advantage of the opportunities to fund commercial exchanges between Angola and Portugal and in a complementary way between Cape Verde and Portugal.

Also, in order to diversify the Bank's loan base, this business area also accompanies **private clients**, focusing on the clients of the Parent Company (BAI), living in Angola and who for professional or family reasons need an account in a Portuguese bank. In addition, taking advantage of the ECB's current ultra-accommodative monetary policy, the Bank will start attracting retail funds in the first quarter of 2019 through access to deposit intermediation platforms of Eurozone credit institutions and the provision of competitive remuneration fees.

As a result of its cautious strategy, the Bank ended 2018 without overdue loans.

- Investment banking

This business area (i) invests the financial resources available in the group, maximizing profitability by assuming pre-defined risk levels through simple and effective risk management structures and (ii) provides specialised financial solutions for corporate clients, involving the setting up of trade finance operations in the form of a banking syndicate based on the financial convention between Portugal and Angola.

Regarding the **investment of financial resources** that are not applied as loans, in 2018 there was a very significant increase in the volume of business in the interbank money market (+16% when compared with 2017). In the area of fixed income investment, it should be noted the investment in a portfolio of High Quality Liquid Assets (HQLA) to comply with the LCR liquidity requirement and the Bank's balance sheet growth.

In interbank money market activity, 2018 was a challenging year not only because of the significant increase in financial flows from Angolan institutional clients, given the reduction in the counterparty limits imposed by the regulator in recent years, but also because a considerable part of these funds are in Euro, whose market rates are negative in many of the maturities, thus hindering their profitability. Following the tendency of the third quarter of 2017, in 2018 there has been a decrease of funds in Euro and an increase of funds in USD, which together with the increase in rates in the interbank money market in USD, allowed better results in terms of net interest income.

Regarding the investment in fixed income securities, with the gradual stabilization of the domestic public debt market, both public and private, investment opportunities in public debt and commercial paper have been significantly reduced favouring short maturities and issuers with a better risk profile. Taking advantage of some of the opportunities that arose in the market, the Bank has reallocated part of its securities portfolio, moving from bonds with fixed remuneration to bonds with variable remuneration, in order to reduce its exposure to interest rate and market risks.

Despite the greater difficulty to achieve reasonable profitability for the operations in Euro, the significant increase in the average total volume of credit assets also in USD, and as mentioned above, with the increase of USD rates in the interbank money market, allowed a significant increase in net interest income last year.

Regarding the **structuring of more specialised financial solutions**, at the end of 2018 the portfolio of loans not represented by securities in this business area amounted to EUR 32.4 million, a decrease of -17%.

- Correspondent banking services

This business area provides financial services to institutional clients (mainly trade finance and international payment services), mainly Angolan, with the financial institutions of the BAI Group taking a significant share in the total of operations performed.

In 2018, there was a significant increase in the volume of foreign payment orders processed and other associated financial services, resulting in the growth of revenues of 76,7% associated with these operations.

Regarding the **trade finance** area, the growth trend observed in the confirmation of letters of credit since 2017, both in volume and in amount, was maintained in 2018. The income obtained from these operations represented an annual growth above 20%, contributing to the strong growth of the Bank's operating income in 2018.

In recent years there has been a general suspension of USD transactions by Angolan banks with direct correspondent banks, such that international payments flows from Angolan credit institutions have gradually been changed into Euro. This new context has been a primary factor in increasing the role of this business area, which, in 2019, will very probably be critical in expanding the institutional client portfolio.

In December 2017, the Bank completed the process of joining EBA Clearing STEP1 as a user member, extending access solutions to the pan-European infrastructure for automatic clearing of Euro payments and, consequently, strengthening its autonomy as a correspondent bank for the European financial market.

Support Activities

- Internal Audit

It is the responsibility of the internal audit department (IAD) to monitor the Bank's internal control system through performance of evaluation procedures to assess its adequacy and effectiveness, reporting and proposing to the CA the necessary measures to improve the internal control system when deficiencies are identified in design or implementation.

Audit has played an important role in assessing the compliance and suitability of the Bank's business processes, which are one of the pillars of the Bank's operational risk management system.

- Compliance

The Compliance Department is responsible for coordination with management and administrative bodies to ensure that BAIE's activities are conducted in accordance with laws and regulations governing financial activities as well as internal policies and regulations, to avoid the risk of incurring financial or reputational damage or sanctions .

Money laundering and terrorist financing (MLTF) prevention and control activities are of critical importance requiring a scrutiny of operations and constant monitoring of the regular updates of standards issued by the banking supervisory authority and other national and foreign entities. In 2018, among other projects, this Department monitored:

i) The deployment of changes to the Bank's regulations and business processes to comply with the MLTF's preventive requirements established by Notice No. 5/2013 of Bank of Portugal, as amended by Notice No. 1/2014, as well as the deployment of Law No. 83/2017 of 18 August;
ii) The conclusion and deployment of an integrated IT solution for monitoring and filtering clients and transactions, as well as the acquisition of approved lists of sanctioned entities and PEPs, in order to strengthen the MLTF's internal control and prevention system;
iii) The conclusion of the review of MLTF's internal control and prevention system, with the support of an experienced team of external consultants who also provided support in the definition of the requirements for the IT solution to be implemented.
iv) Creation of the Group for Harmonization of Compliance Policies and Procedures (and Information Technology and Information Security) consisting of 3 groups ad-hoc, which integrate the respective heads of these three areas in the BAI Group to develop joint initiatives, with a view to harmonizing strategy, policies and procedures related to the activity within the Group measured against the respective Benchmark.

- Information Systems

The Information Systems Department is responsible for the interpretation of BAIE's strategic vision and ensure, through an efficient management of available human and technical resources, the implementation and management of an information technology platform as well as new technological solutions aligned with the best market practices and with the strategic vision defined for the Bank.

This department is also responsible for providing support to all internal and external users of the systems and analyzing their functional needs, in order to create a work environment as efficient and productive as possible.

In 2018 BAIE created the Information Security function, which is responsible for defining, updating and monitoring the compliance with information security policies, and in coordination with all departments of the Bank, for defining, implementing, managing and monitoring of information security controls to ensure the appropriate levels of integrity, authenticity, availability and confidentiality required for their effective and efficient protection and to ensure business continuity in line with best market practices and strategic guidelines of the Bank and with the conservative risk profile defined by the Board of Directors.

Among the various projects developed by these two departments during the year, the following are notable:

- Deployment of a new integrated IT application for the payments activity in order to replace the previous IT solution;
- Joining the Multibank network debit card system;
- Preparation for deployment of the 2nd Payment Directive;
- Deployment of the General Regulation on Data Protection;
- Deployment of risk mitigation measures for information and regulatory compliance systems identified through the external audit of the information systems performed in 2017;
- Support for access to digital platforms for the intermediation of retail deposits from other European credit institutions.

2019 will be a very challenging year in this area, regarding the completion of the deployment of the ongoing projects as well as in the implementation of new projects, many of a regulatory nature:

- Deployment of an integrated IT solution for handling documentary operations and of a related front-end digital platform;
- Incorporation of new services and functionalities in the home banking platform;
- Opening a bank account on-line;
- Reinforcement of controls regarding of cybersecurity, in particular to meet legal or regulatory requirements, including requirements arising from the NIS Directive, PSD 2, RGPD or the SWIFT Customer Security Program.

- Human Resources

As of 31 December 2018, the Bank had a total of 41 employees, 9 more employees than in the previous year. The employees of the Bank are, evidently, the most valuable and critical assets in successfully implementing the business strategy.

The Bank has a team of professionals, most of whom are young, very talented and with a diverse range of experiences, focused on customer service quality and compliance with applicable legal and regulatory standards.

Throughout the years, the Bank developed a culture of its own, based on rigor and excellence, while maintaining a stimulating working environment, factors that have greatly contributed to the sustainable achievement of the commercial, operational and financial goals.

The importance given to merit recognition and to the individual contribution of the employees were key for the establishment of open communication channels between all the employees, including the senior management team and board of directors, and the attribution of variable remuneration to employees that consistently contribute to the achievement of the Bank's goals and objectives. This process is preceded by an annual performance evaluation.

In 2018, a broad program of management of cultural change has been initiated which allowed the Bank to be more flexible and adaptable to changes, more proactive and with a greater focus on the client, while maintaining a prudent approach to risk management.

Risk Management system

BAIE’s Risk Management system (RMS) was defined considering the strategic guidelines and risk tolerance levels defined by the Board of Directors (BD) and the size, nature and complexity of the Bank's activity. The RMS focuses on maintaining risks within the predefined limits, seeking to optimize the relationship between risk and its return, ensuring the Bank's solvency under all circumstances.

According to the Bank’s risk management model, the following are considered material risks:

- Credit risk (includes concentration risk)
- Balance sheet risks:
    - Liquidity risk
    - Interest rate risk
    - Exchange rate risk

- Market risk
- Operational risk
- Compliance risk, and
- Information system risk

- Organizational structure

The Bank's organizational structure was designed to provide the appropriate resources for the **identification, assessment, control and monitoring** of the risks to which it is exposed in its activity. This structure is characterised by few hierarchical levels and by the concentration of decision making in the managers, and there is no delegation of powers for decisions that involve material risk taking. This structure also promotes the vertical and horizontal flow of information, which facilitates greatly interaction between all the departments and, also, with all the members of the Board of Directors.

The **BD** has the responsibility to define, approve and deploy the RMS that enables the identification, assessment, control and monitoring of all material risks to which the Bank is exposed, both internally and externally, in order to ensure that risks remain at the pre-defined level and will not significantly affect the Bank's financial position.

In accordance with the internationally recognised and accepted principles and Bank of Portugal definitions in Notice No. 5/2008, to better adapt the governance model to increasing prudential requirements, there are two governance bodies: the Credit Committee (CC) and the Committee for the Monitoring of Risk Management (CMRM).

CC is a decision making body that integrates all the executive directors of the Bank with the responsibility for the approval of the higher level credit decisions, as credit risk is the most significant risk in BAIE's activity. The **CMRM** is an oversight body, with two members of the Board of Directors not directly responsible for the business origination areas (commercial banking and investment banking), and those responsible for risk management and internal auditing, that permanently monitors the RMS, both financial and non-financial. The CMRM is responsible for ensuring the effective application of the Bank's RMS in accordance with its internal policies, assessing its adequacy and effectiveness as well as the adequacy and effectiveness of the measures taken to correct any shortcomings in the system. The CMRM meets at least monthly to analyze the evolution of the Bank's significant risks.

With the exception of the risk of compliance, which is monitored by the head of each department, the **Risk Management Function** (RMF) is assigned to a separate department with its own leader. These functions are performed independently as the executives do not have decision-making powers over the risks they monitor or the functional areas that are the subject of their assessments. They report to the CMRM on the performance of their tasks.

As a result of its responsibilities for monitoring the Bank's internal control system, of which the RMS is an integral part, the **Internal Audit Department** (IAD), the **External Auditors** and the **Audit Board** of the Bank monitor the RMS through assessment sessions, to evaluate their suitability and effectiveness, by identifying possible deficiencies in the design and implementation of the system. If a deficiency is identified, then measures for improvement and mitigation should be proposed.

- Credit risk and Concentration risk

The Credit Risk Department (CRD) is responsible, within the Commercial and Investment Banking operations, for ensuring: (i) the detailed and independent assessment of the credit risk inherent in each credit transaction proposed by these operational departments; (ii) compliance with the business strategy defined by the Board of Directors and the prudential rules established by the banking supervisor; (iii) continuous monitoring of the credit portfolio risk; and (iv) in the case of default, the follow-up of recovery procedures.

The approval of loans is the exclusive responsibility of the members of the BD or of the CC, depending on the amounts involved, with internal regulations fixing limits of maximum exposure per client, group of related clients and by sector of activity by country. The RMF is responsible for monitoring the compliance of these limits.

For operations of the Market Room (MR), the CRD ensures the independent periodic evaluation of the financial situation of each counterparty (institution/entity), proposing exposure limits for each counterparty for approval in CC.

The RMF monitors daily the exposures, in order to confirm that these are within the limits defined in internal regulations reporting to the CMRM the results of its monitoring.

The CRD estimates the impairment losses for all exposures to credit risk, on and off balance sheet. Impairments and provisions are reviewed and approved by the CC, and are also evaluated every six months by the External Auditors, the Supervisory Board and Bank of Portugal.

- Balance sheet risk:

Balance sheet risk management involves financial risks relating to assets and liabilities on the balance sheet, covering liquidity, interest rates and foreign exchange and market rate.

The MR is responsible for the management and control of these risks, acting in accordance with the guidelines and within the limits established in the Risk Management Policy and internal regulations.

The RMF reviews daily the Bank's exposure to the risks assumed in the balance sheet, ensuring that these are within the defined limits. Each month, the RMF reports the results of monitoring to the CMRM.

i) Liquidity risk

Liquidity risk is the risk of the Bank not having sufficient funds to meet its monetary liabilities, particularly in the short term. The limits and guidelines established for the management of liquidity assumes a conservative position, always maintaining a very liquid position in the short term. Limits for treasury positions and reference levels trigger alerts based on to the volume of funds raised for shorter time periods.

On a daily basis, the cash position of the financial assets and liabilities and other off-balance sheet liabilities by currency and residual due dates is determined, and this information is used by the MR in the management and control of treasury.

The LCR liquidity requirement provided in the Regulation (EU) No. 575/2013 of the European Parliament and of the Council (RRC) must also be continuously respected. The LCR began to be applied at 60% in October 2015, gradually increasing to 100% on the 1 January 2018 and requires the maintenance of a HQLA portfolio sufficient to cover the difference between Cash-Outflows and Cash-Inflows, for the subsequent 30-day period. In 2018, the Bank of Portugal clarified that the LCR ratio should only be applied on a consolidated basis and not by currency.

The RMF monitors daily the compliance with the respective limits and takes corrective measures, whenever necessary.

ii) Interest rate risk

The interest rate risk is the impact on the net interest income of changes in interest rate, which are detected when there are mismatches in the terms of assets and liabilities.

The limits and guidelines established for the management of this risk seek to reduce the sensitivity of the financial margin to changes in interest rates and, consequently, to preserve the economic value of the balance sheet. Subsequently, the Bank performs the matching in terms of the repricing periods of its assets and liabilities whenever possible, not assuming significant medium or long-term fixed rate transactions.

For monitoring purposes, in addition to using the prudential approach defined by the Bank of Portugal in its Instruction No. 34/2018 (which revokes Instruction No. 19/2005), the Bank has developed an analysis model that measures risk monthly by applying the discount factors to all net cash flows (gap / position) for each individual transaction, rather than applying them to the gaps by periods (prudential approach), thus obtaining greater precision in the calculation of the variations. The results of this monitoring are analysed monthly in the CMRM.

iii) Exchange rate risk

Exchange rate risk consists of the possibility that adverse variations in exchange rates may have a negative impact on the income statement or equity.

The limits and guidelines established for the management of this risk reflects the Bank's conservative attitude towards risk-taking and sets restrictions on open foreign exchange positions. The MR is responsible for controlling these positions so that they remain within the predefined limits.

This risk is monitored by the RMF on a daily basis through the analysis of the global exchange position, as well as the periodic analysis of the evolution of the open position against that of each currency. The results of this follow-up are also analysed monthly in the CMRM.

iv) Market risk

Market risk is defined as the probability of losses associated with a particular portfolio of financial instruments due to unfavorable movements of interest rates or exchange rates and/or the prices of the various underlying instruments.

The exposure of the Bank's balance sheet to market risk arises essentially from the need to invest in HQLA securities, in order to comply with the LCR liquidity ratio, and also, the limits and guidelines established to manage this risk (rating and limit of exposure to the issuer, Value at Risk, residual term and modified duration of the portfolio) are also intended to maintain a conservative exposure. The MR is responsible for controlling these positions so that they remain within the predefined limits.

The valuation of the portfolio and its risk metrics are calculated daily, and this information is used by the MR in the portfolio management in the determination of the need for investment (compliance with the LCR ratio) or disinvestment.

The CRD (regarding limits per issuer) and the RMF daily monitors the compliance with the respective limits and take corrective measures whenever necessary.

- Operational risk

Operational risk is the risk of negative impacts on results or equity arising from failures in the analysis, processing or settlement of operations, internal and external fraud, the use of resources under a subcontracting regime, decision-making processes insufficient or inadequate human resources or the inoperability of infrastructures.

The Bank recognises operational risk as a potentially significant risk in its business and seeks to manage it within the acceptable limits through the implementation of an internal control system appropriate to its activity.

The BD is responsible for ensuring that the Bank’s organizational structure is in line with the defined strategy and the development of the activity, as well as the evolution of the prudential requirements inherent in this activity, having as fundamental principles:

- Definition of responsibilities and competences;
- Ethics and deontology;
- Reporting and control procedures; and
- Segregation of duties.

The documents that formalize the policies and standards adopted by the Bank are approved by the Board of Directors and determine the overall strategy, procedures and the segregation of duties of the different corporate bodies and departments regarding internal control and risk management.

The **Business processes** are documented in detail and have been defined in order to ensure adequate segregation of functions considering the size, nature and complexity of the activity. For each of these processes, responsibilities and allocated to ensure the compliance with established procedures and control mechanisms, as well updating to reflect changes in the activity.

The guidelines defined for operational risk management are approved by the Board of Directors and are detailed in their own internal regulations. The adopted model of operational risk management is based on a system of risk assessment inherent in business processes and in the recording of events, directly by the business areas concerned.

The operational risk events are classified using a risk table provided for in the regulations of Bank of Portugal. These events are reported and centralised in the RMF, who together with departmental officials perform an analysis and, when applicable, proposes changes to business processes or other internal regulations, to mitigate the risk of a repeat occurrence. Upon completion of this review process, operational risk events are reported to the CMRM.

The RMF performs a review of the inherent risk of all of the Bank's business processes annually and the results are reported to the CMRM for approval.

BAIE has also established a plan that comprises an integrated set of policies and procedures aimed at ensuring the Bank’s going concern or the timely recovery of its business in the case of events likely to disrupt the normal course of the business, particularly because they were to cause the unavailability of physical infrastructures, computer systems or human resources.

The Business Continuity Plan (BGCP) is documented and integrated in the critical processes of the BAIE, using as reference the recommendations on business continuity management issued by Bank of Portugal.

In case of total or partial inaccessibility of the building of the Bank's headquarters in Lisbon, an alternative physical space is located in a peripheral area of the city, which includes a data center, which allows in a short period of time, access to all up-to-date data and critical information systems for the activity.

Each semester, test exercises are performed in the alternative data center, and if necessary, the PCN review is performed. This process is monitored by the ISD and IAD officials and the results are submitted to the CMRM.

Additionally, under current legislation, BAIE has developed a Security Plan for its headquarters facilities, with periodic fire drills, awareness-raising and training activities, involving all the employees of the Bank.

At the beginning of 2019, the Bank will start the PCN review process, a project that will be coordinated by the FGR and supported by DSI and a team of specialized external consultants.

- Compliance risk

Compliance risk is the risk of negative impacts on results or equity arising from breaches or non-compliance with laws, regulations, specific determinations, contracts, rules of conduct and relationships with clients, established practices or ethical principles, which result in legal sanctions, the limitation of the business opportunities, the reduction of the potential of expansion or in the impossibility of performing contractual obligations.

The Compliance Department (CD) ensures the Banks compliance with all its legal obligations.

The CD permanently monitors all regulatory changes that impact the business areas in which BAIE operates, evaluating whether these changes result in new obligations for the Bank. Whenever changes have an impact on the activity, the CD informs the BD and all the relevant departments, assessing with the departmental heads, the actions to be taken to ensure that the new obligations are properly complied with. Subsequently, the CD monitors the process of implementation of the defined actions with the head of each department and reports the results to CMRM .

This department is also responsible for assessing and monitoring internal control procedures for the prevention of money laundering and terrorist financing, as well as the centralization of information and its communication to the competent authorities.

- Information systems risk

Information systems risk (IS) is the risk of negative impacts on income or equity as a result of the non-adaptability of information systems to new needs, their inability to prevent unauthorised access, to ensure data integrity or to ensure business continuity in case of failure, as well as the pursuit of an inappropriate strategy in this area.

The guidelines established for IS risk management are in line with the Bank's conservative position towards risk. This low risk tolerance requires the management of this risk to ensure, that the IS of the Bank continually meets the needs of the business in an integrated way and that guarantees the integrity of the data in any circumstance.

The guidelines defined for IS risk management are approved by the BD and are detailed in a wider set of Information systems security policies and in another internal regulation.

The IS risk management process consists of four stages:

i. I**dentification** – At this stage the IS risk is identified with the objective of understanding and quantifying the risks to which the IS is potentially exposed and the mitigation measures are also defined. The head of the IS Department is responsible for this activity which is formalized in the risk matrix and reviewed annually.

ii. **Deployment** – Deploy the necessary controls to mitigate IS risks.

iii. **Control** – The control of he application of the IS risk management system and its effectiveness, including the identification and communication by IS users to the RMF of events with potential risk to the IS and the analysis and assessment by the RDSI of the impact of events and the definition of corrective and preventive measures.

iv. **Monitoring** – Includes the analysis and preparation of reports for the CMRM on the events with potential risks to the IS and the evaluation of the adequacy of the corrective measures taken, as well as the identification of opportunities for improvement of the IS risk management system.

Financial analysis

A brief financial analysis of BAIE's activity in 2018 is provided below.

Income Statement

	31-Dec-18	31-Dec-17	Δ
Interest and similar income	20 045 923	12 375 223	62.0%
Interest and similar expense	(10 833 051)	(4 432 535)	144.4%
Net Interest Income (NII)	**9 212 872**	**7 942 688**	**16.0%**
Financial Operations (FO)	1 416 227	2 290 826	-38.2%
Gross Profit (NII+FO)	**10 629 099**	**10 233 514**	**3.9%**
Fee and commission income/ expense (FCIE)	5 897 287	4 396 337	34.1%
Other Operating Income/ (expense) (OPIE)	(1 959 915)	(1 044 970)	87.6%
Operating Income (OI=NII+FCIE+OPIE)	**14 566 471**	**13 584 881**	**7.2%**
Fixed Costs (FC)	(5 574 723)	(4 537 948)	22.8%
EBITDA (OI-FC)	**8 991 748**	**9 046 933**	**-0.6%**
Depreciation for the period (D)	(288 347)	(96 505)	198.8%
Net provisions and impairments	409 427	(1 538 472)	-126.6%
Profit/(Loss) before Taxes	**9 112 828**	**7 411 956**	**22.9%**
Taxes	(3 205 259)	(2 273 457)	41.0%
Profit/(Loss) for the period	**5 907 569**	**5 138 499**	**15.0%**
Cost to income [(FC+D)/OI]	**40.3%**	**34.1%**	**18.0%**

In 2018, **Profit/(Loss) before Taxes** from BAIE amounted to Euro 9,113 thousand, which represents a significant increase of 22.9% when compared with the previous year, as well as the **Profit/(Loss) for the period** which amounted to Euro 5,908 thousand, which represents an increase of approximately 15.0% when compared with the previous year. This variation is less significant as a consequence of an increase in the effective tax rate, which increased from 30.7% to 35.2%.

Net Interest Income amounted to Euro 9,213 thousand, which represents an increase of 16.0% when compared with the previous year. To this increase contributed both the price increase in the rate and an increase in assets being remunerated . The main factor in the increase of the net interest income, was the increase in rates of the money market in USD, a currency in which the bank is very active, and which reduced the negative impact associated with the increase in cash equivalents in Euro at the Bank of Portugal, remunerated at a negative rate of -0.4%.

The results of Financial Operations decreased by 38.2% when compared with the previous year, due to: i) a decrease in income from foreign exchange operations (Euro -562 thousand when compared with 2017) and ii) a decrease in the results of the portfolio of financial assets at fair value through other comprehensive income, previously designated as available-for-sale financial assets (Euro -372 thousand when compared to 2017) and mainly because capital gains from the sale of securities and the income distributions from investment funds were not so significant in 2018 as in the prior year.

Fee and commission income/ expense amounted to Euro 5,897 thousand, reflecting a growth of approximately 34% when compared with the previous year. The increase of this caption is mainly due to the considerable growth in income from commissions associated with documentary credits (+21%) and in income from services rendered (+77%).

In 2018, **Other Operating Income/ (expense** decreased considerably when compared with the net expense of the previous year (+87.6%). This decline is mainly due to the significant increase in contributions to the National Resolution Fund, the Single Resolution Fund (Banking Union) and the Extraordinary Contribution to the Banking Sector (CESB) due to the increase in the funds raised from CIUs since 2016 (basis of the formula used to calculate these charges).

Fixed costs, in 2018, increased significantly, when compared to the prior year, both in total (+ 22.8%) and in:

i) **General and administrative expenses** (+33,7%), associated with licensing and development of systems and new products, strengthening information security and consulting services for the implementation of various legal and regulatory projects;

ii) **Staff costs** (+14,0%), due to the increase in the number of employees in support and control areas;

iii) **Depreciation** (+199%), due to the beginning of the depreciation of building work at the new premises of the Bank's headquarters.

The significant increase in fixed costs contributed to a deterioration in the cost to income ratio by 6.2 p.p.

Net provisions and impairments recognised in 2018 reflects, on reversals of the impairment related to loans and advances to customers and, to additional Provisions for other risks and charges.

Balance sheet

	31-Dec-18	31-Dec-17	Δ
Financial Assets:			
Cash and cash equivalents repayable on demand	124 052 331	150 996 385	-17.8%
Other loans and advances to credit institutions	636 329 711	547 798 552	16.2%
Loans and advances to customers	74 424 105	69 219 330	7.5%
Financial assets not held for trading mandatorily measured at fair value through profit or loss	1 566 620	-	N/A
Financial assets at fair value through other comprehensive income (IFRS 9)	271 584 142	-	N/A
Financial assets held for sale (IAS 39)	-	206 547 739	-100.0%
Other financial assets at amortised cost (IFRS 9)	33 238 879	-	N/A
Held-to-maturity investments (IAS 39)	-	25 939 137	-100.0%
Other financial assets at fair value through profit or loss	224 373	280 923	-20.1%
Total Financial Assets	**1 141 420 161**	**1 000 782 066**	**14.1%**
Non-financial assets	4 582 071	4 345 054	5.5%
Total Assets	**1 146 002 232**	**1 005 127 120**	**14.0%**
Financial Liabilities:			
Deposits from other credit institutions	912 875 738	823 578 821	10.8%
Deposits from customers	136 815 632	97 974 906	39.6%
Other financial liabilities at fair value through profit or loss	224 373	280 923	-20.1%
Total Financial Liabilities	**1 049 915 743**	**921 834 650**	**13.9%**
Other non-financial liabilities	12 951 352	5 414 007	139.2%
Share capital	40 000 000	40 000 000	0.0%
Revaluation reserves	(49 548)	35 748	-238.6%
Other reserves and retained earnings	37 277 116	32 704 216	14.0%
Profit/(Loss) for the period	5 907 569	5 138 499	15.0%
Total Liabilities and Equity	**1 146 002 232**	**1 005 127 120**	**14.0%**

In 2018, there was a considerable increase in BAIE's balance sheet (+14.0%), reflecting the continued growth of business activity with institutional clients, which began in 2016. It should be noted that the increase in Other loans and advances to credit institutions and Financial assets at fair value through other comprehensive income (previously designated as Available for sale Financial Assets). On average, the increase in the balance sheet was less pronounced (+10.1%).

The main contribution to the growth in Assets was the significant increase in the banking activity, which positively influenced both the interbank market activity and the increase in Cash and deposits. It should also be noted that the increase in the HQLA fixed income portfolio to comply with the LCR prudential liquidity ratio.

The solvency indicator remains comfortably above the minimum regulatory threshold, going from 19.8% to 18.0%.

Proposal for the appropriation of net profits

The profit for the period in 2018 amounted to Euro 5,907,569 and, in accordance with the applicable legislation, the Board of Directors proposes the following appropriation:

- Transfer to Retained Earnings 4,726,055
- Transfer to Legal Reserves 1,181,514

Other Information

(i) Subsequent events

There were no significant events after the balance sheet date that need disclosure or should be recorded in the financial statements at 31 December 2018.

(ii) In accordance with the applicable legislation, the Board of Directors expressly confirms that:

- The Bank does not own and has not disposed of or acquired treasury stock;
- There were no transactions between the Bank and its Directors;
- The Bank has no branches; and
- The Bank does not have any overdue debts to the State and other public entities.

Annex to the Management Report

1. In accordance with Article 477 of *Código das Sociedades Comerciais*, it is stated that none of the members of the Management and Supervisory bodies holds shares of the Bank.

2. As at 31 December 2018 and in accordance with Article 478 *of Código das Sociedades Comerciais,* the following shareholders hold more than one-tenth of the share capital of the Bank:

	No. Shares	%
Banco Angolano de Investimentos, S.A.	7.999.999	99.99995

Lisbon, 29 March 2019

The Board of Directors

José Tavares Moreira Chairman	António Pinto Duarte Vice Chairman
Omar Guerra Member	Henrique Carvalho da Silva Member

Banco BAI Europa, S.A.

Financial Statements
As of 31 December 2018

BANCO BAI EUROPA, S.A.
BALANCE SHEETS (STATEMENT OF FINANCIAL POSITION)
AS OF 31 DECEMBER 2018 AND 2017

(Amounts expressed in Euro)

	Notes	31-Dec-18 Amount before impairments and amortizations	31-Dec-18 Impairment and Amortizations	31-Dec-18 Net amount	31-Dec-17
Assets					
Cash and deposits at central banks	3	33 310 786	-	33 310 786	37 578 695
Loans and advances to credit institutions repayable on demand	4	90 743 983	(2 438)	90 741 545	113 417 690
Financial assets held for trading (a)		-	-	-	-
Financial assets not held for trading mandatorily measured at fair value through profit or loss	5	1 566 620	-	1 566 620	-
Other financial assets at fair value through profit or loss	6	224 373	-	224 373	280 923
Financial assets at fair value through other comprehensive income	7, 18	271 584 142	-	271 584 142	-
Financial assets held for sale (a)	7	-	-	-	206 547 739
Financial assets at amortised cost					
Other loans and advances to credit institutions	8, 18	636 545 130	(215 419)	636 329 711	547 798 552
Loans and advances to customers	9, 18	76 304 131	(1 880 026)	74 424 105	69 219 330
Other financial assets at amortised cost	10	33 253 922	(15 043)	33 238 879	-
Held-to-maturity investments (a)	10	-	-	-	25 939 137
Assets with repurchase agreements		-	-	-	-
Hedging derivatives		-	-	-	-
Non-current assets held for sale		-	-	-	-
Investment property		-	-	-	-
Other tangible assets	11	1 562 084	(406 806)	1 155 278	89 192
Intangible assets	12	628 168	(269 616)	358 552	469 984
Investments in subsidiaries and associatess	13	948 469	-	948 469	948 469
Current tax assets	14, 28	-	-	-	-
Deferred tax assets	14, 28	768 023	-	768 023	1 310 163
Other assets	15, 18	1 437 984	(86 235)	1 351 749	1 527 246
Total Assets		**1 148 877 815**	**(2 875 583)**	**1 146 002 232**	**1 005 127 120**

	Notes	31-Dec-18	31-Dec-17
Liabilities			
Financial assets held for trading		-	-
Other financial liabilities at fair value through profit or loss	6	224 373	280 923
Financial liabilities at amortised cost			
Deposits from central banks	16	3	26 706 542
Deposits from other credit institutions	16	912 875 735	796 872 279
Deposits from customers	17	136 815 632	97 974 906
Debt securities issued		-	-
Financial liabilities associated to transferred assets		-	-
Hedging derivatives		-	-
Non-current liabilities held for sale		-	-
Provisions	18	3 558 163	2 770 981
Current tax liabilities	14, 28	318 850	871 402
Deferred tax liabilities	14, 28	-	10 331
Equity instruments		-	-
Other subordinated debt		-	-
Other liabilities	19	9 074 338	1 761 293
Total Liabilities		**1 062 867 094**	**927 248 657**
Equity			
Share capital	20	40 000 000	40 000 000
Share premium		-	-
Other equity instruments		-	-
Treasury stock		-	-
Revaluation reserves	20	(49 548)	35 748
Other reserves	20	7 198 948	6 171 248
Retained earnings	20	30 078 169	26 532 968
Net profit/ (loss) for the period	20	5 907 569	5 138 499
Prepaid dividends		-	-
Total Equity		**83 135 138**	**77 878 463**
Total Liabilities + Equity		**1 146 002 232**	**1 005 127 120**

(a) Under the scope of IFRS 9, which replaced IAS 39 - Financial Instruments, these captions are not applicable in 2018.

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.

INCOME STATEMENT

FOR THE PERIODS ENDED AT 31 DECEMBER 2018 AND 2017

(Amounts expressed in Euro)

	Notes	31-Dec-18	31-Dec-17
Interest and similar income	21	20 045 923	12 375 223
Interest and similar expense	21	(10 833 051)	(4 432 535)
Net interest income	21	**9 212 872**	**7 942 688**
Dividends from equity instruments	2.8, 13	28 333	-
Fees and commissions income	22	6 826 121	5 092 559
Fees and commissions expense	22	(928 834)	(696 222)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	23	98 725	-
Net gains/(losses) arising from available for sale financial assets (a)	23	-	470 515
Net gains/(losses) arising from financial assets mandatorily measured at fair value through profit or loss	24	30 625	-
Net gains/(losses) arising from foreign exchange differences	2.3	1 258 544	1 820 311
Net gains/(losses) arising from the sale of other assets	11	(44 987)	9
Other operating income/ (expense)	25	(1 914 928)	(1 044 979)
Operating income		**14 566 471**	**13 584 881**
Staff costs	26	(2 851 354)	(2 501 441)
General administrative expenses	27	(2 723 369)	(2 036 507)
Depreciation for the period	11, 12	(288 347)	(96 505)
Provisions net of reversals and recoveries	18	(1 026 274)	(1 615 738)
Impairments for financial assets not measured at fair value through profit or loss			
Financial assets at fair value through other comprehensive income	18	53	
Financial assets at amortised cost			
Impairment for loans and advances net of reversals and recoveries	18	1 422 536	162 960
Impairment for other financial assets net of reversals and recoveries	18	97 732	(85 694)
Impairment for non-financial assets	18	(84 620)	-
Profit before tax		**9 112 828**	**7 411 956**
Taxes	28	(3 205 259)	(2 273 457)
Current	28	(2 508 291)	(2 461 150)
Deferred	28	(696 968)	187 693
Profit after tax		**5 907 569**	**5 138 499**
From which: Profit after tax from discontinuing operations		-	-
Net Profit for the period		**5 907 569**	**5 138 499**
Earnings per share		**0.74**	**0.64**

(a) Under the scope of IFRS 9, which replaced IAS 39 - Financial Instruments, these captions are not applicable in 2018.

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED AT 31 DECEMBER 2018 AND 2017

(Amounts expressed in Euro)

	Notes	31-Dec-18	31-Dec-17
Net profit for the period		**5 907 569**	**5 138 499**
Items that will not be reclassified into the income statement			
Retained actuarial gains and losses from long-term benefits	20	(80 139)	223 330
Fair value reserve related to equity instruments		-	-
Tax effect		-	-
Items that may be reclassified into the income statement			
Fair value changes from available for sale financial assets (a)	20	-	296 197
Fair value changes from debt instruments at fair value through other comprehensive income	20	(243 331)	
Tax effect	20	31 956	(66 571)
Profit / (loss) not included in the income statement		**(291 514)**	**452 956**
Comprehensive income for the period		**5 616 055**	**5 591 455**

(a) Under the scope of IFRS 9, which replaced IAS 39 - Financial Instruments, these captions are not applicable in 2018.

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIODS ENDED AT 31 DECEMBER 2018 AND 2017

(amounts expressed in Euro)

	Notes	Share capital	Retained earnings	Legal reserve	Revaluation reserve	Net profit for the period	Total Equity
Balance on 31 December 2016		**40 000 000**	**23 382 192**	**5 439 387**	**(193 878)**	**3 659 307**	**72 287 007**
Appropriation of 2016 profits into retained earnings and legal reserve		-	2 927 446	731 861	-	(3 659 307)	**-**
Revaluation reserves	20	-	-	-	229 626	-	**229 627**
Retained actuarial gains and losses from long-term benefits	20	-	223 330	-	-	-	**223 330**
Net profit for 2017		-	-	-	-	5 138 499	**5 138 499**
Balance on 31 December 2017		**40 000 000**	**26 532 968**	**6 171 248**	**35 748**	**5 138 499**	**77 878 463**
Impact from the adoption of IFRS 9							
Gross amount		-	(627 117)	-	123 250	-	**(503 867)**
Tax impact		-	141 658	-	(22 762)	-	**118 896**
Balance on 1 January 2018		**40 000 000**	**26 047 509**	**6 171 248**	**136 236**	**5 138 499**	**77 493 492**
Appropriation of 2017 profits into retained earnings and legal reserve		-	4 110 799	1 027 700	-	(5 138 499)	**-**
Revaluation reserves	20	-	-	-	(185 784)	-	**(185 784)**
Retained actuarial gains and losses from long-term benefits	20	-	(80 139)	-	-	-	**(80 139)**
Net profit for 2018		-	-	-	-	5 907 569	**5 907 569**
Balance on 31 December 2018		**40 000 000**	**30 078 169**	**7 198 948**	**(49 548)**	**5 907 569**	**83 135 138**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

BANCO BAI EUROPA, S.A.

CASH FLOW STATEMENT

FOR THE PERIODS ENDED AT 31 DECEMBER 2018 AND 2017

(Amounts expressed in Euro)

	31-Dec-18	31-Dec-17
Operating activities		
Interest, commissions and other income received	26 216 495	17 098 200
Interest, commissions and other expense paid	(11 508 339)	(5 250 653)
Foreign exchange and other financial operations gains and losses	1 258 544	1 820 311
Payments to employees and suppliers	(5 283 171)	(4 211 536)
Net cash flow arising from operating activities before changes in assets and liabilities	10 683 529	9 456 322
Decreases (increases) in:		
Other financial assets at amortised cost	(7 319 152)	(18 030 576)
Loans and advances to credit institutions	(88 051 912)	(142 466 614)
Loans and advances to customers	(4 183 014)	44 303 600
Other assets	47 744	(524 633)
Net cash flows arising from operating assets	(99 506 334)	(116 718 223)
Increases (decreases) in:		
Deposits from other credit institutions and central banks	88 617 096	188 587 592
Deposits from customers	38 524 284	(4 117 299)
Other liabilities	6 949 958	(4 155 618)
Net cash flows arising from operating liabilities	134 091 338	180 314 675
Contribution to pension funds liabilities	-	(213 500)
Income tax payment	(3 052 389)	(2 458 502)
Other taxes and contributions paid	(1 193 904)	(811 219)
Gross cash flow from operating activities	41 022 240	69 569 553
Investing activities		
Income arising from financial assets at fair value through other comprehensive income	98 725	470 515
Income arising from financial assets at fair value through profit or loss	30 625	-
Acquisitions of financial assets at fair value through other comprehensive income, net of disposals	(66 830 501)	(85 152 672)
Acquisition of tangible and intangible assets, net of disposals	(1 291 038)	(450 919)
Dividends received	28 333	-
Net cash flows arising from investing activities	(67 963 856)	(85 133 076)
Net changes in cash and cash equivalents	(26 941 616)	(15 563 523)
Cash and cash equivalents at the beginning of the period (notes 3 and 4)	150 996 385	166 559 908
Cash and cash equivalents at the end of the period (notes 3 and 4)	**124 052 331**	**150 996 385**

The following notes form an integral part of these financial statements

The Certified Accountant

The Board of Directors

Banco BAI Europa, S.A.

Notes to the Financial Statements
As of 31 December 2018

(Amounts expressed in Euro)

1. Introduction

BANCO BAI EUROPA, S.A. (hereinafter referred to as “BAIE” or “Bank”) was incorporated on 26 August 2002 under authorization granted by Ministerial Order of the Minister of State and Finances, of 10 May 2002, succeeding BANCO ANGOLANO DE INVESTIMENTOS, S.A. Branch in Portugal (“BAI”). The company has its head office in Lisbon and its corporate object is the performance of banking activities.

BAI´s branch in Portugal was incorporated in Lisbon under Decree-Law no. 298/92, of 31 December (Credit Institutions and Financial Companies General Regime - RGICSF), and had its establishment authorised by the Minister of Finance through Ordinance 4/97, of 7 January, with a share capital of PTE 3,500,000,000 converted into Euro 17,457,926 fully subscribed through capital originated from BAI.

BAI is a private capital bank with head office in Luanda, Angola. BAI was incorporated in 13 November 1996 with the corporate object of performing banking activities, in accordance with the terms defined by National Bank of Angola (NBA). Its business activity started on 4 November 1997. On 4 May 2008 BAI changed the abbreviation of its legal entity name from Limited Liability Company (“S.A.R.L”) to Limited Company (“S.A.”). On 11 January 2011 the Bank changed its corporate name from BANCO AFRICANO DE INVESTIMENTOS, S.A. to BANCO ANGOLANO DE INVESTIMENTOS, S.A. BAIE is part of BAI Group.

Currently the Bank exercises its activity through its head office, a branch in Lisbon and an office in Oporto.

BAIE´s activity is subject to the supervision of Bank of Portugal, and it is considered a financial institution in accordance with RGICSF.

2. Basis of presentation and main accounting policies

These financial statements were prepared in order to comply with the legislation in force.

2.1 Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, BAIE’s financial statements are required to be prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union (“EU”). IFRS comprise accounting standards issued by the International Accounting Standards Board (“IASB”) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and its predecessor body.

These financial statements relate to the period ended at 31 December 2018 and were prepared in accordance with the IFRS in force, as adopted in the European Union, up to that date.

Additionally, the Bank made the necessary changes arising from the adoption of the following standards: IFRS 9 - Financial Instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 replaces IAS 39 Financial instruments – Recognition and Measurement and establishes new rules for the accounting of financial instruments introducing significant modifications mainly regarding impairment requirements. Requirements introduced by IFRS 9 are, in general, applied retrospectively through the restatement of the opening balance up to the initial application date.

These financial statements were approved by the Board of Directors of the Bank on 29 March 2019, and are pending approval from the General Shareholders Meeting. However, the Board of Directors believes that these will be approved without amendments.

2.2 Use of estimates in the preparation of the financial statements

The preparation of financial statements requires that the Bank´s management establishes assumptions and perform estimates that affect assets, liabilities, income and expenses, which will be analysed below.

Impairment losses in Loans and Advances to customers and in other assets
The Bank performs monthly assessments on the existence of objective evidence of impairment, using for that purpose estimates over recoverable cash flows including the ones originated by possible recoveries and collaterals completion (note 2.4.1.3). This process includes factors such as probability of default, credit ratings, the value of the collaterals associated to each operation, recovery rates and the cash flow estimates, either from future cash flows or the time of their receipt.

Income taxes
The Bank recognised deferred tax assets based on the assumption of the existence of future taxable profits and considering the current legislation in force or legislation already published for future application. Probable future amendments to tax legislation may influence the amounts expressed in the financial statements regarding deferred taxes.

Fair value of derivatives and unlisted financial assets
Fair value of derivative financial instruments and unlisted financial assets (i.e. not traded in active markets) was estimated based on techniques and financial theories using market assumptions or third parties assumptions (note 33). Results achieved may differ according to the assumptions considered.

Employee benefits and other
Liabilities arising from retirement and survival pensions and the income generated by the Pensions Funds to cover those liabilities are estimated through the use of actuarial boards, assumptions regarding increases in pensions and wages increases and returns on pension funds (note 30). These assumptions are based in BAIE expectations at the balance sheet date for the period during which liabilities will be settled.

Impairment and measurement of assets at fair value through other comprehensive income
The Bank determines the existence of impairment losses in their debt instruments at fair value through other comprehensive income considering all the reasonable, reliable and duly supported information available at each reporting date, including forward looking information.

Evaluations are obtained through market prices (*mark-to-market*) or valuation models *(mark-to-model)*, which require the use of certain assumptions or judgment in the calculation of fair value estimates.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses recognised with a consequent impact in the income statement of the Bank.

Provisions
The provisions measurement is based on the principles defined on IAS 37 regarding the best estimate of the expected cost, the most probable result of the actions in progress and considering the risks and uncertainties inherent to the process.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being released to profit and loss in the proportion of the payments that are not probable. Provisions are derecognised through their use for the obligations for which they were initially recognised or when reversed when such obligations no longer exist .

2.3 Transactions in foreign currency (IAS 21)
These financial statements are expressed in the functional currency, Euro, since it is the currency used in the main business environment where the bank operates.

The assets and liabilities denominated in foreign currency are accounted on the basis of multi-currency system, in their respective original currency.

Assets and liabilities denominated in foreign currency are translated into Euro based on the following:

i) Monetary assets and liabilities expressed in foreign currency are translated into the functional currency at the exchange rate published at the balance sheet date;
ii) Non-monetary assets and liabilities expressed in foreign currency and recorded at historical cost are translated to the functional currency at the exchange rate published on the date of the transaction; and

iii) Non-monetary assets and liabilities recorded at fair value are translated into the functional currency at the exchange rate published on the date when the fair value is determined.

Exchange rate differences resulting from translation of the net positions are recognised in the income statement, under the balance "Net gains/ (losses) arising from foreign exchange differences".

The spot position in a given currency corresponds to the net balance of assets and liabilities expressed in that currency, plus the amounts of spot operations pending settlement and forward operations maturing in the following two business days.

The forward position in a given currency corresponds to the net balance of forward operations pending settlement, except for those maturing in the following two business days.

The translation of income and expense in foreign currency is performed on a monthly basis at the exchange rate prevailing at the end of each month.

The foreign exchange rates used in the functional currency translation process of assets, liabilities, income and expenses expressed in foreign currency, are the exchange rates disclosed by the European Central bank, designated as fixing rates.

With the purpose of mitigating its foreign exchange exposure, BAIE may use derivative financial instruments as "currency forwards" and "currency swaps". The accounting policies used to recognise these operations are described in note 2.4.6.

2.4 Financial instruments

Financial instruments are recognised on their trade date, which is the date on which the Bank becomes part of the contract and are classified by considering its underlying purpose, under the categories described below.

2.4.1 Loans and advances to customers and other receivables

2.4.1.1 Valuation, initial and subsequent recognition

Loans and other receivables includes all financial assets corresponding to the supply of cash, goods or services to a debtor. This concept includes the typical credit granting to customers, as well as the creditor positions resulting from operations with third parties under the institution´s business activities except operations with credit institutions.

Loans and advances to customers are initially recognised at fair value plus any directly attributable transaction costs and fees and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Income regarding commissions for services rendered that are directly associated to credit operations is recognised over the period in which the service is provided.

The Bank writes-off credits to the assets of operations whenever it considers then to be irrecoverable and whose impairment is registered by the total amount of the operation.

2.4.1.2 Derecognition (IFRS 9)

The derecognition of these assets occurs when: (i) the contractual rights of the Bank to their respective cash flows have expired; or (ii) the Bank transferred substantially all the associated risks and rewards of ownership; or (iii) notwithstanding the fact that the Bank may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred and (iv) the changes to the contractual conditions of a financial asset originated a substantial variation in the present value of the cash flows, i.e., the new contractual conditions discounted using the initial contract interest rate resulted in a change of, at least 10%, of the remaining present value of cash flows of the original financial asset.

2.4.1.3 Impairment losses (IFRS 9) – Loans and advances to customers

Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

IFRS 9 establishes a new asset impairment model based on "expected credit losses", which replaces the "incurred loss" model followed by IAS 39, which considers the expected losses throughout the life of financial instruments. Thus, macroeconomic factors are considered when determining ECL, as well as other forward looking information, whose changes have impact in expected losses.

Collective analysis
Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

• Stage 1: no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;
• Stage 2: instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;
• Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

BAI Europa also considered the following assumptions:
• Default contamination: the contamination is performed by client number, being considered in default all the operations of a client for which one of the operations is considered in default;
• Cure period: a cure period of 6 months is considered for contracts that were in default and a period of 12 months is considered for contracts that were forborne.

The calculation of impairment losses in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:
• Assessment of the existence of a significant increase in credit risk since the initial recognition; and
• Incorporation of forward-looking information in ECL calculation.

ECLs Calculation
ECL correspond to unbiased weighted estimates of credit losses that will be determined as follows:
• Financial assets without signs of impairment at the reporting date: the actual value of the difference between the contractual cash flows and the cash flows that BAI Europa expects to receive;
• Financial assets with signs of impairment at the reporting date: difference between the gross book value and the actual value of the estimated cash flows;
• Unused credit commitments: the actual value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that BAI Europa expects to receive;
• Financial guarantees: the actual value of expected reimbursement payments deducted from the amounts that BAI Europa expects to recover.

Definition of default
Under IFRS 9, the Bank considered the recommendations of EBA "*Final Report on Guidelines on default definition (EBA-GL-2016-07)",* issued on 28 September 2016.

Significant increase in credit risk
Under IFRS 9, in order to determine if a significant increase in credit risk has occurred (risk of default) since the financial instrument´s initial recognition, BAI Europa considers as relevant information all the information available and without costs and/or excessive effort, including either quantitative and qualitative information or an analysis based in BAI Europa´s history, expert judgment and forward looking.

Thus, and taking into account the Bank's activity, it was defined that a significant increase in credit risk takes place when, from the moment of initial recognition, any of the following situations occur: i) Contract in default between 30 and 90 days; ii) more than 2 non-performing payments in the last 12 months; iii) overdue credit in the Central Credit Register (CRC) between 2 and 3 months; iv) debts to the Tax Authorities; v) Overdue credit above 3 months or with credit written-off in the CRC in the last 3 reports; vi) renegotiated credit in CRC; vii) credits forborne due to financial difficulties / renegotiation of the payment plan; viii) PERSI (Private); and ix) Deceased (Private).

In addition, in the process of monitoring a significant increase in credit risk, the Bank also considers the following qualitative factors: i) management problems; (ii) high investments; (iii) high competition / reduced margins; iv) concentration of the volume of business in a reduced number of clients; v) loss of concessions or representations; vi) economic group with difficulties; vii) evidence of forbearance in the financial system; viii) problems with suppliers; ix) worsening of economic and financial situation; (x) high concentration in a market; xi) employer company (Private); and (xii) Divorce (Private).

BAI Europa will monitor the effectiveness of the criteria used for the identification of significant increase in credit risk through regular assessments in order to confirm that:

- The criteria allow to identify significant increases in credit risk before the exposure enters in default;
- The criteria is not in line with the moment where the customer is 30 days overdue;
- The average time between the identification of the significant increase in credit risk and the default is reasonable;
- The exposures usually do not change directly from the calculation of the 12 month ECL for a situation where they show signs of impairment;
- There is no unjustified volatility in the impairment value of transfers between the 12 month ECL value and the lifetime ECL value.

<u>Inputs for the measurement of ECL</u>
The main inputs used for measuring ECLs in a collective basis include the following parameters:
- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are obtained using market references adjusted in order to reflect the forward-looking information, when applicable.

The EAD represents the expected exposure if the exposure and/or customer go into default. BAI Europa obtains the EAD values from the counterparty´s current exposure and potential changes to its current value in accordance with the contractual conditions, including amortisation and prepayments. For commitments and financial guarantees, the value of EAD includes both the amount of credit used and the expectation of the future potential value that may be used in accordance with the contract.

<u>Forward-looking information</u>
Under IFRS 9, BAI Europa includes forward looking information both in its assessment of the significant increase in credit risk and in the measurement of the ECL, namely for probability of default calculation purposes. In the measurement of ECL the Bank uses an external entity for the acquisition of relevant macroeconomic variables. This approach represents a forecast of what is more likely to occur and will be in line with other data used by BAI Europa for other purposes, such as strategic planning and budgeting.

<u>Individual analysis</u>
The individual analysis corresponds to the impairment calculation of individual contracts, instead of the one used in the collective analysis. The contracts eligible for this analysis have the following individual analysis criteria: i) exposure with country risk; ii) exposures above Euro 1 million. All contracts that have the following characteristics are removed from the segments to which they are aggregated and an individual impairment rate is applied, depending on the internal considerations regarding the associated risk.

The determination of the impairment loss estimate results from the difference between the book value and the estimated recoverable amount of the credit, considering the recovery expectation of the amounts owed, the existing guarantees and, if possible, the recovery costs. For the customers to whom no impairment is attributed in the individual analysis, the Bank applies the impairment calculated through the collective model.

<u>POCI Assets</u>
Purchased or originated credit impaired (POCI) are assets in default at the initial recognition, which can be originated according to one of the following criteria: (i) New financial assets originated after changes in the contractual conditions that result in the derecognition of the original asset and in the recognition of a new asset; (ii) New customer contracts in default.

The calculation of the ECL for assets classified as POCI is based in the following principles:
- Impairment at initial recognition (inception): on inception, POCI assets are not impaired. The gross book value of POCI assets at inception corresponds to the net book value before its recognition as POCI. Therefore, at inception, the ECL of a POCI asset should be zero and the respective fair value is determined in accordance with a proxy of Net Carrying Amount (i.e. gross carrying amount deducted from the initial ECL).
- Impairment in subsequent periods: The ECL for POCI assets is always calculated in a lifetime perspective (from the moment an asset is recognised as POCI, can never be allocated to stage 1). Considering that the ECL, at inception, is incorporated in the value of the POCI asset, the amount recognised as ECL corresponds only to the amounts related to the ECL changes since the initial recognition.

In 2018 there were no assets classified as POCI.

2.4.2 Other financial assets at amortised cost (IFRS 9)

2.4.2.1 Valuation and recognition

The Bank measures a financial asset at amortised cost if it meets, simultaneously, the following requirements and is not recorded at fair value through profit or loss (FVTPL) by choice (use of the Fair Value Option):

- the financial asset is held in with a main purpose is to hold the asset to collect its contractual cash flows (HTC – Held to collect); and
- its contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI - Solely Payments of Principal and Interest).

These financial assets are initially recorded at fair value and subsequently measured at amortised cost. Interest is calculated based on the effective interest rate method and recognised in Net Interest Income. Impairment losses are recognised in the income statement when identified.

2.4.2.2 Impairment losses (IFRS 9) – Other assets at amortised cost

IFRS 9 introduced the calculation of expected impairment losses for all financial assets. BAIE's policy is to regularly assess the objective existence of impairment of its Financial Assets. The identified impairment losses are recorded in the income statement and are subsequently reversed by profit or loss if there is a reduction in the amount of the estimated loss in a subsequent period.

<u>Inputs for the measurement of ECL</u>
The inputs for the measurement of ECL of these assets are:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are also obtained using market references. In the calculation of the ECL, the PDs made available by a rating agency are used, and its maturity is adjusted to the residual maturity of each asset, in the case of Loans and advances to credit institutions repayable on demand. In case of Other financial assets its maturity is adjusted through the allocation of a 12 month PD.

The EAD represents the accumulated balance of the financial asset (deposits or other debtors) or the sum of the nominal value of the security, the amount of accrued interest and the premium to be amortised (premium paid on the acquisition of the security less the amount already amortised), less the discount to be amortised (the total value of the discount obtained on the acquisition of the security less the amount already amortised).

Allocation to Stages

The inputs for the measurement of ECL of these assets are:

- Stage 1: assets that do not meet the criteria to be considered in Stages 2 and 3;
- Stage 2: assets which simultaneously meet 2 or more criteria indicative of deterioration in the quality of the asset;
- Stage 3: assets with a "D" rating (*default*) assigned by a rating agency.

BAI Europa does not have an internal rating scale, i.e., it does not have a scale of internal risk grades to apply to its assets in order to ascertain the deterioration of their quality. Thus, evidence is considered of deterioration of the quality of a financial asset, the simultaneous occurrence of two or more conditions described below:

- Failure to pay coupons or capital repayments on the established dates (only for debt securities);
- A significant decrease (above 20% in the 12 months prior to the reference date) and continuous (negative variation in the quotation value considering as reference the dates of 12, 6 and 2 months prior to the reference date) of its quotation price;
- The absence of quotation evidence for the security, in the active market (in case of being a listed asset);
- Unfavorable market information.

2.4.3 Financial assets at fair value through other comprehensive income (IFRS 9)

2.4.3.1 Valuation and recognition

A financial asset is measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met and if is not designated at fair value through profit or loss (FVTPL) by option (use of Fair value option):

- the financial asset is held within a business model whose objective is to both collect contractual cash flows and the sale of that financial asset (HTC and Sell – Held to collect and Sell); and
- the contractual cash flows occur on specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI).

The financial assets at fair value through other comprehensive income are initially accounted at fair value, including all expenses or income associated with the transactions and subsequently measured at fair value. The changes in fair value are accounted for against "fair value reserves".

a) Debt instruments

On the sale, or if impairment is determined, the accumulated gains or losses recognised in fair value reserves are recognised in the income statement under "Net gains / (losses) arising from assets and liabilities at fair value through other comprehensive income" or under "Impairment losses from other financial assets", respectively. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable.

b) Equity instruments

In accordance with IFRS 9, no impairment is recognised in equity instruments recorded at fair value through other comprehensive income, being the corresponding accumulated gains or losses recognised in the fair value reserve transferred into Retained earnings when its sale occurs.

At the initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably choose to classify it as at fair value through other comprehensive income (FVOCI). This option is exercised on a case-by-case basis, instrument by instrument. This option is only available for financial instruments that comply with the definition of equity instruments provided for in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument under the scope of the issuer is made under the exceptions provided for in paragraphs 16A and 16D of IAS 32.

Dividends are recognised in the income statement when the right to receive the dividends is attributed.

2.4.3.2 Impairment losses (IFRS 9) – Financial assets at fair value through other comprehensive income

IFRS 9 introduced the calculation of expected impairment losses for all financial assets. The identified impairment losses are recorded in the income statement and are subsequently reversed through profit or loss if there is a reduction in the amount of the estimated loss in a subsequent period.

Inputs for the measurement of ECL

The inputs for the measurement of ECL of these assets are:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are also obtained using market references. In the calculation of the ECL, the PDs made available by a rating agency are used, and its maturity is adjusted to the residual maturity of each asset, in the case of Loans and advances to credit institutions repayable on demand. In case of Other financial assets its maturity is adjusted through the allocation of a 12 month PD.

The EAD represents the accumulated balance of the financial asset (deposits or other debtors) or the sum of the nominal value of the security, the amount of accrued interest and the premium to be amortised (premium paid on the acquisition of the security less the amount already amortised), less the discount to be amortised (the total value of the discount obtained on the acquisition of the security less the amount already amortised).

Allocation to Stages

The inputs for the measurement of ECL of these assets are:

- Stage 1: assets that do not meet the criteria to be considered in Stages 2 and 3;
- Stage 2: assets which simultaneously meet 2 or more criteria indicative of deterioration in the quality of the asset;
- Stage 3: assets with a “D” rating (*default*) assigned by a rating agency.

BAI Europa does not have an internal rating scale, i.e., it does not have a scale of internal risk grades to apply to its assets in order to ascertain the deterioration of their quality. Thus, it is considered as evidence of deterioration of the quality of a financial asset, the simultaneous occurrence of two or more conditions described below:

- Failure to pay coupons or capital repayments on the established dates (only for debt securities);
- A significant decrease (above 20% in the 12 months prior to the reference date) and continuous (negative variation in the quotation value considering as reference the dates of 12, 6 and 2 months prior to the reference date) of its quotation price;
- The absence of quotation evidence for the security, in the active market (in case of being a listed asset);
- Unfavorable market information.

2.4.4 Financial assets and liabilities at fair value through profit or loss (IFRS 9)

All financial assets that are not measured according to the criteria described above, at amortized cost or at fair value through other comprehensive income (FVOCI), are measured at fair value through profit or loss (FVTPL).

Additionally, at initial recognition, the Bank may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortized cost or FVOCI, such as FVTPL, if the designation significantly eliminates the accounting mismatch that would otherwise exist (Fair Value Option).

a) Financial assets and liabilities held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition in the short term, namely bonds, treasury bills or shares, or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking, or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated with these portfolios are accounted for in Gains arising from trading and hedging operations”. The interest from debt instruments is recognised as Net interest income.

Trading derivatives with a positive fair value are included in the financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

Currently the Bank does not hold financial assets and / or liabilities held for trading.

b) Financial assets, not for trading, mandatorily at fair value through profit or loss

In this category are included the debt instruments mandatorily classified at fair value through profit or loss whose cash flows do not comply with the criteria of solely reimbursement of principal and payment of interest over the outstanding principal ("SPPI").

At inception, IFRS 9 allows that an entity makes an irrevocably selection (instrument by instrument) in order to present as comprehensive income the subsequent fair value changes from an equity instrument. This option only applies to instruments not held for trading.

c) Other financial assets and liabilities at fair value through profit and loss ("Fair value Option")

The designation of other financial assets and liabilities at fair value through profit and loss (Fair Value Option) is performed whenever at least one of the following requirements is fulfilled:
- the financial assets and liabilities are managed, evaluated and reported internally at its fair value;
- the designation of those financial assets and liabilities eliminates or significantly reduces the accounting mismatch of the transactions; and
- the financial assets and liabilities include embedded derivatives that significantly change the cash flows of the original contracts (host contracts).

Considering that the transactions performed by the bank in the normal course of business are concluded at market prices, the financial assets and liabilities at fair value through profit or loss are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit or loss at the initial moment and subsequent fair value changes under IFRS 9, according to the following:
- the amount related to the fair value change attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of the fair value change is presented in the income statement.

The accrual of interest and the premium / discount (when applicable) is recognised in Net Interest Income based on the effective interest rate of each transaction, as well as the accrual of interest on the derivatives associated to financial instruments classified in this category.

2.4.5 Other financial liabilities (IFRS 9)

This category includes all financial liabilities that are not recognised as financial liabilities at fair value through profit and loss, namely, deposits from central banks, from other financial institutions and from customers.

These financial liabilities are initially recognised at fair value, with accrual of possible commissions included in the effective interest rate and also accrual of all incremental expenses directly attributable to the transaction. Subsequently, these financial assets are measured at amortised cost using the effective interest rate method.

2.4.6 Derivative financial instruments (IFRS 9)

Derivative financial instruments are recognised on the trade date at fair value and subsequently at fair value. Fair value is obtained through market prices listed in active markets, including recent market transactions and valuation models, namely discounted cash flows models and option valuation models. Derivatives are considered assets when its fair value is positive and liabilities when its fair value is negative.

Certain embedded derivatives in other financial instruments, as debts instruments for which profitability is indexed to share prices or share indexes, are bifurcated and treated as separate derivatives, when its risk and economical features are not clearly related to the host contract, and the latter not measured at fair value with changes through profit or loss. These embedded derivatives are measured at fair value with subsequent changes recognised in the income statement.

Derivatives are also recorded in off-balance sheet accounts by its theoretical value (notional value).

As at 31 December 2018 and 2017, BAIE does not own any derivative financial instrument.

2.4.7 Reclassifications between financial instruments categories

Reclassifications of financial assets can only occur when the entity changes its business model used in the management of financial assets, which it is expected to be very unusual. In this case, all financial assets affected must be reclassified. The reclassification must be applied prospectively from the date of reclassification, and any gains, losses (including gains or losses from impairment) or interest previously recognised should not be restated. IFRS 9 does not allow the reclassification of investments in equity instruments measured at fair value through OCI or when the fair value option was exercised for financial assets and liabilities.

Reclassifications of financial liabilities are not allowed.

2.5 Guarantees provided and irrevocable commitments

Liabilities with Guarantees provided and irrevocable commitments are recorded in off-balance sheet accounts at value at risk. Interest, commissions and other income are recorded in the income statement over the useful life of the operations (note 29).

2.6 Other tangible assets and leases (IAS 16 and IAS 17)

The Bank´s other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Rented buildings	10
Equipment	3 to 5
Other tangible assets	4 to 12

The acquisition cost includes expenses which are directly attributable to the acquisition of assets. Repairs and maintenance expenses are recognised as costs as they are incurred under the balance “General administrative expenses”.

According to IAS 16, these assets are subjected to impairment tests whenever there is an indication that its net book value exceeds its recoverable amount, being the difference, if exists, recognised in the income statement. The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use.

The impairment losses of property and equipment are recognised in profit and loss for the period.

In accordance with IAS 17, the Bank classifies its leasing agreements as finance leases or operating leases according to their substance rather than its legal form. A lease is classified as a finance lease if it transfers all risks and rewards incidental to ownership of an asset to the lessee. All other leases are classified as operating leases.

The Bank, as a lessee, registers the lease contracts as finance leases as follows:

i) At inception, the asset under finance lease is recorded in the balance sheet under “Other tangible assets” and “Other liabilities” by its fair value which is equivalent to its acquisition cost,

ii) Subsequently, when settling the lease rental, the financial charge (interest) is recorded under “Interest and similar expenses” and the financial amortisation is deducted from the outstanding liability.

Operating lease contracts are recorded in the income statement under “General administrative expenses” in the period they relate.

Currently the Bank does not perform lease operations as a lessor.

2.7 Intangible assets (IAS 38)

This balance includes the costs incurred with the acquisition, development and implementation of software to be used in the bank´s operating activity.

Intangible assets are booked at acquisition cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the expected useful life of the asset, usually three years.

Software maintenance costs are charged to the income statement when incurred.

The bank does not recognise internally developed intangible assets.

Impairment losses are recognised in the income statement.

2.8 Investments in associates (IAS 28)

Associates are those entities, in which the Bank holds between 20% and 50% of the voting rights or has significant influence, but not control, over the financial and operating policy decisions of the investee. When the share of the losses in an associate exceeds the value of the investment in the associate, the Bank recognises additional losses if it has assumed commitments or made payments on behalf of the associate.

Investments in associates are recorded in the financial statements at its historical cost net of any impairment losses.

This balance includes the investment of 17% in the share capital and voting rights of a company where BAIE has significant influence. This asset is recognised at its historical cost (note 13).

The investment is expressed in foreign currency being translated into the functional currency at the exchange rate in force at the respective acquisition date (note 2.3).

The recoverable amount of investments in associates is reviewed whenever there is evidence of impairment. Impairment losses are determined based on the difference between the recoverable value of investments and their book value. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

Dividends received from associated companies are recorded under Income from equity instruments.

2.9 Income taxes (IAS 12)

BAIE is subject to the tax regime of the Corporate Income Tax Code (CITC) and Tax Benefits Code (TBC).

Income tax recognised in profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred taxes are calculated under the liability method based on the balance sheet date, in respect of temporary differences between the accounting values of assets and liabilities and its tax base, using the rates of tax approved or substantially approved at the balance sheet date. Tax credits and tax losses carried forward are also recorded as deferred tax assets.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are only recognised to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes including reportable taxable losses.

Presently, in accordance with the Portuguese legislation, tax losses generated in periods beginning on or after 2014 are reportable during a period of 12 years and tax losses generated in 2017 and 2018 during a period of 5 years (also 5 years for tax losses generated in 2012 and 2013) after their occurrence, are available for deduction to the extent of 70% of the tax profits generated during each period.

Deferred taxes regarding temporary differences arising at the initial recognition of assets and liabilities related to transactions that do not affect the accounting result or the taxable profit are not recognised.

Deferred tax assets related to financial investments in associates are also not recognised since it is not probable that the difference will reverse in the predictable future.

The main situations that cause temporary differences on BAIE are related to provisions/temporary non-deductible impairments, financial assets at fair value through other comprehensive income and long-term employee benefits.

Deferred taxes are calculated, using the tax rates enacted or substantively enacted at the balance sheet date and that are expected to be applied when the temporary difference is reversed.

2.10 Employee benefits (IAS 19)
Liabilities with employee benefits are recognised in accordance with IAS 19 – Employee benefits. The main employee benefits are retirement and survival pensions, post-employment health charges, other long term and short term benefits:

2.10.1 Retirement and survival pensions and post-employment health charges
In accordance with the Pension Plan attached to the subscription contract to the *Fundo de Pensões da Ocidental - Sociedade Gestora de Fundos de Pensões, S.A*., BAIE acknowledges the responsibility to pay to its employees covered by the Vertical Collective Labour Agreement for the Portuguese Banking Sector (VCLA) or to its families, old age monetary benefits or disability retirement, early retirement or survival. The existing pension plan corresponds to a defined benefit plan, since it defines the criteria for determining the amount of pension that an employee will receive on retirement, based on years of service and final salary.

With the publishing of Decree-Law 1-A/2011, of 3 January, under the Vertical Collective Labour Agreement ("VCLA") for the banking sector, the employees active as at 4 January 2011 began to be covered, as from that date, by the Social Security General Regime (SSGR) only for old age retirement benefit and in cases of maternity, paternity and adoption, whose charges the Bank no longer bears. Considering the complementarity character provided for in the VCLA rules, the bank continues to guarantee the difference between the amounts paid under the Social Security General Regime and those estimated under this Agreement.

BAIE determines, on an annual basis, the total amount of these obligations, through calculations performed by independent actuaries, using the *"Unit Credit Projected"* method and actuarial assumptions considered appropriate (note 30). The overall liability includes post-employment medical care (*Serviços de Assistência Médico-social – SAMS*), in addition to the benefits from retirement and survival pensions.

The actuarial assumptions consider the pensions and salaries growth expectations and are based on mortality tables used by other institutions operating in the Portuguese financial market. The discount rate used to update the liability is determined by reference to interest rates associated with high quality corporate bonds, in the currency in which the liabilities are settled, and with a similar maturity to the average date of termination of liabilities.

Until 4 January 2011, the liabilities were exclusively financed by one pension fund, being the amount recognised under "Other liabilities" or "Other assets corresponding to the difference between the actual amount of liabilities and the fair value of the fund´s assets at the balance sheet date adjusted by any deferred actuarial gains and losses, either positive or negative,". The value of the pension fund corresponds to the fair value of its assets at the balance sheet date. Concerning the application of the above decree-law 1-A/2011, the defined benefit plan for employees covered by the VCLA regarding old age retirement, become to be financed by the pension fund for the part regarding past service cost up to 4 January 2011, and by the Social Security for regarding past services after that date. Thus, from 2011 onwards, the current service cost and the annual increase of liabilities for past services have reduced and the bank, since the beginning of that year started to recognise an additional charge corresponding to a fee (*Taxa Social Única – TSU*) of 23.75% over the remuneration paid to its employees covered by the VCLA.

Actuarial gains and losses are recognised in equity under the balance "Retained Earning" and disclosed in Other Comprehensive Income Statement.

Accruals with past service responsibilities, namely those related to employees early retirement are recognised as expenses in the income statement in the period to which they occur.

In addition, Notice 12/2001 from Bank of Portugal obliges a full financing of pension liabilities for retired beneficiaries and 95% financing of past service liabilities with employees still active.

The costs with Bank employees include the following costs regarding liabilities with retirement pensions:

- Current service cost (cost for the period);
- Interest regarding all liabilities; and
- Expected return of the pension fund.

2.10.2 Other long term benefits

Under clause 150 of VCLA, the Bank assumed an obligation to pay employees covered by this regime and still working, a bonus for the good and effective service provided in the last 15, 25 and 30 years. This seniority award amounts to one, two or three months of effective monthly remuneration, respectively. Additionally on the date at which the employee retires for disability or presumed disability, he has the right to receive a seniority award in the proportion he would receive if he had continued to work until the next level.

The bank determines, on an annual basis, the present value of past liabilities for seniority awards through evaluations performed by independent qualified actuaries using the "*Project Unit Credit"* method. The actuarial assumptions used (demographic and financial) consider expectations, at the balance sheet date, for salary increases and applies a mortality table suitable for the bank´s workforce. The discount rate is determined by reference to interest rates associated with low risk corporate bonds with a similar maturity to the date of termination of liabilities. These assumptions are equivalent to those used in the retirement pension's liability calculation.

For accounting purposes, the Bank records the amount of the liabilities calculated as an expense (note 19) within the income statement. Payments made to employees are deducted from the provision recorded.

The costs with bank employees include the following costs regarding seniority awards liabilities:

- Current service cost (cost for the period); and
- Interest expense.

2.10.3 Short term benefits

Short-term benefits (remuneration and charges on remuneration) are recorded at their undiscounted amount under "Costs of personnel" (note 26) in the period to which they relate in accordance with the accrual principle.

2.11 Provisions and contingent liabilities (IAS 37)

Provisions are recognised when (i) the Bank has a present obligation (legal or constructive), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation (iii) as a result of past events and (iv) a reliable estimate can be made of the amount of the obligation.

When the probability of an outflow of resources or the estimation on the amount of the obligation cannot be reliably estimated a contingent liability should disclosed, unless the probability of occurrence is remote.

Provisions are reviewed at the end of each reporting date and adjusted to reflect the best estimate, being reversed against the income statement.

Provisions cease to be recognised when they are used for settle the liabilities for which they were initially set up or reversed in cases where those liabilities no longer exist.

2.12 Assets received as payment in exchange for credits recovery
Assets received as payment in exchange for credits recovery, such as real estate, equipment and other assets, are classified in the balance "Other Assets" and are recorded initially at the lower of fair value net of selling costs and the book value of the credit subject of recovery.

Subsequently, these assets are recorded at the lower of the initial amount and the corresponding present fair value net of selling costs, and are not depreciated. Unrealised gains or losses generated are recognised in the income statement. Regular assessments are performed, which give rise to impairment losses whenever the amount determined in those assessments is lower than the book value. Subsequent reversal of these unrealised losses is limited to the initial amount of the assets received as payment in exchange for credits recovery.

Potential gains in assets received as payment in exchange for credits recovery are not recognised in the balance sheet.

2.13 Recognition of income from services and commissions (IFRS 15)

IFRS 15 redefines the principles of revenue recognition and is applicable to all contracts with customers that are not contracts under other standards (for example, fees regarding instruments that would be under IFRS 9 and lease income).

IFRS 15 establishes a model based on 5 steps for the recognition of revenue from contracts with customers and requires the recognition of revenue for the amount of the consideration that an entity expects to receive in exchange for the provision of customer services.

The Bank applies IFRS 15 to Income from fees and commissions, which are recognised in accordance with the following criteria: (i) Fees and commissions which are earned as services are provided and recognised in income over the period in which the service is being provided; (ii) Fees and commissions that are earned on the rendering of a service, are recognised as income when the service is completed; and (iii) Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised in Net interest income.

Many of the Bank's sources of revenue (for example, interest income, gains and losses on financial instruments) are outside the scope of IFRS 15, and therefore the recognition of these flows has not changed with the adoption of IFRS 15. The revenue of the Bank generated under IFRS 15 refer to income from services and commissions disclosed in Note 22.

2.14 Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents represent balances with less than three months maturity from the trade date, including cash and deposits with banks.

2.15 IFRS 9 Adoption – Financial Instruments
This standard is included in the project for the revision of IAS 39 and establishes the new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for calculating impairment and the application of hedge accounting rules.

IFRS 9 - Financial Instruments was approved by the EU in November 2016 and entered into force for periods beginning on or after 1 January 2018. IFRS 9 replaces IAS 39 - Financial Instruments: Recognition and Measurement and establishes new rules for the accounting of financial instruments presenting significant changes mainly in relation to impairment requirements. For this reason, it is a standard that has been subject to a detailed and complex implementation process that has involved all key stakeholders, in order to understand the impacts and changes in processes, governance and business strategy that it may imply.

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

Financial Instruments

In July 2014, IASB released the final version of IFRS 9 – Financial Instruments. IFRS 9 entered into force for periods beginning on or after 1 January 2018, with early adoption allowed, and replaces IAS 39 - Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued the document “Prepayment features with negative compensation” (amendments to IFRS 9). These amendments are applicable for periods beginning on or after 1 January 2019 and early adoption is allowed.

The Bank applied IFRS 9, as issued in July 2014 and early adopted the changes made to IFRS 9 in the period beginning on 1 January 2018. The impact (before taxes) of the adoption of IFRS 9 in the equity of the Bank, as at 1 January 2018, is negative by approximately Euro 504 thousand.

Evaluation of the business model

As at 1 January 2018, BAIE performed an evaluation of the business models under which the financial instruments are held, at the portfolio level, as this approach reflects the best way in which assets are managed and how the information is made available to the management bodies. The information considered in this evaluation included:

- the policies and objectives established for the portfolio and the practical use of these policies, including how the management strategy focuses on receiving contractual interest, maintaining a certain interest rate profile, adjusting the duration of financial assets to the duration of liabilities that finance these assets or in the realization of cash flows through the sale of assets;
- how the portfolio performance is assessed and reported to BAIE management bodies;
- the assessment of the risks that affect the performance of the business model (and the financial assets held under this business model) and how these risks are managed;
- the remuneration of business managers – e.g. to what extent the compensation depends on the fair value of the assets under management or contractual cash flows received; and
- the frequency and amount of sales in previous periods, the reasons for such sales and the expectations about future sales. However, sales information shall not be considered individually, but as part of an overall assessment of how the BAIE sets financial asset management objectives and how cash flows are obtained.

Financial assets held for trading and financial assets managed and valued at Fair Value Option are measured at FVTPL since they are not held either for the collection of contractual cash flows (HTC) nor for the collection of cash flows and sale of these financial assets (HTC and Sell).

Assess whether the contractual cash flows correspond only to the solely payment of principal and interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at its initial recognition. "Interest" is defined as the consideration for the time value of money, the credit risk associated to the amount overdue through a certain period of time and for other risks and costs associated with the activity (i.e. liquidity risk and administrative costs), as well as a profit margin.

In the evaluation of financial instruments where contractual cash flows refer solely to the payment of principal and interest, BAIE considered the instrument's original contractual terms. This assessment included the analysis of potential existence of situations where the contractual terms could change the periodicity and the amount of cash flows so they would not satisfy the SPPI condition. In the assessment process, BAIE considered:
- contingent events that may change the periodicity and amount of cash flows;
- characteristics that result in leverage;
- prepayment and extension of maturity clauses;
- clauses which may limit BAIE's right to claim cash flows relating to specific assets (e.g. contracts with clauses preventing access to assets in default cases – “non-recourse asset”); and
- characteristics that may change the time value of money compensation.

A contract with prepayment option is consistent with the SPPI criteria, if the prepayment amount represents the unpaid principal and interest amounts over the amount of principal (accrual), which may also include reasonable compensation for early payment (i.e. administrative expenses or servicing fee incurred by early termination of the contract).
Additionally, a prepayment is consistent with the SPPI criteria, if i) the financial asset is acquired or originated with a premium or discount relating to the contractual nominal value, ii) the prepayment represents substantially the nominal amount of the contract plus accrued but unpaid contractual interest (it may include reasonable compensation for prepayment), and iii) the fair value of the prepayment is insignificant at initial recognition.

Impact assessment

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

- Loans and advances to customers and Other loans and advances to credit institutions measured at amortised cost under IAS 39 were measured at amortised cost under IFRS 9;
- Investments in securities held to maturity, measured at amortised cost under IAS 39 are, generally, measured at amortised cost under IFRS 9;
- Investments in debt securities that were classified as held for sale under IAS 39, in accordance with IFRS 9 were measured at amortised cost, FVOCI or FVTPL, depending on certain circumstances;
- Equity instruments that were classified as held for sale under IAS 39 are measured at FVTPL under IFRS 9. BAI Europa chose not to irrevocably designate any equity instrument as FVOCI on transition.

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

Most of the available-for-sale financial assets were reclassified to the portfolio of financial assets at fair value through other comprehensive income (FVOCI) (Euro 205,066,730). Financial assets that did not pass the SPPI (Solely Payments of Principal and Interest) tests were reclassified to the category of financial assets mandatorily recorded at fair value through profit or loss (FVTPL) (Euro 1,481,009).

Regarding held-to-maturity investments, almost all of them maintained the same characterisation within the business model, they were reclassified to the portfolio of other financial assets at amortised cost (Euro 25,786,189), with the exception of one subordinated bond that does not comply with the SPPI criteria and, for this reason, was reclassified to financial assets mandatorily recorded at fair value (FVTPL) (Euro 152,948).

Reclassifications on 1 January 2018:

ASSETS	31-dec-17 (IAS 39)	FVOCI	FVTPL	Amortised Cost
Available for sale financial assets (IAS 39)	206,547,739	205,066,730	1,481,009	-
Held-to-maturity investments (IAS 39)	25,939,137	-	152,948	25,786,189
IFRS 9	**N/A**	**205,066,730**	**1,633,957**	**25,786,189**

The impacts recognised in equity were as follows:

	Impact on the transition to IFRS 9		
ASSETS	**Retained earnings**	**Fair value reserve**	**Equity**
Reclassification of gains from equity instruments	(98 284)	98 284	-
Assets at FVTPL - Remeasurement	(35 086)	-	(35 086)
Impairment			-
Loans and advances to credit institutions	(4 561)	-	(4 561)
Securities	(24 966)	24 966	-
Commercial paper	(11 652)	-	(11 652)
Other loans and advances to credit institutions	(218 653)	-	(218 653)
Other debtors	(1 615)	-	(1 615)
Loans and advances to customers	(419 076)	-	(419 076)
Provisions for off-balance sheet itens	186 777	-	186 777
Tax impact	141 658	(22 762)	118 896
	(485 459)	**100 488**	**(384 971)**

The estimated tax impact of Euro 118,896 was calculated using the tax rules currently in force, given that the Tax Authority has not yet ruled on any specific tax frameworks for the impacts of transition.

The Bank of Portugal issued guidelines on the transition requirements regarding the implementation of IFRS 9. These guidelines allowed one of two approaches for the recognition of the impact in the regulatory capital upon adoption of the standard:

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

ii) Recognition of the full impact on the adoption date.

The Bank decided to adopt the second approach. Therefore, the impact of the adoption of IFRS 9 on the Bank's regulatory capital was fully recognised at the date of adoption of IFRS 9.

The Bank benefited from the exception which allows comparative information of previous years not to be restated if related to modifications in classification and measurement (including impairment). Differences in financial assets and liabilities recorded in the balance sheet as a result from the application of IFRS 9 where recognised in Reserves and Retained Earnings as of 1 January 2018.

The assessment of the adoption was made on the basis of the facts and circumstances existing at the time of initial application:
a) the determination of the business model in which the financial asset is held;
b) the designation and revocation of prior designations of certain financial assets and liabilities at FVTPL;
c) the designation of certain equity instruments that are not held for trading as FVOCI.

3. Cash and deposits at central banks

The detail of this account is as follows:

	31-Dec-18	31-Dec-17
Cash	148 928	99 893
Deposits repayable on demand at Bank of Portugal	33 161 858	37 478 802
	33 310 786	**37 578 695**

The balance Deposits repayable on demand at Bank of Portugal corresponds to mandatory deposits made to satisfy the Minimum Reserve System of the European System of Central Banks ("SBCE"), which at 31 December 2018 amount to Euro 10,717,100 (31 December 2017: Euro 8,485,600). These deposits are remunerated at the reference interest rate defined by the European Central Bank (ECB) for the main refinancing operations of the Euro system (MRO) up to the amount required to meet the requirements of the Minimum Reserve System. The balance of deposits recorded exceeding the Minimum Reserve System requirements is remunerated at the reference interest rate defined by ECB for the deposit facility (DF). Since 16 March 2016, the reference interest rate for the MRO and DF was 0.00% and -0.40%, respectively.

4. Loans and advances to credit institutions repayable on demand

The detail of this account is as follows:

	31-Dec-18	31-Dec-17
Loans and advances to credit institutions in Portugal		
Deposits payable on demand	47 658 300	83 187 862
Loans and advances to foreign credit institutions		
Deposits payable on demand	43 085 683	30 229 828
Impairment losses (notes 18 and 32)	(2 438)	-
	90 741 545	**113 417 690**

5. Financial assets not held for trading mandatorily measured at fair value through profit or loss

The detail of this account is as follows:

	31-Dec-18	31-Dec-17 (IAS 39)
Equity Instruments		
National Private Issuers (a)	128 236	-
Foreign Private Issuers (a)	408 821	-
Debt Instruments		
Foreign Private Issuers (b)	160 190	-
Others – Investment funds		
National Private Issuers (a)	757 186	-
Foreign Private Issuers (a)	112 187	-
	1 566 620	**-**

As described in note 2.4.4, as from 1 January 2018, through the adoption of IFRS 9, financial assets that are not measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

As a result, financial assets previously recognised in Available for sale financial assets (IAS 39) - (a) - and Held to maturity investments (IAS 39) - (b) - were reclassified to this caption (Note 2.15, 7 and 10).

With the adoption of IFRS 9, as from 1 January 2018, the income received from dividends obtained from financial assets that are mandatorily at fair value through profit or loss (note 24) are recognised under Net gains/(losses) arising from financial assets mandatorily measured at fair value through profit or loss.

6. Other financial assets and liabilities at fair value through profit or loss

The detail of this account is as follows:

	31-Dec-18		31-Dec-17	
	Assets	Liabilities	Assets	Liabilities
Other financial assets at fair value through profit or loss				
Investment funds				
Non- resident	224 373	-	280 923	-
Other financial liabilities at fair value through profit or loss				
Structured financial resources	**-**	(224 373)	-	(280 923)
	224 373	**(224 373)**	**280 923**	**(280 923)**

The financial liability presented under the balance Other financial liabilities at fair value through profit or loss is related and pledges for in full amount of the asset in the table above.

The gain and loss in 2018 related to financial assets and liabilities at fair value through profit or loss, resulting from the distributions from the Fund, amounted to Euro 68,109 and Euro (68,109), respectively.

The remaining variation results from the capital distribution in the period, with impact on both assets and liabilities balances.

7. Financial assets at fair value through other comprehensive income (IFRS 9) and financial assets held for sale (IAS 39)

The analysis of Financial assets at fair value through other comprehensive income (IFRS 9) is as follows:

	31-Dec-18	31-Dec-17 (IAS 39)
Financial assets at fair value through other comprehensive income (IFRS 9)		
Debt instruments		
Issued by national public entities	10 320 484	-
Issued by national private entities	602 212	-
Issued by foreign public entities	225 514 377	-
Issued by foreign private entities	34 723 982	-
Interest receivable	423 087	-
Financial assets held for sale (IAS 39)		
Equity instruments		
At historical cost		
Issued by national private entities		
Amount before accumulated impairment (a)	-	353 365
Accumulated impairment (a)	-	(225 129)
Issued by foreign private entities		
Amount before accumulated impairment (a)	-	455 176
Debt instruments		
At fair value		
Issued by national public entities	-	11 272 339
Issued by national private entities	-	601 839
Issued by foreign public entities	-	159 697 031
Issued by foreign private entities	-	33 123 374
Interest receivable	-	372 148
Other – investment funds		
At fair value		
Issued by national private entities (a)	-	757 135
Issued by foreign private entities (a)	-	140 461
	271 584 142	**206 547 739**

a) Under the scope of IFRS 9, which replaced IAS 39 - Financial Instruments, these financial assets were reclassified to the portfolio of financial assets mandatorily measured at fair value through profit or loss (note 5).

As at 31 December 2018, part of debt instruments representing Portuguese public debt, are included in the pool of assets eligible for Euro system monetary policy operations, using contingent liquidity facilities or intraday credit granting (notes 29 and 32).

A minor part of these securities are pledged in favor of the Deposit Guarantee Fund (FGD) for the purpose of replacing part of the payment of the annual contribution to the FGD through an irrevocable commitment (notes 29 and 32).

During 2017, income from dividends relating to available-for-sale financial assets as well as gains/ losses generated by transactions were recorded under Net gains/ (losses) arising from available-for-sale financial assets (note 23). With the adoption of IFRS 9, as from 1 January 2018, these gains and losses are recognised under Net gains/ (losses) arising from financial assets at fair value through other comprehensive income (Note 23).

Impairment related to financial assets at fair value through other comprehensive income is recognised in equity, similarly to recognition of the fair value reserve for those assets (note 20).

8. Other loans and advances to credit institutions

The detail of this account is as follows:

	31-Dec-18	31-Dec-17
Financial assets at amortised cost		
Loans and advances to credit institutions in Portugal		
Very short term loans and advances	34 934 498	73 376 136
Deposits	232 041 048	210 722 572
Subordinated loans and advances	2 620 087	2 501 459
Interest receivable	388 419	205 225
Loans and advances to foreign credit institutions		
Very short term loans and advances	56 768 559	146 752 272
Deposits	262 882 096	91 010 256
Loans and advances	15 283 843	2 855 997
Other loans and advances	31 143 754	20 403 281
Interest receivable	540 947	127 261
Deferred income commissions	(58 121)	(60 142)
Total gross amount	**636 545 130**	**547 894 317**
Impairment (notes 18 and 32)	(215 419)	(95 765)
Total net of impairment	**636 329 711**	**547 798 552**

The amount corresponding to Subordinated loans and advances is a set of collateral deposits (note 29), which refers to the indirect representation of another institution in the SEPA credit transfer payments and SEPA direct debit systems, both STEP2.

The amount corresponding to Other loans and advances relates essentially to discounts of letters of credit.

The Loans and advances amount relates to financing granted to a South African bank.

Very short-term loans and advances have a maximum maturity of 2 business days.

Changes in impairment during 2018 and 2017 are disclosed in note 18.

9. Loans and advances to customers

The detail of this account is as follows:

	31-Dec-18	31-Dec-17
Financial assets at amortised cost		
Loans not represented by securities		
Domestic loans		
Loans and advances	46 494 136	38 890 444
Current account loans	-	225 000
Foreign loans		
Loans and advances	29 227 612	32 551 771
Overdrafts on deposits repayable on demand	396 266	267 785
Interest receivable	586 102	616 431
Prepaid interest	(52 347)	(814)
Commissions associated with amortised cost	(347 638)	(447 803)
Loans and overdue interest	-	-
Total gross amount	**76 304 131**	**72 102 814**
Impairment for loans and advances to customers (notes 18 and 32)	(1 880 026)	(2 883 484)
Total net of impairment	**74 424 105**	**69 219 330**

Changes in impairment for loans and advances to customers during 2018 and 2017 are disclosed in Note 18.

As at 31 December 2018 and 2017, this balance analyzed by business sector is as follows:

	31-Dec-18		31-Dec-17	
Food, beverage and tobacco industries	633 609	0.7%	3 765 940	5.2%
Metals industries	804 617	1.1%	503 939	0.7%
Construction	9 676 544	12.7%	658 718	0.9%
Trade and repairs	13 179 139	17.3%	6 189 430	8.6%
Public administration (regional and local)	17 567 796	23.1%	25 013 844	34.8%
Financial and insurance activities	8 039 844	10.6%	8 256 375	11.5%
Real estate	9 665 645	12.7%	10 944 854	15.2%
Other business services	11 135 371	14.6%	13 218 691	18.4%
Other activities and retail	5 415 449	7.1%	3 383 209	4.7%
	76 118 014	**100.0%**	**71 935 000**	**100.0%**

Note: includes overdue credit and interest, except for interest receivable, monthly commissions and prepaid interest.

Other business services amount refers to corporate headquarters' activities and management consulting activities.

10. Other financial assets at amortised cost (IFRS 9) and Held-to-maturity investments (IAS 39)

Other financial assets at amortised cost (IFRS 9) are analysed as follows:

	31-Dec-18	31-Dec-17
Other financial assets at amortised cost (IFRS 9)		
Securities issued by residents		
Debt instruments		
Portuguese government debt	-	-
Unsubordinated debt	33 249 728	-
Interest receivable	4 148	-
Prepaid interest	46	-
Held-to-maturity investments (IAS 39)		
Securities issued by residents		
Debt instruments		
Unsubordinated debt	-	25 742 756
Securities issued by non-residents		
Other non-residents		
Subordinated debt (a)	-	187 820
Interest receivable	-	2 963
Prepaid interest	-	5 598
Total gross amount	**33 253 922**	**25 939 137**
Impairment (notes 18 and 32)	(15 043)	-
Total net of impairment	**33 238 879**	**25 939 137**

a) Under the scope of IFRS 9, which replaced IAS 39 - Financial Instruments, this financial asset was reclassified to the portfolio of financial assets mandatorily measured at fair value through profit or loss (note 5).

11. Other tangible assets

Changes in Other tangible assets during 2018 were as follows:

	31-Dec-17					Write-offs			31-Dec-18		
	Gross amount	Accumulated depreciation and impairment	Net amount	Acquisitions	Depreciation for the period	Gross amount	Accumulated depreciation and impairment	Net amount	Gross amount	Accumulated depreciation and impairment	Net amount
Properties for own use											
Leasehold improvements	212 836	(187 455)	25 381	825 565	(43 107)	212 836	(189 523)	23 313	825 565	(41 039)	784 526
Equipment											
Furniture and material	205 547	(189 138)	16 409	153 964	(11 275)	196 715	(182 277)	14 438	162 797	(18 137)	144 660
Machinery and tools	24 508	(23 420)	1 088	2 077	(302)	22 206	(22 072)	134	4 395	(1 667)	2 728
IT equipment	732 925	(697 402)	35 523	231 361	(61 274)	426 104	(425 212)	892	538 181	(333 463)	204 718
Interior installations	211 531	(202 592)	8 939	9 906	(1 511)	201 577	(193 686)	7 891	19 860	(10 417)	9 443
Security equipment	90 332	(88 480)	1 852	10 588	(1 869)	90 333	(88 963)	1 370	10 588	(1 385)	9 203
Other equipment	5 209	(5 209)	-	16	(16)	4 511	(4 511)	-	698	(698)	-
Tangible assets under construction	-	-	-	-	-	-	-	-	-	-	-
	1 482 888	**(1 393 696)**	**89 192**	**1 233 477**	**(119 354)**	**1 154 281**	**(1 106 244)**	**48 038**	**1 562 084**	**(406 806)**	**1 155 278**

During 2018, the Bank sold assets at a loss of Euro 44,987.

Changes in Other tangible assets during 2017 were as follows:

	31-Dec-16					Write-offs			31-Dec-17		
	Gross amount	Accumulated depreciation and impairment	Net amount	Acquisitions	Depreciation for the period	Gross amount	Accumulated depreciation and impairment	Net amount	Gross amount	Accumulated depreciation and impairment	Net amount
Properties for own use											
Leasehold improvements	212 836	(183 320)	29 516	-	(4 135)	-	-	-	212 836	(187 455)	25 381
Equipment											
Furniture and material	204 131	(194 082)	10 049	9 281	(2 921)	7 865	(7 865)	-	205 547	(189 138)	16 409
Machinery and tools	25 631	(25 348)	283	1 037	(232)	2 271	(2 271)	-	24 508	(23 420)	1 088
IT equipment	745 422	(722 318)	23 104	28 928	(16 408)	41 324	(41 223)	101	732 925	(697 402)	35 523
Interior installations	215 060	(205 609)	9 451	2 279	(2 791)	5 808	(5 808)	-	211 531	(202 592)	8 939
Security equipment	90 332	(86 979)	3 353	-	(1 501)	-	-	-	90 332	(88 480)	1 852
Other equipment	5 209	(5 209)	-	11	(11)	-	-	-	5 209	(5 209)	-
Tangible assets under construction	-	-	-	-	-	-	-	-	-	-	-
	1 498 621	**(1 422 865)**	**75 756**	**41 536**	**(27 999)**	**57 268**	**(57 167)**	**101**	**1 482 888**	**(1 393 696)**	**89 192**

12. Intangible assets

During 2018, the changes in this balance, were as follows:

	31-Dec-17						Write-offs			31-Dec-18		
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Transfers (Net amount)	Gross amount	Accumulated amortisation and impairment	Net amount	Gross amount	Accumulated amortisation and impairment	Net amount
Automated data-processing system (software)	947 969	(823 623)	124 346	57 561	(168 993)	345 638	723 000	(723 000)	-	628 168	(269 616)	358 552
Intangible assets in progress	345 638	-	345 638	-	-	(345 638)	-	-	-	-	-	-
	1 293 607	**(823 623)**	**469 984**	**57 561**	**(168 993)**	**-**	**723 000**	**(723 000)**	**-**	**628 168**	**(269 616)**	**358 552**

During 2017, the changes in this balance, were as follows:

	31-Dec-16					31-Dec-17		
	Gross amount	Accumulated amortisation and impairment	Net amount	Acquisitions	Amortisation for the period	Gross amount	Accumulated amortisation and impairment	Net amount
Automated data-processing system (software)	795 911	(755 116)	40 795	152 056	(68 506)	947 969	(823 623)	124 346
Intangible assets in progress	88 312	-	88 312	257 328	-	345 638	-	345 638
	884 223	**(755 116)**	**129 107**	**409 384**	**(68 506)**	**1 293 607**	**(823 623)**	**469 984**

13. Investments in subsidiaries and associates

This balance shows the amount corresponding to the financial investment held in an associated company, Founton, Ltd (note 28), which can be summarised as follows:

Effective participation (%)	BAIE Book value (a)	Acquisition cost in USD	Impact of the application of the Equity Method (b) (c)	
			In revaluation reserves	In net profit
17.0%	948 469	834 937	3 172 371	47 641

(a) The EUR / USD exchange rate was 0.8803 for the historical fixing rate at the date of acquisition in November 2001.
(b) The EUR / USD exchange rate used is 1.1450 which corresponds to the fixing rate as at 31 December 2018.
(c) Amounts calculated based on the unaudited financial statements of the shareholding as at 31 December 2017.

Based on an estimate to calculate the fair value of the shareholding, performed by the Bank's Board of Directors, as at 31 December 2018 and using the Company’s financial information and the expected discounted cash flow model, it was concluded that the fair value is greater than the book value and therefore there is no evidence of impairment or need to record any impairment of the balance sheet amount of the investment. .

As at 31 December 2018, the balances outstanding in the Bank's financial statements with the investee are disclosed in note 31.

The equity method was not applied in the measurement of the financial investment because the conditions necessary for non-application were met, as provided in paragraph 17 of IAS 28 (2011 amended version):

(a) The entity is a wholly or partly owned subsidiary of another entity and its other owners, including those who would not otherwise have the right to vote, were informed that the equity method was not being applied and they did not object;

(b) The entity's debt or equity instruments are not traded on a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) The entity has not filed nor is in the process of filing its financial statements with a securities commission or other regulatory body for the purpose of issuing any class of instruments on a public market;

(d) The ultimate or any intermediate parent of the entity prepares consolidated financial statements available for public use that comply with IFRS.

During 2018, the Bank received dividends from Founton, Ltd of Euro 28,333.

14. Taxes

These balances are analysed as follows:

	31-Dec-18	31-Dec-17
Deferred tax assets		
Arising from temporary differences		
In assets	21 625	-
In liabilities	746 398	1 310 163
	768 023	**1 310 163**
Current tax liabilities		
Income tax payable	(318 850)	(871 402)
Deferred tax liabilities		
Arising from temporary differences		
On assets	-	(10 331)
	(318 850)	**(881 733)**

During 2018, the changes in deferred taxes were as follows:

	31-Dec-17 Opening balance	Impact of transition to IFRS 9	Reserves	Income Statement (note 28)	31-Dec-18 Closing balance
Deferred tax assets					
Financial assets at fair value through other comprehensive income (note 20)	-	-	21 625	-	21 625
Financial assets mandatorily measured at fair value through profit or loss (note 20)	-	22 114	-	15 578	37 692
Impairment (note 18)	866.755	111.093	-	(340.365)	637 483
Provisions for other risks (note 18)	397.717	-	-	(370.042)	27 675
VCLA seniority premium	8.706	-	-	97	8 803
Pensions and post-employment benefits	36.985	-	(4)	(2.236)	34 745
	1 310 163	**133 207**	**21 621**	**(696 968)**	**768 023**
Deferred tax liabilities					
Financial assets at fair value through other comprehensive income (note 20)	-	(33 093)	33 093	-	-
Available-for-sale financial assets	(10 331)	10 331	-	-	-
	(10 331)	**(22 762)**	**33 093**	**-**	**-**
	1 299 832	**110 445**	**54 714**	**(696 968)**	**768 023**

During 2017, the changes in deferred taxes were as follows:

	31-Dec-16 Opening balance	Reserves	Income Statement (note 26)	31-Dec-17 Closing balance
Deferred tax assets				
Available-for-sale financial assets (note 19)	56 240	(56 240)	-	-
Impairment of loans to customers	984 977	-	(118 222)	866 755
Provisions for other risks	90 000	-	307 717	397 717
VCLA seniority premium	8 225	-	481	8 706
Pensions and post-employment benefits	39 268	-	(2 283)	36 985
	1 178 710	**(56 240)**	**187 693**	**1 310 163**
Deferred tax liabilities				
Available-for-sale financial assets	-	(10 331)	-	(10 331)
	-	**(10 331)**	**-**	**(10 331)**
	1 178 710	**(66 571)**	**187 693**	**1 299 832**

The expected recovery periods for deferred tax assets and liabilities are as follows:

	31-Dec-18	31-Dec-17
Deferred tax assets		
For more than 12 months	768 023	1 310 163
Deferred tax liabilities		
For more than 12 months	-	(10 331)
	768 023	**1 299 832**

15. Other assets

This balance is analysed as follows:

	31-Dec-18	31-Dec-17
Debtors and other investments		
Other investments		
FGCT Contributions	3 896	2 107
Government sector		
Value added taxes (VAT) receivable	688 122	506 641
Others (a)	425 000	425 000
Other sundry debtors	2 199	109
Impairment for other debtors (note 18)	(86 235)	-
Other income receivable		
Documentary credits	108 340	29 255
Insurance	37 740	37 538
Other administrative costs	172 686	52 825
Pension liabilities and other benefits (notes 2.10.1 and 30)		
Retirement pensions		
Past service liabilities	-	(2 985 392)
Pension fund assets	-	3 188 523
Post-employment benefits	-	(133 617)
Transactions pending settlement	-	404 257
	1 351 749	**1 527 246**

(a) The balance Government sector - Others relates mainly to an amount receivable from the Tax Authorities resulting from an auctioning procedure for the acquisition of a property purchased from a customer as a payment for a credit transaction following a tax execution proceeding regarding the settlement of Municipal Property Tax (IMI) relating to that same property. The balance of Euro 425,000 corresponds to the property's acquisition value net of IMI payable and its default interest and estimated fines. Impairment of Euro 84,296, mainly relates to an estimate of the ultimate loss on collection of this asset.

As at 31 December 2018, the amount corresponding to the pension fund assets is lower than the liability of the Bank for past services in Euro 46,721, which is recognised in the balance sheet under Other liabilities (notes 2.10.1 and 19) (as at 31 December 2017 the amount corresponding to the pension fund assets exceeded the liability of the Bank in Euro 69,514, and was recognised in the balance sheet under Other assets).

As at 31 December 2017, the amount under Transactions pending settlement refers to the disposal of a debt instrument that on that date was pending settlement. This settlement occurred on 2 January 2018.

16. Deposits from central banks and other credit institutions

This balance is analysed as follows:

	31-Dec-18	**31-Dec-17**
Deposits from other central banks		
Repayable on demand	3	-
Term deposits	-	26 682 231
Interest payable	-	24 311
	3	**26 706 542**
Deposits from national credit institutions		
Repayable on demand	29 949	34 356
Deposits from foreign credit institutions		
Repayable on demand	117 303 068	125 904 658
Very short term	-	119 236 221
Term deposits	794 543 561	551 402 019
Interest payable	999 157	295 025
	912 875 735	**796 872 279**
	912 875 738	**823 578 821**

The amount corresponding to Euro 233,645,089 (31 December 2017: Euro 54,052,966) included in the balance Deposits from foreign credit institutions – term deposits, is collaterising liabilities with loans and advances to customers, other loans and advances to credit institutions, open documentary credits and irrevocable credit facilities (note 29).

17. Deposits from customers

This balance is analysed as follows:

	31-Dec-18	**31-Dec-17**
Deposits repayable on demand		
Other residents	33 471 496	16 205 026
Non-residents	36 114 466	32 909 647
Term deposits		
Other residents	30 117 229	24 590 028
Non-residents	36 646 461	24 120 667
Other resources	-	-
Interest payable	465 980	149 538
	136 815 632	**97 974 906**

The amount of Euro 1,461,651 (31 December 2017: Euro 2,792,770) included in the balance Deposits from customers, is collaterising liabilities with loans and advances to customers and irrevocable credit facilities (note 29).

18. Provisions and impairment

The changes in these balances during 2018 were as follows:

	31-dec-17 Opening balance	Impact of transition to IFRS 9 (note 2.15)	Charge for the period	Adjustments /(Reversals)	Recoveries /(Charge-off)	31-dec-18 Closing balance
Impairment						
Loans and advances to credit institutions repayable on demand (note 3)	-	4 562	-	(2 124)	-	2 438
Financial assets at fair value through other comprehensive income (note 7 and note 20)	-	24 966	2 681	(2 734)	-	24 913
Financial assets held for sale (note 7)	225 129	(225 129)	-	-	-	-
Other financial assets at amortised cost (note 10)	-	11 652	9 793	(6 402)	-	15 043
Other loans and advances to credit institutions (note 8)	95.765	218.653	534 768	(633 767)	-	215 419
Loans and advances to customers (note 9)	2 883 484	419 078	325 609	(1 748 145)	-	1 880 026
Impairment of other assets (note 15)	-	1 615	84 844	(224)	-	86 235
	3 204 378	**455 397**	**957 695**	**(2 393 396)**	**-**	**2 224 074**
Provisions						
Bank guarantees and letters of credit	304 444	(130 223)	141 207	(167 766)	(52 312)	95 350
Off-balance sheet liabilities	73 537	(56 557)	89 117	(87 275)	-	18 822
Other	2 393 000	-	1 050 991	-	-	3 443 991
	2 770 981	**(186 780)**	**1 281 315**	**(255 041)**	**(52 312)**	**3 558 163**
	5 975 359	**268 617**	**2 239 009**	**(2 648 436)**	**(52 312)**	**5 782 237**

The amount of Euro 225,129 has no impact either on retained earnings or on fair value reserves, since it was a reversal of impairment at the time of transition to IFRS 9 (the fair value of the reclassified security was determined as the amount net of impairment).

The changes in these balances during 2017 were as follows:

	31-Dec-16 Opening balance	Charge for the period	Adjustments /(Reversals)	Recoveries /(Charge-off)	Exchange differences	31-Dec-17 Closing balance
Impairment						
Available-for-sale financial assets	401 712	-	(4 775)	(171 808)	-	225 129
Loans and advances to credit institutions (note 8)	5 296	175 180	(84 711)	-	-	95 765
Loans and advances to customers (note 9)	3 046 443	973 280	(1 136 240)	-	1	2 883 484
Total impairment	**3 453 451**	**1 148 460**	**(1 225 726)**	**(171 808)**	**1**	**3 204 378**
Provisions						
Off-balance sheet	755 243	486 947	(864 209)	-	-	377 981
Other	400 000	1 993 000	-	-	-	2 393 000
Total provisions	**1 155 243**	**2 479 947**	**(864 209)**	**-**	**-**	**2 770 981**
Provisions and impairment	**4 608 694**	**3 628 407**	**(2 089 935)**	**(171 807)**	**-**	**5 975 359**

The balance Provisions – Off-balance sheet refers to provisions for bank guarantees, letters of credit and irrevocable credit facilities.

The balance Provisions – Other refers to provisions for legal proceedings and contingencies.

19. Other liabilities

This balance is analysed as follows:

	31-Dec-18	31-Dec-17
Creditors and other contributions		
Government sector		
Tax withholding	108 784	73 027
Social security contributions	44 415	40 025
Other contributions	215	122
Third party collections	1 176	1 049
Other health services contributions (SAMS)	9 224	7 976
Other creditors	60 746	89 503
Expenses payable		
Staff costs		
Holiday allowance and other allowances (a)	460 650	411 642
Other expenses payable	274 900	241 566
Revenue with deferred income		
From guarantees provided (note 29)	5 768	1 792
From documentary credits (note 29)	200 718	139 075
Pension liabilities and other benefits (note 30)		
Pension fund liabilities (b)	2 960 300	-
Pension fund assets (b)	(3 044 931)	-
Post-employment benefits (b)	131 352	-
Long term benefits – seniority premium	39 127	38 695
Operations pending settlement (c)	7 821 894	716 821
	9 074 338	**1 761 293**

a) In accordance with the Portuguese legislation, employees are entitled to one month of vacation and one month of vacation allowance each year, which is acquired in the year prior to its payment. Thus, this liability is recorded in the period in which the employees acquire that right, regardless of the date of payment.

b) As at 31 December 2018, the amount corresponding to the pension fund assets is lower than the liability of the Bank for past services in Euro 46,721, which is recognised in the balance sheet under Other liabilities - note 2.10.1 – (as at 31 December 2017, the amount corresponding to the pension fund assets exceeded the liability of the Bank in Euro 69,514, and was recognised in the balance sheet under Other assets – note 15).

c) As at 31 December 2018, the balance Operations pending settlement i mainly relates to trade operations whose settlement date only occurred on 2 January 2019.

20. Equity

	31-Dec-18	31-Dec-17
Paid-up share capital	**40 000 000**	**40 000 000**
Revaluation reserves		
From financial assets at fair value through other comprehensive income		
Debt instruments (note 7)	(96 086)	147 245
Equity instruments	-	-
Other (note 7)	-	(101 166)
Credit risk adjustment from financial assets at fair value through other comprehensive income (IFRS 9) (note 7)	24 913	-
Deferred tax reserve (note 14)		
Arising from temporary differences		
From financial assets at fair value through other comprehensive income	21 625	(10 331)
From actuarial gains and losses	-	-
	(49 548)	**35 748**
Other reserves and retained earnings		
Legal reserve	7 198 948	6 171 248
Retained earnings		
Approved	26 235 502	22 124 703
Changes in accounting policies		
Transition adjustments IFRS1 - NCA (in 2006)	830 264	830 264
Elimination of corridor rule IAS 19 (in 2011)	14 503	14 503
Survival and disability liability	(749 709)	(749 709)
Retained actuarial gains and losses (notes 2.10.1 and 30)	(506 625)	(426 486)
Corrections of accounting errors (in 2012)	2 249 114	2 249 114
Entry into force of Notice 5/2015 from Bank of Portugal (in 2016)	2 490 579	2 490 579
Transition adjustment IFRS 9	(627 117)	-
Transition adjustment IFRS 9 - Tax effect	141 658	-
	37 277 117	**32 704 216**
Net profit for the period	**5 907 569**	**5 138 499**
	83 135 138	**77 878 463**

The share capital, fully subscribed and paid up, is represented by 8,000,000 ordinary shares, with a nominal value of Euro 5 each. On 31 December 2018, Banco Angolano de Investimentos, S.A., a credit institution resident in Angola, holds 99.99% of the Bank's capital.

In accordance with Article No. 97 of Credit Institutions and Financial Companies General Regime (“Regime Geral das Instituições de Crédito e Sociedades Financeiras” – RGICSF), approved by the Decree-Law No. 298/92, of 31 December and subsequent amendments, the Bank should appropriate to the legal reserve annually at least, 10% of annual net profits, up to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher.

The movements in Revaluation reserves is as follows:

	31-Dec-18	31-Dec-17
Opening balance	**35 748**	**(193 878)**
Impact from the adoption of IFRS 9	100 488	-
Balance on 1 January	**136 236**	**(193 878)**
Fair value changes	(240 449)	296 198
Deferred taxes recognised under reserves in the period	54 718	(66 572)
Credit risk adjustment from financial assets at fair value through other comprehensive income	(53)	-
Closing balance	**(49 548)**	**35 748**

21. Net interest income

	31-Dec-18	31-Dec-17
Interest and similar income from		
Financial assets at amortised cost		
Loans and advances to credit institutions	11 715 207	6 486 247
Loans and advances to customers	4 186 451	4 522 885
Other financial assets at amortised cost	106 828	102 407
Financial assets at fair value through other comprehensive income	4 037 437	1 263 684
	20 045 923	**12 375 223**
Interest and similar expenses from		
Financial liabilities measured at amortised cost		
Loans from credit institutions	(9 857 296)	(3 753 621)
Deposits from customers	(641 581)	(281 401)
Interest expense over assets (a)	(268 453)	(246 862)
Commissions paid at amortised cost from		
FVOCI Portfolio management fee (b)	(65 721)	(150 650)
	(10 833 051)	**(4 432 535)**
Net interest income	**9 212 872**	**7 942 688**

a) Balance regarding interest from bank deposits repayable on demand with Bank of Portugal that exceed the requirements of Minimum Reserves. This balance is remunerated at the rate defined by the ECB for the permanent deposit facility (-0.40%).
b) Management fee related to the portfolio of financial assets measured at fair value through other comprehensive income.

Net interest income significantly increased when compared with the same period of the previous year, mainly due to the increase in interest rates on debt securities and other loans and advances to credit institutions.

22. Fee and commission income/ expense

These balances are analysed as follows:

	31-Dec-18	**31-Dec-17**
Fee and commission income:		
On guarantees provided	4 198 706	3 429 782
On commitments assumed with third parties	2 659	-
On services rendered	2 624 756	1 662 777
	6 826 121	**5 092 559**
Fee and commission expense:		
On services rendered by third parties	(916 185)	(544 993)
Other commissions paid	(12 649)	(151 229)
	(928 834)	**(696 222)**
	5 897 287	**4 396 337**

In 2018 and 2017, the balance Other commissions paid refers to an annual performance fee paid to a credit institution for the management of part of the Bank's portfolio of financial assets at fair value through other comprehensive income.

23. Net gains/ (losses) arising from financial assets at fair value through other comprehensive income (IFRS 9) and Net gains/ (losses) arising from available-for-sale financial assets (IAS 39)

Net gains/ (losses) arising from financial assets at fair value through other comprehensive income (IFRS 9) are analysed as follows:

	31-Dec-18	31-Dec-17
Net gains/(losses) arising from financial assets at fair value through other comprehensive income (IFRS 9)		
Equity instruments		
Resident	-	-
Non-resident	-	-
Debt instruments		
Resident	47 422	-
Non-resident	51 303	-
Others – investment funds		
Resident	-	-
Non-resident	-	-
Net gains/ (losses) arising from available-for-sale financial assets (IAS 39)		
Equity instruments		
Measured at historical cost		
Non-resident	-	56 446
Measured at fair value		
Resident	-	(6 788)
Debt instruments		
Measured at fair value		
Resident	-	216 425
Measured at historical cost		
Non-resident	-	36 622
Other – investment funds		
Measured at fair value		
Resident	-	42 878
Non-resident	-	124 932
	98 725	**470 515**

In 2018, Net gains/ (losses) arising from financial assets at fair value through other comprehensive income mostly relate to gains on the disposal of debt instruments.

24. Net gains/ (losses) arising from financial assets mandatorily measured at fair value through profit or loss

This balance is analysed as follows:

	31-Dec-18	31-Dec-17
Net gains/(losses) arising from financial assets measured at fair value through profit or loss		
Equity Instruments		
Non-resident	(32 026)	-
Debt instruments		
Non-resident	7 064	-
Others – investment funds		
Resident	43 877	-
Non-resident	11 710	-
	30 625	**-**

In 2018, the Bank received income from dividends of Euro 92,799 from financial assets mandatorily measured at fair value through profit or loss.

25. Other operating income/ (expense)

This balance is analysed as follows:

	31-Dec-18	31-Dec-17
Other operating income		
Income from services rendered	16 535	15 629
Other operating income	5 158	7 383
	21 693	**23 012**
Other operating expense		
Contributions	(2 453)	(19 371)
Contributions to the Deposit Guarantee Fund	(235)	(110)
Contributions to the Single Resolution Fund	(357 719)	(81 431)
Contributions to the Resolution Fund	(309 831)	(135 305)
Value added tax (VAT)	(259 236)	(156 522)
Extraordinary contribution over the banking sector	(922 228)	(639 327)
Other indirect taxes and fees	(12 440)	(15 370)
Other charges and operating expenses	(72 479)	(20 555)
	(1 936 621)	**(1 067 991)**
Other operating income/ (expense) - Total	**(1 914 928)**	**(1 044 979)**

Expenses incurred under Contributions to the Resolution Fund (CFR), to the Single Resolution Fund (CFUR) and Extraordinary contribution over the banking sector are recognised in expenses at the moment the liability arises (application of IFRIC 21 - Levies).

The caption Extraordinary contribution over the banking Sector is estimated according to the terms of the Decree-Law 55-A/2010. The determination of the amount payable focuses on:
(i) the annual average liability recorded in the balance sheet deducted from core capital (Tier 1) and supplementary capital (Tier 2) and deposits covered by the Deposit Guarantee Fund; and
(ii) the notional amount of derivative financial instruments.

The caption Contribution to the Resolution Fund corresponds to the mandatory periodic contributions paid to the Fund, in accordance with Decree-Law No 24/2013. The periodic contributions are determined using a base rate, established by the Bank of Portugal, to be applied in each year and which may be adjusted to the credit institution's risk profile. The periodic contributions focus on the liabilities of the member credit institutions, in accordance with article 10 of this Decree-Law, after deduction of the elements of a liability nature that are part of the Tier 1 and Tier 2 capital and of the deposits covered by the Deposit Guarantee Fund.

Contributions to the Single Resolution Fund corresponds to the annual ex-ante contribution made by the Bank to support the implementation of resolution measures at European Union level. The Single Resolution Fund was established by Regulation (EU) no. 806/2014 (the "Fund Regulation") and is financed by ex-ante contributions made annually and individually by all credit institutions within the Banking Union system.

Contributions to the Single Resolution Fund consider the annual target level as well as the size and risk profile of the institutions. The Single Resolution Fund applies the methodology set out in the Commission Delegated Regulation (EU) no. 2015/63 and Regulation (EU) no. 806/2014 of the European Parliament and of the Council, for determining ex-ante contributions.

The annual contribution to the Fund is based on the liabilities of the institutions, excluding own funds and hedged deposits and considering adjustments arising from derivatives and intra-group liabilities, and on a risk adjustment factor that depends on the institution's risk profile. In accordance with Article no. 67 (4) of the Fund Regulation and the intergovernmental agreement on the transfer and pooling of contributions to the Single Resolution Fund, ex-ante contributions are collected by the national resolution authorities and transferred to the Single Resolution Fund until 30 June of each year.

26. Staff costs

This balance is analysed as follows:

	31-Dec-18	31-Dec-17
Remunerations of the Management and supervisory boards	(594 050)	(481 400)
Remunerations of the employees	(1 519 766)	(1 383 850)
Mandatory social security charges	(593 459)	(521 808)
Obligations with pension plans:		
VCLA pension plans (Defined benefit) (Note 30)	(30 358)	(36 774)
Management pension plans (Defined contribution)	(11 096)	(9 450)
Other staff costs	(102 625)	(68 159)
	(2 851 354)	**(2 501 441)**

The number of Bank employees is detailed as follows:

	31-Dec-18		31-Dec-17	
	Average for the period	End of the period	Average for the period	End of the period
Executive directors	3	3	3	3
Non-executive directors	1	1	1	1
Senior management	10	10	8	8
Other functions	25	31	21	24
Total	**39**	**45**	**33**	**36**

In compliance with Law no. 28/2009 of 19 June and Notice of Bank of Portugal no. 10/2011 of 29 December, as well as EBA/GL/2015/22 guidance, we present below the Remuneration Policy of the members of the management and supervisory bodies of BAI Europa for 2018:

Policy definition
The Bank's remuneration policy was defined with the objective of defining clear rules aligned with the Bank´s culture, considering the specific features of the Bank's activity, in particular its small size and the nature of its business activity which is characterized by the provision of services within a narrow and traditional range resulting in an activity of limited complexity and focused on pre-defined market niches.

The remuneration policy provides specific rules for the Bank's various employees, distinguishing between:

a) Board of Directors and Supervisory boards members;
b) Employees who, by the nature of their duties, are considered by Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014, as having a significant impact on the Bank's risk profile, which in the case of BAIE are considered to be responsible for the control functions, as well as the other heads of department, to whom the Bank as a whole designates as Management Team;
c) Employees who have direct contact with customers within the commercialization of deposits and products, as well as the employees responsible for the management and supervision of those business areas;
d) Other employees.

With respect to subparagraphs a) and b), if the payment of the remuneration includes a variable component, the following deferred payment criteria apply:

1. The amount corresponding to 40% of the variable component is deferred, being raised up to 60%, when the amount is higher than Euro 45 thousand;
2. The deferral is made for a 3-year period;
3. The part of the variable component not subject to deferral is paid in the following year;
4. If there are no situations of reduction of the variable remuneration, the part of the variable remuneration subject to deferral is paid over the next 3-year period, in 3 annual instalments corresponding to 1/3 of its value.

Policy approval
It is the responsibility of the Board of Directors (BD) to ensure that the remuneration policy is defined, maintained and applied in accordance with the Bank's culture and governance processes, as well as the appropriateness of remuneration practices to the capital structure and to the risk profile assumed by BAIE, to promote a healthy and prudent management of the risks.

Decisions concerning the remuneration of the Bank's employees are approved annually by the BD.

On an annual basis, under the terms of art. 115º-C of the General Regime of Credit Institutions and Financial Companies, the Supervisory Board (SB) assesses the adequacy and compliance of the remuneration policy of the Bank and its employees' governing bodies, issuing a report on conclusions.

The remuneration of the members of the corporate bodies is approved annually at the General Shareholders' Meeting (GSM). For this purpose, accompanied by the report of the SB and the joint report of the Heads of the Audit, Compliance and Risk Management Functions, the BD submits to the shareholders for approval, a statement in accordance with the provisions of article 2 of Law 28 / 009, of 19 June, and Notice of Bank of Portugal No 10/2011, together with the provision of information to enable shareholders to assess the overall cost of the remuneration and incentives structure and to what extent risk-taking is encouraged and controlled.

The annual decisions of the Board of Directors regarding remunerations of employees, as well as the preparation of the statement of remuneration to be submitted to the GSM, are always preceded by an evaluation which considers,:

a) If the implementation of the policy remains appropriate with regard to the Bank's risk profile;
b) the identification of staff members whose professional activities may have a significant impact on the Bank's risk profile, considering the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014;
c) If the allocation and payment of variable remuneration is compatible with the maintenance of a solid equity position.

By proposal of the Bank's Board of Directors, the General Meeting approved, in its meeting held on 24 April 2018, the statement for the remuneration policy for 2018 concerning the corporate bodies.

The variable remuneration of the corporate bodies for the year 2018 that will be paid in 2019 and in subsequent periods (part subject to payment deferral) were approved by the General Meeting of Shareholders on the meeting held on 19 January 2019.

Executive Directors

The fixed remuneration of executive directors is determined based on the following considerations:

(i) individual and bank's skills;
(ii) the level of responsibilities of each employee;
(iii) the position held in the Board of Directors;
(iv) the length of service in the Group.

The variable remuneration shall depend on the following factors:

(i) individual performance;
(ii) economic aspects;
(iii) extent of risks assumed;
(iv) compliance with the standards applicable to the Bank's business activity;
(v) the level of responsibilities of each employee.

The performance evaluation of the Bank's executive directors is the responsibility of the General Meeting.

The variable remuneration allocation is performed on an annual basis based of the performance evaluation, and its calculation shall allow adjustments to be made considering the various types of risks, current and future, as well as the Bank's profitability, proper equity adequacy and liquidity.

In order to maintain a prudent balance between fixed and variable remuneration components, the fixed remuneration of executive directors must be adequate; and the percentage corresponding to variable remuneration over fixed annual remuneration should be relatively low, not exceeding 35%. The amount corresponding to 50% of the total variable component of the remuneration shall be paid in cash and the remainder in kind. If the total amount of the variable component of the remuneration attributable, regarding a full fiscal year, does not exceed Euro 45 thousand, despite the defined deferral procedures, payment can be made fully in cash. In 2018 the Bank did not pay variable remuneration in kind.

Non-Executive Directors

The fixed remuneration of non-executive directors is determined based on the following considerations:

(i) the position held in the Board of Directors;
(ii) individual skills;
(iii) the length of service in the Group.

Fixed remuneration is paid 12 times a year.

Non-executive directors do not receive a variable remuneration.

Supervisory Board

The members of the Supervisory Board receive a fixed remuneration, determined according to the position held in this body and considering the size and complexity of the Bank's business activity.

Fixed remuneration is paid 12 times a year.

Annual remuneration paid to members of the corporate bodies

	2018						2017					
	Gross remuneration paid			Cost with remunerations			Gross remuneration paid			Cost with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
2017/2020 Mandate (designated on 16 May 2017)												
Executive Diretors												
António Manuel Pinto Duarte (Vice Chairman)	147 000	19 000	**166 000**	147 000	21 000	**168 000**	133 000	9 500	**142 500**	133 000	19 000	**152 000**
Omar José Mascarenhas de Morais Guerra **(a)** (Member)	140 000	18 000	**158 000**	140 000	20 000	**160 000**	126 000	9 000	**135 000**	126 000	18 000	**144 000**
Henrique Manuel Forte Carvalho da Carvalho da Silva **(b)** (Member)	112 000	14 000	**126 000**	112 000	16 000	**128 000**	98 000	7 000	**105 000**	98 000	14 000	**112 000**
Non executive Director												
José Alberto Vasconcelos Tavares Moreira (Chairman)	72 000	-	**72 000**	72 000		**72 000**	72 000	-	**72 000**	72 000	-	**72 000**
Supervisory Board												
Henrique Marçal (Chairman)	30 000	-	**30 000**	30 000	-	**30 000**	20 400	-	**20 400**	20 400	-	**20 400**
Pedro Cabrita (Member)	24 000	-	**24 000**	24 000	-	**24 000**	8 000	-	**8 000**	8 000	-	**8 000**
João Augusto (Member)	24 000	-	**24 000**	24 000	-	**24 000**	8 000	-	**8 000**	8 000	-	**8 000**
Antonio Veiga Anjos	-	-	**-**	-	-	**-**	8 000	-	8 000	8 000	-	8 000
José Severo	-	-	**-**	-	-	**-**	8 000	-	8 000	8 000	-	8 000
	549 000	**51 000**	**600 000**	**549 000**	**57 000**	**606 000**	**481 400**	**25 500**	**506 900**	**481 400**	**51 000**	**532 400**

a) Additional remuneration was also paid in 2018 to Omar José Mascarenhas de Morais Guerra of Euro 11,096 (2017: Euro 9,450) relating to a supplementary defined contribution pension plan, on the basis set out below, in the form of acquisition, on behalf of the beneficiary, of investment units of a pension fund.

b) In 2017, non-pecuniary remuneration not included in the remuneration previously disclosed, was also paid to Omar José Mascarenhas de Morais Guerra. In accordance with the Personal Income Tax Code (CIRS), these amounts are classified as income in kind, and correspond to Euro 23,513 through the exercise of a call option on a motor vehicle at the end of the respective lease agreement.

c) Mr. Henrique Manuel Forte Carvalho da Silva was appointed Executive Director at the General Meeting of 18 January 2016 and exercised these functions after obtaining the respective authorization from the Bank of Portugal on 17 June 2016.

Remuneration expenses presented above do not include the mandatory social security charges paid by the Bank, which generally correspond to rates ranging from 16.4% to 23.75%, applied on remuneration paid to corporate bodies. In addition, the Bank assumes medical expenses – SAMS for one of the members of the Board of Directors, which correspond to 6.5% of remuneration paid.

With exception of one of the members of the Board of Directors, the Bank does not assume any commitments regarding retirement or disability pensions, early retirement or survival, advances, loans or guarantees of any sort to the members of the Boards of Directors and Supervisory Board. The Bank is responsible for costs related to retirement or disability, early retirement or survival of Omar José Mascarenhas de Morais Guerra, under the terms agreed in the scope of the VCLA (note 30).

After 2015, executive directors with a suspended employment agreement with the Bank who, benefit from the pension plan applicable to most of the Bank's employees covered by social security by VCLA (note 28), are entitled to a supplementary pension benefit under a defined contribution plan for which the Bank contributes 7% of the total amount of remuneration paid in the previous year. These contributions are made through the acquisition of investment units of the pension fund, on behalf of the beneficiary, which finances the Bank's obligation for the retirement pensions of its employees, under the terms agreed within the VCLA, or another pension fund available on the market.

Under the terms of the Notice no. 10/2011 from Bank of Portugal, of 29 December, the quantitative information is presented below for remuneration paid by the Bank to employees responsible for performing the control functions in Notice no. 5/2008, namely, the risk management, compliance and internal audit.

	2018						2017					
	Gross remuneration paid			Cost with remunerations			Gross remuneration paid			Cost with remunerations		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Aggregated remuneration of employees responsible for performing the control functions set forth in Notice no. 5/2008.	182 490	27 250	**209 740**	182 490	36 000	**218 490**	177 551	31 750	**209 301**	177 551	36 500	**214 051**

27. General and administrative expenses

This balance is analysed as follows:

	31-Dec-18	31-Dec-17
Specialised services	(1 669 661)	(1 148 144)
Rental costs	(391 261)	(351 412)
Communication	(363 878)	(254 680)
Insurance	(102 984)	(70 446)
Travel, hotel and representation costs	(74 736)	(67 673)
Water, energy and fuel	(35 655)	(32 463)
Consumables	(34 313)	(25 624)
Maintenance and repair	(21 885)	(13 464)
Advertising costs	(13 008)	(7 153)
Other	(8 378)	(3 534)
Training	(7 610)	(61 914)
	(2 723 369)	**(2 036 507)**

In 2018, Specialised Services increased significantly over the prior year, mainly due to the need for consultancy services and acquisition of software licenses for the implementation of new products and other projects of a legal and regulatory nature, namely PSD 2 - Payment services and GRDP (General Regulation on Data Protection).

In compliance with paragraph b) of Article no. 66-A (1) of the Portuguese Commercial Companies Code, the total fees invoiced in 2018 by the Statutory Audit Firm, Ernst & Young Audit & Associados - SROC, SA, are as follows:

	2018	2017
Audit services:		
- Statutory Audit of Annual Financial Statements and Interim Review	57 500	47 500
- Reliability and Assurance Services	7 500	7 500
Other services	2 500	2 500
	67 500	**57 500**

As at 31 December 2018 and 2017, in addition to the Statutory Audit, the audit services include the review of the interim financial statements (June), the review to the Internal Control System (Notice no. 5/2008, of Bank of Portugal), the review of Internal Controls concerning prevention of money laundering (Notice no. 2/2018 of Bank of Portugal, which revokes Notice No. 9/2012 of Bank of Portugal) and the Process of Quantification of Impairment of the Loan Portfolio with reference to 30 June and 31 December (Instruction no. 18/2018 of Bank of Portugal which revokes Notice No. 5/2013 of Bank of Portugal).

Costs incurred for these services are recorded under Specialised services.

28. Income taxes

The nominal tax rate is detailed as follows:

	31-Dec-18	31-Dec-17
Corporate Income Tax	21.0%	21.0%
Municipal Surcharge	1.5%	1.5%
State Surcharge	3% to 9%	3% to 7%

The State Surcharge is an additional rate only applicable to the taxable income exceeding Euro 1,500,000. In 2018 and 2017, taxable income exceeding Euro 1,500,000 and up to Euro 7,500,000 is levied at an additional rate of 3% and taxable income above Euro 7,500,000 and up to Euro 35,000,000 is levied at an additional rate of 5%. Taxable income exceeding Euro 35,000,000 is levied at a 9% rate.

During 2018 and 2017, costs with income taxes recognised in profit or loss, as well as the tax burden, measured by the ratio between tax credits and profit for the period before that charge, are presented below:

	31-Dec-18	31-Dec-17
Current taxes		
For the period	(2 494 790)	(2 471 905)
Tax adjustments of previous periods	(13 501)	10 755
Deferred taxes		
Record and reversal of temporary differences (note 14)	(696 968)	187 693
Total income tax expense	**(3 205 259)**	**(2 273 457)**
Profit/ (loss) before tax	9 112 828	7 411 956
Effective tax rate	**35,2%**	**30,7%**

The reconciliation between the nominal tax rate and the effective tax rate in 2018 and 2017 is presented as follows:

	31-Dec-18		31-Dec-17	
	Rate	Tax	Rate	Tax
Profit/ (loss) before tax		9 112 828		7 411 956
Tax based on the nominal rate – First tax level	0.0%	-	0.0%	-
Tax based on the nominal rate – Tax level above	-21.0%	(1 913 694)	-21.0%	(1 556 511)
Changes in equity not reflected on the net profit	0.1%	8 984	0.0%	3 291
Extraordinary contribution over the banking sector	-2.1%	(193 668)	-1.8%	(134 259)
Provisions and adjustments of asset values	0.8%	73 957	-4.2%	(308 190)
Other taxable income and expenses	-0.3%	(23 682)	-0.2%	(11 715)
Pension funds and other benefits	0.0%	385	0.0%	(1 609)
Earnings subject to tax transparency	0.0%	-	0.0%	-
Taxable provisions in previous taxable periods	0.0%	-	0.0%	-
Tax benefits	0.2%	14 290	0.1%	9 754
Accounting losses	-0.1%	(9 435)	0.0%	-
Fiscal gains	0.1%	13 048	-0.2%	(18 402)
Elimination of international double taxation	0.0%	798	-0.2%	7 757
Autonomous taxation and surcharges	-5.1%	(465 774)	-6.2%	(462 021)
Changes related to previous periods	-0.1%	(13 501)	0.1%	10 755
Deferred taxes:				
Financial assets mandatorily measured at fair value through profit or loss	0.2%	15 578	0.0%	-
Provisions for overdue loans and non-deductible write-offs	-3.7%	(340 365)	-1.6%	(118 222)
Provisions for other risks	-4.1%	(370 041)	4.2%	307 717
VCLA seniority premium	0.0%	97	0.0%	481
Pension funds and post-employment benefits	0.0%	(2 236)	0.0%	(2 283)
Tax losses carried forward	0.0%	-	0.0%	-
	35.2%	**(3 205 259)**	**30.7%**	**(2 273 457)**

29. Off-balance sheet items

This balance is analysed as follows:

	31-Dec-18	31-Dec-17
Contingent liabilities		
Guarantees and commitments	1 212 809	611 488
Open documentary credits	253 373 474	60 802 561
Guarantees granted (notes 6, 7 and 9)	9 220 859	9 102 231
Securities	500	500
Commitments to third parties		
Irrevocable credit facilities	11 169 266	5 720 646
Commitments from third parties		
Irrevocable credit facilities	36 460 502	35 231 587
Guarantees received (notes 15 and 16)	311 777 874	156 078 480
Exchange transactions to be settled	8 948 808	9 072 701
	632 164 092	**276 620 194**

Commitments to third parties – Irrevocable credit facilities refer to credit facilities granted irrevocably to customers, which are not being used.

The amount shown under Commitments from third parties - Irrevocable credit facilities refer to credit facilities granted to the Bank.

As at 31 December 2018 and 2017, Guarantees received are as follows:

	31-Dec-18	31-Dec-17
Collateral (notes 8, 16 and 17)	235 331 114	57 126 659
Pledge and security deposits	20 507 991	36 186 546
Mortgages (Real estate and land)	16 031 536	21 635 272
Commitments and other personal guarantees	39 907 233	41 130 003
	311 777 874	**156 078 480**

Collateral received relate to term deposits made with the Bank and are valued by the respective amounts presented in the balance sheet. Mortgages of real estate and land are registered at the value of the evaluations carried out by independent experts, in compliance with the requirements of the Circular Letter of Bank of Portugal No. 6/2018, which replaces the Circular Letter No. 2/2014 /DSP, revoked, regarding the seniority of the evaluations. Pledges and security deposits of debt and equity relate to guarantees received to cover the risk of credit transactions to customers, which are valued at their net book value. Commitments and other personal guarantees also relate to guarantees received to cover the risk of credit transactions to customers and are valued at the amount of the liability to be covered, which is outstanding at the reference date.

30. Employee benefits

As described in note 2.10.1, the Bank grants to its employees covered by the VCLA or to their families, monetary benefits for old age retirement or disability, early retirement or survival, under the terms agreed within the VCLA attached to the subscription contract to the Pension Fund of Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.

With the release of Decree-Law no. 1-A / 2011, of 3 January, the employees covered by the VCLA who were active on 4 January 2011, are now covered by the General Social Security System (RGSS), for old age retirement and maternity, paternity and adoption leaves, whose costs the Bank no longer has to bear. Consequently, the defined benefit plan for the employees covered by the VCLA relating to the old age retirement benefit, is now financed by the Pension Fund, for services rendered prior to that date, and by the Social Security, for the responsibilities for services rendered after that date. However, as of 4 January 2011, liabilities for death and disability, survival, as well as for old-age supplementary pension remain the responsibility of the Pension fund, to the extent of matching the retirement of the participants in the Pension Fund to the amounts of the current pension plan.

With the release of Decree-Law no. 167-E/2013 and Ordinance no. 378-G /2013, the normal retirement age in the RGSS was changed, becoming variable and depending now on the evolution of the average life expectancy (65 years). This amendment means that the retirement pension to be paid by BAIE, between the age of 65 (in case of disability) and the new normal retirement age by the Social Security, will not be paid after deduction of the Social Security pension.

The calculation of the amount of liabilities for past services of Bank employees is made in accordance with IAS 19.

Ocidental - Sociedade Gestora de Fundos de Pensões, S.A., is the entity responsible for preparing the actuarial valuations necessary for the calculation of pension and retirement pension liabilities, as well as for managing the pension fund.

The actuarial valuation method used is the Projected unit credit.

As at 31 December 2018 and 2017 employees and pensioners who benefit from pension plans financed by the pension fund are:

	31-Dec-18	31-Dec-17
Employees – workforce	10	10
Pensioners	1	1
Old age retirement pensioners	1	1
Former employees	20	20

As at 31 December 2018 and 2017, the main actuarial and financial assumptions used for calculating pension liabilities are:

	Assumptions		Verified	
	31-Dec-18	**31-Dec-17**	**31-Dec-18**	**31-Dec-17**
financial assumptions:				
Fund income rate	2.00%	2.00%	-4.57%	3.56%
Wage growth rate	2.50%	2.50%	0.31%	1.40%
Technical interest rate	2.00%	2.00%	2.00%	2.00%
Pension growth rate	1.50%	1.50%	1.50%	0.75%
demographic assumption:				
Mortality table	TV88/90	TV88/90		
Disability table	SuisseRe 2001	SuisseRe 2001		
Normal retirement age	65 years	65 years		
Percentage of married couples	80.00%	80.00%		

Under the VCLA Pension Plan, the actuarial study that was the basis for the accounting records, as at 31 December 2018 and 2017, includes the total service period in the banking sector of all BAIE's employees on those dates. For the population consisting of the Fund's former employees, the period considered for the purpose of calculating liabilities was the service period in BAIE.

In addition, the Bank recognises responsibilities for post-employment medical care (SAMS) and long-term employee benefits (VCLA seniority premium). The amount of liabilities with SAMS and seniority premiums is as follows:

	31-Dec-18	**31-Dec-17**
Past service liabilities with medical care - SAMS (notes 15 and 19)	131 352	133 617
Actuarial loss/ (gains) for the period	(2 265)	(5 523)
Past service liabilities with seniority premium - VCLA (notes 15 and 19)	39 127	38 695
Actuarial loss/ (gains) for the period	(432)	(2 138)

The financial coverage of past service liabilities is as follows:

	31-Dec-18	31-Dec-17
Total past liabilities		
Liabilities with the payment of pensions	225 833	238 630
Liabilities with past services of active employees	2 734 467	2 746 762
	2 960 300	**2 985 392**

Pension fund assets are as follows:

	31-Dec-18	31-Dec-17
Pension fund assets		
Opening balance	3 188 523	2 888 622
Net income from pension funds	(125 192)	127 681
Pension funds contributions	-	213 500
Retirement pensions paid by the pension fund	(5 378)	(5 378)
Survival pensions paid by the pension fund	(13 022)	(13 022)
Commissions	-	(22 880)
Closing balance	3 044 931	3 188 523
Of which: captive balance for Complementary Plan	-	-
	3 044 931	**3 188 523**
Coverage level according to actuarial report	102.9%	106.8%
Minimum level of responsibilities to be covered [95% de (b) + 100% de (a)]	2 823 577	2 848 054
Required value to be transferred to the pension funds	-	-

In addition to the VCLA Pension Plan, BAIE granted to its employees a supplementary pension until 30 June 2005, provided for in the Complementary Plan to VCLA. Under this plan, workers on that date are entitled to a supplementary retirement and survival's pension, calculated based on the length of service provided in BAIE and the salary received up to that date. According to the Collective Membership Agreement these liabilities should be transferred to an individual membership or to another pension fund that complies with the legislation in force, in 2010 the respective individual benefits of Euro 93,633 were transferred.

In January 2017 a transfer of Euro 213,500 was made to cover the insufficient financing of the fund.

As at 31 December 2018 and 2017, the financial statements included the following items related to the coverage of pension liabilities:

	31-Dec-18	31-Dec-17
Total liabilities		
Total liabilities for pensions payable	225 833	238 630
Total liabilities for past services	2 734 467	2 746 762
	2 960 300	**2 985 392**
Pension fund assets (note 15)	3 044 931	3 188 523
Provision for liabilities with retirement pensions (note 15)	2 960 300	2 985 392
Actuarial gains/ (losses) recognised in retained earnings (note 20):		
Annual variation	(80 139)	223 330
Accumulated amount (note 30)	(506 625)	(426 486)

The pension fund assets included no: i) assets being used by the Bank; or ii) securities issued by the Bank.

The amounts reflected in staff costs (note 26) with the Bank's retirement pensions liabilities in 2018 and 2017 are as follows:

	31-Dec-18	31-Dec-17
Net financial costs:		
Current service expense	21 021	24 761
Interest expense	59 267	61 039
Expected income arising from pension fund assets	(41 927)	(41 042)
Contributions from employees	(8 003)	(7 984)
Total	**30 358**	**36 774**

The changes during 2018 and 2017, in the present value of liabilities for past services, were as follows:

	31-Dec-18	31-Dec-17
Liabilities at the beginning of the period	**2 985 392**	**3 077 564**
Current service expense	21 021	24 761
Interest expense	59 270	61 039
Expected income from pension fund assets	(41 927)	(41 042)
Actuarial gains/ (losses) recognised under retained earnings (note 19)	80 139	(223 330)
Retirement pensions paid by the pension fund	(5 378)	(5 378)
Survival pensions paid by the pension fund	(13 022)	(13 022)
Net income of the Fund	(125 192)	127 681
Commissions	-	(22.881)
Liabilities at the end of the period	**2 960 300**	**2 985 392**

The actuarial gains and losses in 2018 and 2017 were as follows:

	31-Dec-18	31-Dec-17
Actuarial gains/ (losses)		
Relating to differences between assumptions and actual values	80 139	(223 330)
Total	**80 139**	**(223 330)**

As at 31 December 2018 and 2017, the pension fund assets are as follows:

	31-Dec-18	31-Dec-17
Liquidity	7.02%	3.08%
Bonds	63.12%	64.65%
Shares	24.27%	27.46%
Real estate and hedge funds	5.59%	4.81%
Total	**100.00%**	**100.00%**

31. Related parties

In accordance with IAS 24, the related parties of BAIE includes companies held by the BAI Group, associated companies and other entities with significant influence on BAIE.

As at 31 December 2018, the Bank's balance sheet and off-balance sheet items include the following balances with related parties:

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Assets					
Other loans and advances to credit institutions (note 8)	-	-	30 565 570	-	30 565 570
Financial assets mandatorily measured at fair value through profit or loss (nota 5)	-	-	160 190	128 236	288 426
Loans and advances to customers (note 9)	90 629	474 500	-	13 100 436	13 665 565
Investments in subsidiaries and associates (note 13)	948 469	-	-	-	948 469
Liabilities					
Deposits from credit institutions (note 16)	-	-	785 660 321	-	785 660 321
Deposits from customers (note 17)	123	5 861 828	4 881 743	29 735 144	40 478 838
Off-balance sheet items (note 29)					
Guarantees and commitments	-	-	353 304	-	353 304
Open documentary credits	-	-	239 137 339	-	239 137 339
Guarantees received	-	-	218 564 984	20 557 350	239 122 334
Irrevocable credit facilities	1 371	40 000	-	70 000	111 371
Total	**1 040 592**	**6 376 328**	**1 279 323 451**	**63 591 166**	**1 350 331 537**

Income					
Interest and similar income (note 21)	2 638	1 834	281 057	134 308	419 837
Fees and commission income (note 22)	319	1 923	4 787 564	305	4 790 111
Expenses					
Interest and similar expense (note 21)	-	(14 576)	(8 319 208)	(456)	(8 334 240)
General administrative expenses (note 27)	-	-	-	(39 943)	(39 943)
Total	**2 957**	**(10 819)**	**(3 250 587)**	**94 214**	**(3 164 235)**

Balances and transactions with other related parties refer essentially to companies in the Sonangol group, BAI's key shareholder, BAIE's parent company.

As at 31 December 2017, the Bank's balance sheet and off-balance sheet items include the following balances with related parties:

	Associates	Corporate bodies of BAI Group	Companies from BAI Group	Other related parties	Total
Assets					
Other loans and advances to credit institutions (note 8)	-	-	21 758 840	-	21 758 840
Available-for-sale financial assets	-	-	-	128 236	128 236
Loans and advances to customers (note 9)	62 091	567 300	-	2 951 722	3 581 113
Held-to-maturity investments	-	-	188 034	-	188 034
Investments in subsidiaries and associates (note 12)	948 469	-	-	-	948 469
Liabilities					
Deposits from credit institutions (note 13)	-	-	658 826 840	-	658 826 840
Deposits from customers (note 17)	194	6 525 609	3 779 381	9 878 583	20 183 767
Off-balance sheet items (note 29)					
Open documentary credits	-	-	58 058 301	-	58 058 301
Guarantees received	-	-	52 811 566	6 344 987	59 156 553
Irrevocable credit facilities	27 909	40 000	-	50 000	117 909
Total	**1 038 663**	**7 132 909**	**795 422 962**	**19 353 528**	**822 948 062**

Income					
Interest and similar income (note 21)	1 222	2 152	711 441	211 112	925 927
Fees and commission income (note 22)	393	2 113	3 798 811	14 290	3 815 607
Expenses					
Interest and similar expense (note 21)	-	(10 726)	(2 475 344)	-	(2 486 070)
Staff costs (nota 26)	-	-	-	-	-
General administrative expenses (note 27)	-	-	-	(21 021)	(21 021)
Total	**1 615**	**(6 461)**	**2 034 908**	**204 381**	**2 234 443**

32. Financial instruments: Disclosures (IFRS 7)

In addition to other disclosures already made in this context in earlier notes, below is additional information required under IFRS 7 concerning credit risk, the mandatory disclosures under IFRS 9 and Circular Letter no. 2018/00000062, which replaces the CL no.2/14/DSP, of 26 February.

Own funds (regulatory capital)
Legislation incorporating the new Basel III Capital Agreement entered into force on 1 January 2014 through the legislative package set up by Regulation (EU) no. 575/2013 (CRR) of the European Parliament and of the Council and Directive 2013/36/EU of the European Parliament and of the Council (CRD IV), both adopted on 26 June, and the latter transposed into national legislation by Decree-Law no. 157/2014 of 24 October. The phase-in regime for the application of the CRR was regulated by Notice of Bank of Portugal no. 10/2017, of 29 December, which replaces Notice no. 6/2013.

The risk management system adopted by BAIE is described in the Management Report issued together with these financial statements.

The Bank of Portugal issued guidelines on the transition requirements in the context of the implementation of IFRS 9. These guidelines allowed a choice between two approaches for recognising the impact on regulatory capital of the adoption of the standard:
i) Transition period of the total impact over a period of 5 years, based on the following percentages for some components: 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022;
ii) Recognition of the full impact on the date of adoption.

The Bank decided to adopt the second approach, therefore, the impact of the adoption of IFRS 9 on the Bank's regulatory capital was fully recognised at the date of adoption of IFRS 9.

Under Notice no. 10/2017 and of the CRR, the Bank's own funds and capital requirements are presented below:

	31-Dec-18	31-Dec-17
Total own funds (1+2+3+4)	**78 132 249**	**76 213 935**
1. Base Own funds (Tier 1)	**78 132 249**	**76 213 935**
Base Own funds Core (Common Equity Tier 1 - CET 1)	**78 132 249**	**76 213 935**
Paid-up share capital (note 20)	40 000 000	40 000 000
Legal reserve (note 20)	7 198 948	6 171 248
Deferred tax reserve - Transitional regime until 2023, 40% inclusion as of 31/12/2018	-	-
Unrealised losses on available-for-sale assets (100% in 31/12/2018)	(7 414 754)	(1 556 328)
Exclusion of unrealised losses on available-for-sale financial assets – Central Administration (100% in 31/12/2018 and 80% in 31/12/2017)	-	-
Unrealised gains on available-for-sale financial assets (100% in 31/12/2018 and 80% in 31/12/2017)	7 318 666	1 593 190
Adjustment for credit risk – Securities at FVOCI (IFRS 9)	24 913	-
Adjustments of Base Own funds Core (CET 1) due to prudential Filters	(272 567)	(205 592)
Deferred tax assets depending on future profitability – Transitional regime until 2023, 40% inclusion on 1 Jan 2018 and 30% on 1 Jan 2017	(298 559)	(393 049)
Retained earnings (note 20)	30 584 794	26 959 454
Net intangible assets (note 12)	(358 552)	(469 984)
Net profit for the first semester audited (note 20) (a)	1 855 985	4 541 481
Actuarial losses with on pension liabilities (notes 20 and 30)	(506 625)	(426 486)
2. Complementary Own funds (Tier 2)	**-**	**-**
Provisions for general credit risks (note 18)	-	-
3. Risks covered by own funds	**-**	**-**
4. Deduction from total own funds	**-**	**-**
Net value of real estate properties acquired in repayment of credit for over 2 years	-	-

(a) Profit for the period will only be eligible for own funds after the date of issue of the limited review report by the Statutory Auditors of the Bank.

	31-Dec-18	31-Dec-17
Total own funds	78 132 249	76 213 935
Requirements for credit risk (on-balance and off-balance sheet) and operational risk	433 745 240	385 498 156
Total own funds ratio	18,0%	19,8%
Base own funds ratio (Tier 1)	18,0%	19,8%
Common equity Tier 1 ratio (CET 1)	18,0%	19,8%

During 2018 and 2017, the Bank complied with all capital requirements defined by the banking supervision entity, Bank of Portugal, in accordance with applicable laws and regulations.

Market risk

Market risk arises from changes in the price of instruments resulting from changes in interest rates, exchange rates, stock prices or commodity prices. In the Bank's current balance sheet management strategy, the asset that is most vulnerable to market changes is the credit portfolio and other securities (notes 7 and 10) which are classified either as financial assets at fair value through other comprehensive income or as other financial assets measured at amortised cost. The risk analysis of these financial instruments is carried out from a credit risk perspective instead from a market risk perspective, considering that the position adopted for these assets is done from an investment perspective and does not aim for the generation of capital gains with anticipated sale. In addition, there is a portfolio of equity securities that represents a portion without any significant expression of the total assets of the Bank. Consequently, its monitoring does not require the development of a specific risk management model.

However, as a result of legislative amendments incorporating the Basel III Capital Accord (Regulation (EU) no. 575/2013 (CRR) of the European Parliament and of the Council of 26 June, complemented by the Commission's Delegated Regulation (EU) 2015/61 of 10 October 2014), after 1 October 2015, it became mandatory the constitution of a high quality liquid assets (HQLA) portfolio to meet the short-term liquidity coverage ratio (LCR), that is, to cover net cash requirements for a 30-day period, and the HQLA portfolio cannot be less than the amount corresponding to 25% of the total expected cash outflows for that period. With the introduction of this prudential liquidity requirement, the Bank has invested in eligible assets for this purpose, thus extending the securities portfolio classified as Financial Assets at Fair Value through Other Comprehensive Income (FVOCI). In order to lower the market risk associated with this type of asset – rather than favouring short-term profitability, the investment policy focused on investment-grade sovereign bonds with relatively short residual terms reducing the daily maximum Value-at-Risk (VaR) of the portfolio to a small percentage of the Bank's own funds.

Market risk is monitored on a daily basis with the production of maps with Value at Risk (VaR) information from the Bank's securities portfolio.

Liquidity risk

On a daily basis, containing information on the residual maturity of the financial assets and liabilities per currency are prepared, calculating for each time range, the difference between cash inflows and cash outflows and their respective liquidity gap accumulated and for each time period. With this information, it becomes possible to identify timely, any liquidity gaps and plan their dynamic coverage, and also to determine the financial resources available for other applications. For the balance sheet assets and liabilities management the Bank currently maintains a significant portfolio of liquid assets or very-short term liquid assets, based on the nature and duration of the liabilities, which allows the liquidity management for the critical period of 1 to 30 days. The Bank's liquidity risk management policy determines cash position limits based on the volume of the Bank's total resources for several time periods and compliance with the LCR regulatory liquidity requirement.

At 31 December 2018, the contractual residual terms of the financial instruments are as follows:

	Within 3 months	3 months to 1 year	1 to 5 years	Above 5 years or undetermined	Total
Assets					
Cash and deposits at central banks	33 310 786	-	-	-	33 310 786
Other loans and advances to other credit institutions	90 741 545	-	-	-	90 741 545
Financial assets mandatorily measured at fair value through profit or loss	-	757 186	160 190	649 244	1 566 620
Other financial assets at fair value through profit or loss	-	-	-	224 373	224 373
Financial assets at fair value through other comprehensive income	148 057 451	63 817 483	52 495 207	7 214 001	271 584 142
Loans and advances to credit institutions repayable on demand	620 287 587	7 308 497	8 733 627	-	636 329 711
Loans and advances to customers	10 826 554	2 425 761	51 406 295	9 765 495	74 424 105
Other financial assets at amortised cost	31 337 285	1 901 594	-	-	33 238 879
Investments in subsidiaries and associates	-	-	-	948 469	948 469
	934 561 208	**76 210 521**	**112 795 319**	**18 801 582**	**1 142 368 630**
Liabilities					
Other financial liabilities at fair value through profit or loss	-	-	-	(224 373)	(224 373)
Deposits from central banks	(3)	-	-	-	(3)
Deposits from other credit institutions	(746 909 028)	(165 966 707)	-	-	(912 875 735)
Deposits from customers	(103 240 778)	(27 587 387)	-	(5 987 467)	(136 815 632)
	(850 149 809)	**(193 554 094)**	**-**	**(6 211 840)**	**(1 049 915 743)**
Derivatives and foreign exchange operations pending settlement (net flow)	3 102	-	-	-	3 102
Difference / Gap	**84 414 501**	**(117 343 573)**	**112 795 319**	**12 589 742**	**92 455 989**
Difference / Accumulated Gap	**84 414 501**	**(32 929 072)**	**79 866 247**	**92 455 989**	

At 31 December 2017, the contractual residual terms of the financial instruments are as follows:

	Within 3 months	3 months to 1 year	1 to 5 years	Above 5 years or undetermined	Total
Assets					
Cash and deposits at central banks	37 578 695	-	-	-	37 578 695
Other loans and advances to other credit institutions	113 417 690	-	-	-	113 417 690
Other financial assets at fair value through profit or loss	280 923	-	-	-	280 923
Available-for-sale financial assets	82 572 410	52 278 358	66 218 110	5 478 861	206 547 739
Loans and advances to credit institutions repayable on demand	543 946 786	3 851 766	-	-	547 798 552
Loans and advances to customers	7 600 150	481 204	50 517 303	10 620 673	69 219 330
Held-to-maturity investments	23 248 551	2 502 500	188 086	-	25 939 137
Investments in subsidiaries and associates	-	-	-	948 469	948 469
	808 645 205	**59 113 828**	**116 923 499**	**17 048 003**	**1 001 730 535**
Liabilities					
Deposits from central banks	(26 706 542)	-	-	-	(26 706 542)
Other financial liabilities at fair value through profit or loss	(280 923)	-	-	-	(280 923)
Deposits from other credit institutions	(796 872 279)	-	-	-	(796 872 279)
Deposits from customers	(72 533 065)	(13 840 246)	(11 601 595)	-	(97 974 906)
	(896 392 809)	**(13 840 246)**	**(11 601 595)**	**-**	**(921 834 650)**
Derivatives and foreign exchange operations pending settlement (net flow)	(5 394)	-	-	-	(5 394)
Difference / Gap	**(87 752 998)**	**45 273 582**	**105 321 904**	**17 048 003**	**78 890 491**
Difference / Accumulated Gap	**(87 752 998)**	**(42 479 416)**	**62 842 488**	**79 890 491**	

Currency risk

Within the current currency risk management policy, exchange position limits are established and therefore the various currency exchange positions in the Bank's balance sheet and its currency performance in the market are monitored on a daily basis. Considering the exposure limits established, liquidity needs per currency, and the performance of the various currencies in the market, foreign exchange positions are hedged, either through trading on the spot market or through the use of derivative financial instruments.

As at 31 December 2018, the breakdown by currency of financial instruments is as follows:

	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	33 212 742	62 843	35 201	33 310 786
Other loans and advances to other credit institutions	48 670 562	40.263.619	1.807.364	90 741 545
Financial assets mandatorily measured at fair value through profit or loss	883 156	521.008	162.456	1 566 620
Other financial assets at fair value through profit or loss	-	224 373	-	224 373
Financial assets at fair value through other comprehensive income	17 058 116	254 526 026	-	271 584 142
Loans and advances to credit institutions repayable on demand	16 617 340	619 712 371	-	636 329 711
Loans and advances to customers	43 658 366	30 765 739	-	74 424 105
Other financial assets at amortised cost	33 238 879	-	-	33 238 879
Investments in subsidiaries and associates	948 469	-	-	948 469
	194 287 630	**946 075 979**	**2 005 021**	**1 142 368 630**
Liabilities				
Deposits from central banks	(3)	-	-	(3)
Other financial liabilities at fair value through profit or loss	-	(224 373)	-	(224 373)
Deposits from other credit institutions	(29 545 769)	(881 832 329)	(1 497 637)	(912 875 735)
Deposits from customers	(77 460 829)	(59 106 529)	(248 274)	(136 815 632)
Revaluation reserve at fair value	(34 131)	83 679	-	49 548
	(107 040 732)	**(941 079 553)**	**(1 745 911)**	**(1 049 866 195)**
Spot foreign exchange transactions pending settlement (net amount)	4 276 000	(4 272 898)	-	3 102
	4 276 000	**(4 272 898)**	**-**	**3 102**
Difference /Gap (Open foreign exchange position)	**N/A**	**723 527**	**259 111**	**982 638**

As at 31 December 2017, the breakdown by currency of financial instruments is as follows:

	Euro	USD	Other	Total
Assets				
Cash and deposits at central banks	37 492 822	85 148	725	37 578 695
Other loans and advances to other credit institutions	81 097 246	31 335 392	985 052	113 417 690
Other financial assets at fair value through profit or loss	-	280 923	-	280 923
Available-for-sale financial assets	15 923 944	190 623 795	-	206 547 739
Other loans and advances to credit institutions	16 536 574	531 261 978	-	547 798 552
Loans and advances to customers	39 369 230	29 850 099	-	69 219 330
Held-to-maturity investments	25 751 102	-	188 034	25 939 137
Investments in subsidiaries and associates	948 469	-	-	948 469
	217 119 388	**783 437 335**	**1 173 811**	**1 001 730 535**
Liabilities				
Deposits from central banks	-	(26 706 542)	-	(26 706 542)
Other financial liabilities at fair value through profit or loss	-	(280 923)	-	(280 923)
Deposits from other credit institutions	(83 490 646)	(712 596 686)	(784 947)	(796 872 279)
Deposits from customers	(49 688 490)	(48 022 162)	(264 253)	(97 974 906)
Revaluation reserve at fair value	(244 088)	208 339	-	(35 748)
	(133 423 224)	**(787 397 974)**	**(1 049 200)**	**(921 870 398)**
Spot foreign exchange transactions pending settlement (net amount)	(4 130 904)	4 119 430	6 080	(5 394)
	(4 130 904)	**4 119 430**	**6 080**	**(5 394)**
Difference /Gap (Open foreign exchange position)	**N/A**	**158 791**	**130 691**	**289 482**

Interest rate risk
Interest rate risk occurs whenever there is a mismatch between assets and liabilities or financial instruments recorded off-balance sheet sensitive to changes in interest rate levels. For the purpose of monitoring, in addition to using the prudential approach defined by the Bank of Portugal in its Instruction no. 34/2018, of 26 December, the Bank developed a model (internal approach) that performs a monthly analysis t of interest rate risk by applying the discount factors to daily net cash flows (gap / position) for the residual repricing period, of all financial instruments considered sensitive to interest rates by BAIE

In terms of the approach suggested by the Bank of Portugal, for each significant currency (in the case of BAI Europa, Euro and US dollars) the gaps of the various interest rate positions and their respective discount factors of parallel shocks are calculated (+/- 200 basis points) on the interest rate curve, on net interest income and on the Bank's own funds. Cash flows in Euro and US dollars are discounted based on Bloomberg's risk-free yield curves with an impact of +/- 200 basis points on the rates over those periods. However, with respect to the BAIE internal model, parallel shock is only applied in yield curves of +200 basis points, being that considered most plausible by BAIE in the current context of interest rates.

In applying its internal model for measuring interest rate risk, BAIE does not consider off-balance-sheet items, since these relate essentially to guarantees received (49%) and letters of credit confirmed (40%), instruments which the Bank considers not to be subject to interest rate risk.

In its internal model for measuring interest rate risk, BAIE also does not consider the elements that are included in the balance sheet items "Other Assets" and "Other Liabilities" because it considers that those are not transactions subject to interest rate risk.

The risk management policy defined by the Bank regarding the definition of exposure limits does not permit significant amounts of medium and long-term fixed rate operations.

As at 31 December 2018, the result of the application of the standard shock (Bank of Portugal approach, Instruction 34/2018), in the economic value and in expected net interest income (at 1 year), of a parallel shock (+200 basis points) in the interest rate curve, is as follows:

Result of the application of the standard shock by the Supervisor	**31-Dec-18**
Estimated economic value of the banking portfolio without interest rate changes	160 028 872
Change in the economic value of the banking portfolio resulting from a parallel rise in the yield curve after the supervisor's standard shock	(1 054 977)
Change in the economic value of the banking portfolio resulting from a parallel decline in the yield curve after the supervisor's standard shock	1 344 109
Expected net interest income at 1 year without interest rate changes	4 054 471
Change in expected 1-year net interest income resulting from a parallel rise in the yield curve after the supervisor's standard shock	(41 388)
Change in expected 1-year net interest income resulting from a parallel decline in the yield curve after the supervisor's standard shock	42 832

At 31 December 2018, the sensitivity analysis of the Bank's economic value to a parallel increase of 2.0% in interest rates is as follows:

	31-Dec-18		
	Bank of Portugal approach, Instruction no. 34/2018		Internal approach
	Prior Model (Without shock)	Post Model (Shock + 2%)	(Shock + 2%)
Remaining elements	(7 403 507)	-	-
Overnight	-	(7 413 846)	-
Greater than overnight and until 1 month	129 243 488	129 254 785	110 689 209
Greater than 1 month and up to 3 months	108 823 541	107 929 409	38 220 237
Greater than 3 month and up to 6 months	(90 978 072)	(88 391 078)	(118 364 026)
Greater than 6 month and up to 9 months	(3 977 901)	(3 973 043)	(1 381 972)
Greater than 9 month and up to 12 months	433 283	435 395	8 258 473
Greater than 12 month and up to 1.5 years	12 095 271	11 400 608	54 717 949
Greater than 1.5 years and up to 2 years	(643 135)	(604 609)	21 841 128
Greater than 2 years and up to 3 years	1 791 125	1 640 585	25 221 052
Greater than 3 years and up to 4 years	2 717 500	2 322 350	10 455 033
Greater than 4 years and up to 5 years	935 669	775 796	7 710 425
Greater than 5 years and up to 6 years	1 045 623	872 220	1 126 304
Greater than 6 years and up to 7 years	649 895	564 232	1 263 949
Greater than 7 years and up to 8 years	830 929	700 023	628 445
Greater than 8 years and up to 9 years	527 995	430 517	649 756
Greater than 9 years and up to 10 years	2 314 478	1 816 654	2 133 161
Greater than 10 years and up to 15 years	1 371 638	954 440	1 218 021
Greater than 15 years and up to 20 years	407 564	259 458	223 599
Greater than 20 years	-	-	-
Net position	**160 185 385**	**158 973 895**	**164 610 742**

Encumbered and non-encumbered assets

As at 31 December 2018, in compliance with the guidelines of the European Banking Authority (EBA/GL/2014/3) and Instruction No. 28/2014 of Bank of Portugal, dated 15 January 2015, the following table presents the information related to:

i) Bank assets which are encumbered and non-encumbered (Model A)

	31-Dec-18				31-Dec-17			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets	9 220 859	9 220 858	1 139 656 955	1 136 781 372	9 102 230	9 102 230	1 001 446 587	996 024 890
Equity instruments (notes 6)	-	-	1 630 803	1 630 803	-	-	1 987 060	1 761 931
Debt securities (notes 5,7 and 10)	6 000 772	6 000 772	298 997 482	298 982 439	6 000 772	6 000 772	225 005 096	225 005 096
Other assets	3 220 086	3 220 086	839 028 670	836 168 130	3 101 458	3 101 458	774 454 431	769 257 863

ii) Collateral received (Model B)

	31-Dec-18		31-Dec-17	
	Fair value of the encumbered collateral received or debt securities issued	Fair value of the encumbered collateral received or debt securities issued and encumbered	Fair value of the encumbered collateral received or debt securities issued	Fair value of the encumbered collateral received or debt securities issued and encumbered
Collateral received	271 870 641	271 870 641	114 948 477	114 948 477
Equity instruments	20 507 991	20 507 991	36 186 546	36 186 546
Debt securities	-	-	-	-
Other assets	251 362 650	251 362 650	78 761 931	78 761 931

iii) Encumbered assets, encumbered collateral received and associated liabilities (Model C)

	31-Dec-18		31-Dec-17	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, collateral received and debt securities issued that are not covered by own bonds or encumbered ABS	Associated liabilities, contingent liabilities and borrowed securities	Assets, collateral received and debt securities issued that are not covered by own bonds or encumbered ABS
Carrying amount of selected financial liabilities	-	-	-	-

iv) Information related to the importance of the encumbrance on assets (Model D)

The institution's level of encumbrance on assets, as measured by the relative weight of the assets encumbered in the Bank's total assets, is less than 1%. Collateral received from customers is not reflected in the Bank's balance sheet and is not available for encumbrance since the bank is not authorised to sell those assets or use them as collateral, except in the event of default by the owner of the security deposit.

Credit risk and concentration credit risk
Overall, the credit risk on the Bank's assets is represented by three large groups of credit operations, namely: i) exposure to credit institutions, mainly in the interbank money market; ii) loans represented (or not) by securities; and financial assets at fair value through other comprehensive income.

Maximum exposure to credit risk

Description	31-Dec-18			31-Dec-17		
	Gross amount (1)	Loan losses	Net amount (2)	Gross amount (1)	Loan losses	Net amount (2)
Assets						
Financial assets mandatorily at fair value through profit or loss	1 566 620	-	1 566 620	-	-	-
Other financial assets at fair value through profit or loss	224 373	-	224 373	280 923	-	280 923
Financial assets at fair value through other comprehensive income (3)	271 584 142	-	271 584 142	-	-	-
Available-for-sale financial assets	-	-	-	206 772 868	225 129	206 547 739
Other loans and advances to credit institutions	636 545 130	215 419	636 329 711	547 894 317	95 765	547 798 552
Loans to customers	76 304 131	1 880 026	74 424 105	72 102 814	2 883 484	69 219 330
Other financial assets at amortised cost	33 253 922	15 043	33 238 879	-	-	-
Held-to-maturiry investments	-	-	-	25 939 137	-	25 939 137
				-	-	-
Off-balance sheets						
Guaranties and sureties	1 212 809	95 350	1 117 459	611 488	118 153	493 335
Commitments with third parties	11 169 266	18 822	11 150 444	5 720 646	73 537	5 647 109
Total	1 031 860 393	2 224 660	1 029 635 733	859 322 193	3 396 068	855 926 125

The **portfolio of loans to customers** consists almost entirely of loans and advances to companies and public entities (note 9). The current credit risk management process for customers is based on the specific characteristics of the customer and the product, and of the credit cycle. Credit risk analysis is performed on the customer's updated financial information as well as on other additional information (management skills, future expectations, specific market performance and expectations, competitive capacity, cash flows, etc.). Periodically, customers are asked for updated financial information for the purpose of monitoring the quality of exposure risk.

In addition, **maximum exposure limits** are defined by:

i) Customer or by group of customers linked to each other and by emerging markets depending on the Bank's own funds;
ii) Business sector and geography depending on their relative weight in the Bank's total portfolio and own funds.

For exposures to **credit institutions**, counterparty limits are defined based on the financial information available to the credit institution, including the respective rating assigned by international agencies. On a regular basis, counterparty limits are reviewed through internal analysis based on up-to-date market financial information and its counterparties.

The portfolio of **financial assets at fair value through other comprehensive income** consists essentially of sovereign bonds and multilateral investment grade agencies with relatively short-term residual maturities.

In 2018, the exposure and impairment of financial assets (except the portfolio of loans and advances to customers) presents the following movements:

	Exposure				Impairment			
	Assets without a significant deterioration of credit risk since the time of initial recognition (Stage 1)	**Assets with a significant deterioration of credit risk since the time of initial recognition (Stage 2)**	**Assets in default (Stage 3)**	**Total**	**Assets without a significant deterioration of credit risk since the time of initial recognition (Stage 1)**	**Assets with a significant deterioration of credit risk since the time of initial recognition (Stage 2)**	**Assets in default (Stage 3)**	**Total**
Loans and advances to credit institutions repayable on demand								
Balance on 31 December 2017	113 417 690	-	-	**113 417 690**	-	-	-	**-**
Impact of IFRS 9 transition	-	-	-	**-**	4 562	-	-	**4 562**
Changes in cash	(22 673 707)	-	-	**(22 673 707)**	(2 124)	-	-	**(2 124)**
Balance on 31 December 2018	**90 743 983**	**-**	**-**	**90 743 983**	**2 438**	**-**	**-**	**2 438**
Financial assets at fair value through other comprehensive income								
Balance on 31 December 2017	-	-	-	**-**	-	-	-	**-**
Impact of IFRS 9 transition	205 066 730	-	-	**205 066 730**	24 966	-	-	**24 966**
Changes in financial assets	63 954 816	-	-	**63 954 816**	(53)	-	-	**(53)**
Foreign exchange differences and other movements	2 562 596	-	-	**2 562 596**		-	-	**-**
Balance on 31 December 2018	**271 584 142**	**-**	**-**	**271 584 142**	**24 913**	**-**	**-**	**24 913**
Loans and advances to credit institutions								
Balance on 31 December 2017	547 894 317	-	-	**547 894 317**	95 765	-	-	**95 765**
Impact of IFRS 9 transition	-	-	-	**-**	218 653	-	-	**218 653**
Changes in financial assets	88 650 813	-	-	**88 650 813**	(98 999)	-	-	**(98 999)**
Foreign exchange differences and other movements	-	-	-	**-**		-	-	**-**
Balance on 31 December 2018	**636 545 130**	**-**	**-**	**636 545 130**	**215 419**	**-**	**-**	**215 419**
Other financial assets at amortised cost								
Balance on 31 December 2017	25 939 137	-	-	**25 939 137**	-	-	-	**-**
Impact of IFRS 9 transition	(188 086)	-	-	**(188 086)**	11 652	-	-	**11 652**
Changes in financial assets	7 502 871	-	-	**7 502 871**	3 391	-	-	**3 391**
Foreign exchange differences and other movements	-	-	-	**-**	-	-	-	**-**
Balance on 31 December 2018	**33 253 922**	**-**	**-**	**33 253 922**	**15 043**	**-**	**-**	**15 043**

In 2018, the exposure and impairment of the portfolio of loans to customers and provisions for off-balance sheet exposures, presents the following movements:

	Exposure				Impairment			
	Assets without a significant deterioration of credit risk since the time of initial recognition (Stage 1)	**Assets with a significant deterioration of credit risk since the time of initial recognition (Stage 2)**	**Assets in default (Stage 3)**	**Total**	**Assets without a significant deterioration of credit risk since the time of initial recognition (Stage 1)**	**Assets with a significant deterioration of credit risk since the time of initial recognition (Stage 2)**	**Assets in default (Stage 3)**	**Total**
Loans and advances to customers								
Balance on 31 December 2017	63 383 730	5 637 336	3 530 366	**72 551 431**	1 400 619	1 064 424	418 441	**2 883 484**
Impact of IFRS 9 transition					(13 594)	(263 165)	695 837	**419 078**
Changes in financial assets	3 740 723	2 410 512	(3 539 560)	**2 611 676**	(285 608)	(89 542)	(1 114 278)	**(1 489 428)**
Foreign exchange differences and other movements	1 282 928	248 886	9 194	**1 541 008**	39 982	26 910		**66 892**
Balance on 31 December 2018	**68 407 381**	**8 296 734**	**-**	**76 704 115**	**1 141 399**	**738 627**		**1 880 026**
Loan commitments and contractual financial guarantees								
Balance on 31 December 2017	64 016 784	3 000 000	117 911	**67 134 695**	230 093	30 000	117 889	**377 982**
Impact of IFRS 9 transition					(58 194)	(21 309)	(107 277)	**(186 780)**
Changes in off balance-sheet liabilities	197 067 673	(698 614)	(31 947)	**196 337 112**	(130 145)	(1 917)	54 963	**(77 099)**
Foreign exchange differences and other movements	2 283 742			**2 283 742**	69			**69**
Balance on 31 December 2018	**263 368 199**	**2 301 386**	**85 964**	**265 755 549**	**41 823**	**6 774**	**65 575**	**114 172**

As at 31 December 2018 and 2017, the Bank does not present any amounts related to overdue loans and interest.

Restructured loan operations (deferred operations) were identified in accordance with Implementing Regulation (EU) 2015/1278 from the Commission of 9 July 2015, which establishes the definition of deferred Exposures (credit restructured due to financial difficulties of the customer).

According to this Regulation, the deferral measures are concessions made to a debtor who is going through or will soon be experiencing difficulties in meeting their financial commitments ("financial difficulties”). A concession may relate to one of the following actions:

(a) changes to the terms and conditions of such contracts (in particular, the extension of repayment periods, introduction of grace periods, interest capitalisation, reduction of interest rates, forgiveness of interest or capital) considering that the debtor would be unable to meet due to his financial difficulties resulting in an insufficient debt service capacity and that would not be granted if the debtor did not go through those financial difficulties;
(b) full or partial refinancing of a problematic debt contract, which would not be granted if the debtor did not go through those financial difficulties.

A customer is considered to be in financial difficulties when has not fulfilled the financial obligations to the institution or, provided the available information, if the customer is expected to default

The Bank's restructuring procedures include: extension of initial payment terms, changing and deferring payments initially estimated, and increasing collateral. Restructuring practices and policies are based on criteria which, from the Bank's management point of view, indicate that payments are likely to continue. The risk associated with the restructuring measures applied relates mainly to the inability to comply with the new payment plans agreed, despite the restructuring performed. Following a loan restructuring, the Bank continues to monitor the customer’s financial situation, as well as compliance with the new financial plan, in order to anticipate / avoid possible defaults.

Loans granted to customers whose terms have been renegotiated, are no longer considered overdue and are treated as new loans after increase of guarantees or full payment of interest and other overdue charges.

Not all renegotiated loans would be fully due as of the reference date, depending if the negotiation had or had not taken place.

As at 31 December 2018, credit operations in the portfolio, whose terms and conditions have already been renegotiated as part of a restructuring process due to the customer’s economic difficulties, amount to Euro 45,992 (31 December 2017: Euro 6,297,870).

However, these transactions are not considered non-performing loans, under the terms defined by the Implementing Regulation (EU) 2015/1278 from the Commission.

Regarding the Commercial Banking and Investment Banking operations, the Credit Risk Department (DRC) is responsible for ensuring: (i) the detailed and independent assessment of the credit risk inherent to each credit transaction proposed by these areas; (ii) compliance with the business strategy defined by the Board of Directors and the prudential rules established by the banking supervision entity; (iii) ongoing monitoring of credit portfolio risk; and (iv) the follow-up of recovery processes in case of default.

The approval of granting of credit is the exclusive competence of the members of the Board of Directors, the Board of Directors or the Credit Committee, depending on the amounts involved, and limits of exposure per customer are planned in the internal normative regulations as well as for group of customers linked between and by business sector by geography.

For the Market Room operations, DRC ensures the regular independent assessment of the financial situation of each counterparty (institution/entity), proposing exposure limits for each of these counterparties, for approval in the Credit Committee.

DRC confirms the valuation of guarantees associated with all exposures (financial entities and non-financial entities) during the life of those operations, as well as the registration and updating of the collateral’s value in the IT system.

The amount of real guarantees reflects its fair value recorded in off-balance sheet items. For the purposes of impairment analysis, the amount of the credit covered by the collateral received is limited to the amount of the liability and cannot be considered for the coverage of other exposures of the customers.

DRC makes a monthly estimate of impairment losses for all exposures with credit risk. Every six months, DRC prepares a more detailed report of the impairments and provisions made, as well as possible write-off proposals, which are assessed and approved by the Bank's Credit Committee. This report is analysed by External Auditors, by the Supervisory Board and by the Bank of Portugal.

The write-off is proposed for operations that are considered totally irrecoverable, considering the position of legal services attached to the respective litigation.

Quantitative disclosures on credit risk management policy

a) Detail of exposures (excluding monthly commissions and advance interest) and impairment:

Segment	31-Dec-18										
		Credit in compliance				Credit in default		Impairment			
	Total exposure	<30 days overdue (without signs)	<30 days overdue (with signs)	>30 days overdue and <90 days overdue	Of which restructured	Total in default (>90 days overdue)	Of which restructured	Total Impairment	Credit in compliance (<30 days overdue)	Credit in default (between 30-90 days overdue)	Credit in default (>90 days overdue)
Public administration (regional and local)	17 701050	17 701050	-	-	0	-	-	659 252	659 252	-	-
Construction and CRE	19 900 058	19 900 058	-	-	0	-	-	130 961	130 961	-	-
Corporate	35 755 029	35 755 029	-	-	0	-	-	966 778	966 778	-	-
Others	3 347 978	3 347 978	-	-	45 992	-	-	123 035	123 035	-	-
Total	**76 704 115**	**76 704 115**	**-**	**-**	**45 992**	**-**	**-**	**1 880 026**	**1 880 026**	**-**	**-**

Segment	31-Dec-17										
		Credit in compliance				Credit in default		Impairment			
	Total exposure	<30 days overdue (without signs)	<30 days overdue (with signs)	>30 days overdue and <90 days overdue	Of which restructured	Total in default (>90 days overdue)	Of which restructured	Total Impairment	Credit in compliance (<30 days overdue)	Credit in default (between 30-90 days overdue)	Credit in default (>90 days overdue)
Public administration (regional and local)	25 220 690	25 220 690	-	-	-	-	-	777 674	777 674	-	-
Construction and CRE	11909 726	11571701	338 025	-	338 025	-	-	121371	121371	-	-
Corporate	32 021774	26 327 230	5 694 544	-	5 128 470	-	-	1892 433	1892 433	-	-
Others	3 399 242	2 567 867	831375	-	831375	-	-	92 005	92 005	-	-
Total	**72 551431**	**65 687 488**	**6 863 944**	**-**	**6 297 870**	**-**	**-**	**2 883 484**	**2 883 484**	**-**	**-**

b) Detail of the portfolio by level of risk:

	Exposure as of 31-12-2018				Impairment as of 31-12-2018			
	Assets without a significant deterioration of credit risk since the time of initial recognition (Stage 1)	Assets with a significant deterioration of credit risk since the time of initial recognition (Stage 1)	Assets in default (Stage 3)	Total	Assets without a significant deterioration of credit risk since the time of initial recognition (Stage 1)	Assets with a significant deterioration of credit risk since the time of initial recognition (Stage 1)	Assets in default (Stage 3)	Total
Construction and CRE	19 900 058	-	-	19 900 058	130 961	-	-	130 961
Corporate	28 727 073	7 027 956	-	35 755 029	331830	634 948	-	966 778
Public administration (regional and local)	17 701050	-	-	17 701050	659 252	-	-	659 252
Others	2 079 200	1268 778	-	3 347 978	19 355	103 680	-	123 035
Total	**68 407 381**	**8 296 734**	**-**	**76 704 115**	**1 141 398**	**738 628**	**-**	**1 880 026**

c) Detail of the credit portfolio by segment and year of production:

	31-Dec-18											
	Construction and CRE			Corporate			Others			Public Administration		
Year of production	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2008	-			1	1 636 460	286 380				-	-	-
2010	1	439 713	2 894	-	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-	-	1	9 490 445	43 457
2013	-	-	-	-	-	-	3	289 570	2 696	1	8 210 605	615 795
2014	-	-	-	1	11 199 679	73 704	-	-	-	-	-	-
2015	-	-	-	1	1 528 384	152 838	8	1 707 611	107 308	-	-	-
2016	2	4 318 953	28 423	2	4 560 771	313 316	2	133 016	73	-	-	-
2017	-	-	-	1	305 780	84	1	374 714	3 488	-	-	-
2018	9	15 141 394	99 644	62	16 523 955	140 656	2	843 067	9 470	-	-	-
Total	**12**	**19 900 059**	**130 961**	**68**	**35 755 029**	**966 778**	**16**	**3 347 978**	**123 035**	**2**	**17 701 050**	**659 252**

	31-Dec-17											
	Construction and CRE			Corporate			Others			Public Administration		
Year of production	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2008	-	-	-	1	1 588 866	595 825	-	-	-	-	-	-
2010	1	662 044	6 620	-	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	1	36 685	367	-	-	-
2013	-	-	-	-	-	-	4	385 483	3 855	2	25 220 690	777 674
2014	-	-	-	1	13 054 993	130 550	-	-	-	-	-	-
2015	-	-	-	1	2 293 647	229 365	9	2 255 307	83 487	-	-	-
2016	3	11 247 681	114 751	4	6 790 644	443 231	2	304 229	120	-	-	-
2017	-	-	-	14	8 293 624	493 463	1	417 538	4 175	-	-	-
Total	**4**	**11 909 725**	**121 371**	**21**	**32 021 774**	**1 892 434**	**17**	**3 399 242**	**92 004**	**2**	**25 220 690**	**777 674**

d) Detail of the gross amount of credit exposure and impairment assessed on an individual basis:

Detail of gross amount of credit exposure by geography:

Country	31-Dec-18 Gross Loan	31-Dec-18 Impairment	31-Dec-17 Gross Loan	31-Dec-17 Impairment
Angola (AGO)	21 141 752	779 931	28 440 328	861 397
United Arab Emirates (ARE)	1 636 459	286 380	1 588 866	595 825
Gibraltar (GIB)	90 704	597	62 827	6 283
Portugal (PRT)	46 919 478	624 825	39 503 719	1 183 994
United States of America (USA)	439 712	2 894	662 044	6 620
Cayman Islands (CYM)	1 528 384	152 838	2 293 647	229 365
Switzerland (CHE)	2 939 375	19 344	-	-
Netherlands (NHL)	2 008 251	13 217	-	-
Total	**76 704 115**	**1 880 026**	**72 551 431**	**2 883 484**

Detail of gross amount of credit exposure by business sector, including interest receivable:

Business sector	31-Dec-18 Gross Loan	31-Dec-18 Impairment	31-Dec-17 Gross Loan	31-Dec-17 Impairment
Food, beverage and tobacco industries	634 357	4 175	3 772 882	416 556
Textiles	305 780	84	206 300	6
Leather, wood and cork industries	500 284	3 292	-	-
Metal industries	499 891	7 232	298 871	2 989
Machinery and equipments	1 876 973	32 214	-	-
Construction	3 965 379	26 096	662 044	6 620
Trade and repair	13 394 508	379 357	6 198 437	471 066
Financial activities and insurance	8 052 925	471 387	8 264 865	869 013
Real estate activities	9 893 203	65 106	11 247 681	114 751
Other business services	16 531 786	108 794	13 280 418	132 804
Public administration (regional and local)	17 701 050	659 252	25 220 690	777 674
Other activities and Retail	3 347 979	123 037	3 399 243	92 005
Total	**76 704 115**	**1 880 026**	**72 551 431**	**2 883 484**

e) Detail of the restructured credit portfolio, by restructuring measure applied:

	31-Dec-18								
	Credit in compliance			Credit in default			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	1	45 992	1 933	-	-	-	1	45 992	1 933
Transfer of credit	-	-	-	-	-	-	-	-	-
Conversion into M/L term with the repayment plan	-	-	-	-	-	-	-	-	-
Definition of repayment plan	-	-	-	-	-	-	-	-	-
Total	**1**	**45 992**	**1 933**	**-**	**-**	**-**	**1**	**45 992**	**1 933**

Measure	31-Dec-17								
	Credit in compliance			Credit in default			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	7	6 297 870	852 212	-	-	-	7	6 297 870	852 212
Transfer of credit	-	-	-	-	-	-	-	-	-
Conversion into M/L term with the repayment plan	-	-	-	-	-	-	-	-	-
Definition of repayment plan	-	-	-	-	-	-	-	-	-
Total	**7**	**6 297 870**	**852 212**	**-**	**-**	**-**	**7**	**6 297 870**	**852 212**

f) Changes in inflows and outflows in the restructured credit portfolio:

	31-Dec-18	31-Dec-17
Opening balance	6 297 870	5 013 151
Restructured loans for the period	475 258	3 251 276
Accrued interest of the restructured credit portfolio	141	9 170
Settlement of restructured loans (partial or total)	(3 676 848)	(1 709 489)
Credits reclassified from "restructured" to "normal"	(2 757 129)	(81 667)
Credits write-offs	-	-
Other	(293 300)	(184 571)
Closing balance	**45 992**	**6 297 870**

g) Detail of the fair value of the collateral underlying the loan portfolio by segment:

Fair value	31-Dec-18							
	Construction and CRE				Corporate			
	Real Estate		Other real collateral		Real Estate		Other real collateral	
	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< 0,5 M€	-	-	2	10 641	-	-	1	300 000
>= 0,5 M€ and < 1 M€	-	-	-	-	-	-	-	-
>= 1 M€ and < 5 M€	-	-	1	3 863 778	-	-	-	-
>= 5 M€ and < 10 M€	2	16 031 536	-	-	-	-	-	-
>= 10 M€ and < 20 M€	-	-	-	-	-	-	-	16 633 572
>= 20 M€ and < 50 M€	-	-	-	-	-	-	-	-
>= 50 M€	-	-	-	-	-	-	-	-
Total	**2**	**16 031 536**	**3**	**3 874 419**	**-**	**-**	**1**	**16 933 572**

	31-Dec-17							
	Construction and CRE				Corporate			
	Real Estate		Other real collateral		Real Estate		Other real collateral	
Fair value	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount	Number of operations	Amount
< 0,5 M€	-	-	2	360 207	-	-	2	550 000
>= 0,5 M€ and < 1 M€	-	-	-	-	-	-	1	809 368
>= 1 M€ and < 5 M€	-	-	-	-	-	-	1	2 786 626
>= 5 M€ and < 10 M€	1	6 294 987	-	-	-	-	-	-
>= 10 M€ and < 20 M€	-	-	-	-	-	-	-	-
>= 20 M€ and < 50 M€	1	21 635 272	-	-	-	-	1	27 099 933
>= 50 M€	-	-	-	-	-	-	-	-
Total	**2**	**27 930 259**	**2**	**360 207**	**-**	**-**	**5**	**31 245 927**

h) LTV ratio (*loan-to-value*) by segment:

	31-Dec-18									
	Construction and CRE					Corporate				
Ratio	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment
Without associated collateral	n.a.	9 657 847	9 657 847	-	63 557	n.a.	24 249 569	24 249 569	-	892 990
With other real collaterals	n.a.	439 712	439 712	-	2 894	n.a.	11 505 549	11 505 549	-	73 788
LTV <60%	1	4 228 249	4 228 249	-	27 826	-	-	-	-	-
LTV >= 60% and < 80%	1	5 574 250	5 574 250	-	36 684	-	-	-	-	-
LTV >= 80% and < 100%	-	-	-	-	-	-	-	-	-	-
LTV >= 100%	-	-	-	-	-	-	-	-	-	-
Total	**2**	**19 900 058**	**19 900 058**	**-**	**130 961**	**-**	**35 755 029**	**35 755 029**	**-**	**966 778**

	31-Dec-17									
	Construction and CRE					Corporate				
Ratio	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment	Number of Properties	Total exposure	Performing loans	Non-performing loans	Impairment
Without associated collateral	n.a.	62 827	62 827	-	6 283	n.a.	17 694 942	17 694 942	-	1 761 310
With other real collaterals	n.a.	338 025	338 025	-	-	n.a.	14 326 832	14 326 832	-	131 123
LTV <60%	2	11 508 874	11 508 874	-	115 089	-	-	-	-	-
LTV >= 60% and < 80%	-	-	-	-	-	-	-	-	-	-
LTV >= 80% and < 100%	-	-	-	-	-	-	-	-	-	-
LTV >= 100%	-	-	-	-	-	-	-	-	-	-
Total	**2**	**11 909 726**	**11 909 726**	**-**	**121 371**	**-**	**32 021 774**	**32 021 774**	**-**	**1 892 434**

33. Fair value of financial assets and liabilities (IFRS 13)

The Bank does not disclose the difference between the book value and the fair value of the financial assets measured at amortised cost, because these financial instruments do not have an available active market and believe that the respective price conditions (applied interest rates) do not differ significantly from market rates, in addition financial instruments of greater maturity are subject to variable remuneration rates and fixed rate instruments have a maturity of less than 6 months. Thus, the Net Present Value (alternative valuation technique for calculation of fair value) corresponds, in general, to the amount presented in the balance sheet.

The information below provides a breakdown, by item, of all financial assets and liabilities measured at fair value, by type of valuation method:

	31-Dec-18			
	Level 1	Level 2	Level 3	Total
Financial assets mandatorily at fair value through profit or loss (note 5)				
Equity Instruments	-	-	537 057	537 057
Debt instruments	-	160 190	-	160 190
Investment funds	-	-	869 373	869 373
Other financial assets at fair value through profit or loss				
Investment funds (note 6)	-	-	224 373	224 373
Financial assets at fair value through other comprehensive income (note 7)				
Debt instruments	271 584 142	-	-	271 584 142
Total	**271 584 142**	**160 190**	**1 630 803**	**273 375 135**
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (note 6)	-	-	(224 373)	(224 373)
Total	**-**	**-**	**(224 373)**	**(224 373)**

	31-Dec-17			
	Level 1	Level 2	Level 3	Total
Other financial assets at fair value through profit or loss				
Investment funds (note 6)	-	-	280 923	280 923
Available-for-sale financial assets				
Debt instruments	204 694 583	-	-	204 694 583
Investment funds	-	-	897 596	897 596
Total	**204 694 583**	**-**	**1 178 519**	**205 873 102**
Other financial liabilities at fair value through profit or loss				
Structured financial resources received (note 6)	-	-	(280 923)	(280 923)
Total	**-**	**-**	**(280 923)**	**(280 923)**

There were no transfers between levels of classification, since the nature of the financial instruments did not significantly change.

The Bank's assets and liabilities fair value is measured according to the following hierarchy, in accordance with IFRS 13 - Fair Value:

Listed market prices (Level 1)

This category includes Financial Instruments with listed market price available in official markets and entities that regularly disclose transaction prices for these instruments traded in liquid markets.

The preferred price to be used are those observed in official markets, and where there is more than one official market use the main market where these financial instruments are traded.

The Bank considers as market prices those disclosed by independent entities (namely Bloomberg and Reuters), assuming they act in their own economic interest and that such prices are representative of an active market, using, whenever possible, prices provided by more than one entity (for a given asset and/or liability). In the revaluation process of financial instruments, the Bank reviews the different prices in order to select the one that is most representative for the instrument under analysis.

Under this category are included, among others, the following:
i) Derivatives traded on an organised market;
ii) Shares listed on the stock exchange market;
iii) Open-end securities funds listed on the stock exchange market;
iv) Closed-end funds whose underlying assets are only financial instruments listed on the stock exchange market;
v) Bond securities with more than one provider whose instruments are listed on the stock exchange market.

Valuation methods with observable prices/parameters in the market (Level 2)

In this category, financial instruments valued using internal models are considered, such as discounted cash flow models and option valuation models, which involve the use of estimates and require judgments that vary according to the complexity of the products being valued. Nevertheless, the Bank uses as inputs in its models observable variables in active markets, such as interest rate curves, credit spreads, volatility and indexes on prices.

Included in this category are, the following financial instruments:
i) Bonds not listed on stock exchange market;
ii) Derivatives (OTC) over-the-counter; and
iii) Commercial paper in which there are observable inputs in the market, namely yield curves and credit spread, applicable to the issuing entity.

Valuation methods with parameters not observable in the market (Level 3)

This level includes valuations determined through the use of internal valuation models or quotes provided by third parties but whose parameters are not observable in the market. The basis and assumptions for the calculation of fair value are in accordance with the IFRS 13 principles.

Under this category are included, among others, the following financial instruments:
i) Debt securities valued using inputs not observable in the market;
ii) Shares not listed on the stock exchange market;
iii) Closed-end real estate funds;
iv) Hedge Funds;
(v) Private equities; and
vi) Restructuring Funds.

The movement of financial assets valued using methods with parameters not observable in the market on 2018 can be analysed as follows:

	31-Dec-18				
	Available-for-sale financial assets (IAS 39)	Financial assets at fair value through profit or loss (IFRS 9)	Other financial assets at fair value through profit or loss	Other financial liabilities at fair value through profit or loss	Total
Opening balance	897 596	-	280 923	(280 923)	897 596
Acquisitions	-	-	-	-	-
Exits by maturity	-	-	-	-	-
Exits by settlements	-	-	-	-	-
Transfer by acquisitions	-	-	-	-	-
Transfer by exits	-	-	-	-	-
Impact of IFRS 9 transition	(897 596)	1 481 009	-	-	-
Changes in fair value	-	(74 579)	(56 550)	56 550	(74 579)
Closing balance	**-**	**1 406 430**	**224 373**	**(224 373)**	**1 406 430**

Assets classified as level 3 under the Financial assets at fair value through profit or loss category include, among others, investment units (i) in a closed-end real estate investment funds of Euro 757,186 (31 December 2017: Euro 757,135) and (ii) Equity of Euro 112,187 (31 December 2017: Euro 140,461), that were already measured at fair value in 2017.

The impact of the transition to IFRS 9 includes the reclassification of financial assets that were previously recognised at acquisition cost.

Assets classified as level 3 under the category of Other financial assets at fair value through profit or loss relate exclusively to financial investments in a Private Equity fund of Euro 224,373 (31 December 2017: Euro 280,923), which are directly related and guaranteed by Other financial liabilities at fair value through profit or loss, which use that fund as an underlying asset, for the same amount, as described in note 5.

At 31 December 2018 and 2017, the fair value of assets and liabilities is the result of the quotation provided by the respective management companies, which assess the assets and liabilities of these funds using internal methodologies that incorporate several assumptions and parameters not observable in the market. We consider that it is not reasonable to carry out a sensitivity analysis of the main variables underlying the prices calculated by these entities.

34. Recently issued accounting standards and interpretations

34.1. Voluntary policy changes

During the period there were no voluntary changes in accounting policies, compared to those considered in the preparation of the previous year financial information.

34.2 Recently issued accounting standards and interpretations applicable to the period 2018

In accordance with the endorsement made by the European Union, the following disclosures, reviews, amendments and improvements occurred with effective date of application after 1 January 2018:

a) IFRS 15 (new), ‘Revenue from Contracts with Customers’. This new standard applies only to contracts for the delivery of products or rendering of services to customers and requires the Bank to recognise revenue when the contractual obligation to deliver assets or provide services is satisfied by the amount reflecting the consideration the entity is entitled, as provided in the "5 step methodology". This standard had no impact on the Bank's Financial Statements.

b) Amendments to IFRS 15, ‘Revenue from Contracts with Customers’. These amendments refer to the additional indications below for determining the performance obligations of a contract, when recognising the revenue on an intellectual property license, revision of the indicators for the classification of the principal versus agent relationship, and the new regimes foreseen to simplify the transition. This standard had no impact on the Bank's Financial Statements.

c) IFRS 9 (new), ‘Financial Instruments’. IFRS 9 replaces the requirements of IAS 39 for: (i) the classification and measurement of financial assets and liabilities; (ii) recognition of impairment on receivables (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting. The interpretation and impact of this standard are disclosed in notes 2.4 and 2.15 (respectively).

d) IFRS 2 (amendment), ‘Classification and Measurement of Share-based Payment Transactions’. This amendment clarifies the measurement basis for cash-settled share-based payment transactions and the recognition of changes to a share-based payment plan that change its classification from “cash- settled” to “equity-settled”. In addition, it introduces an exception to the principles of IFRS 2, which requires that an share-based payment plan should be treated as if it were fully equity-settled, when the employer is required to withhold an amount of tax from the employee and deliver that amount to the tax authority. This standard had no impact on the Bank's Financial Statements.

e) IAS 40 (amendment) ‘Transfers of Investment Property’. This amendment clarifies that assets can only be transferred to and from the investment property category when there is evidence of change in the use of such property. Only the change of management intention is not sufficient to perform the transfer. This standard had no impact on the Bank's Financial Statements.

f) Improvements to standards 2014 – 2016. This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28. These changes to the standards had no impact on the Bank's Financial Statements.

g) IFRIC 22 (new), ‘Foreign Currency Translations and Advance Consideration’. This is an interpretation to IAS 21 'The effects of changes in exchange rates' and refers to determining the 'transaction date' when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert the transactions into foreign currency. This standard had no significant impact on the Bank's Financial Statements.

34.3 Accounting standards and interpretations already issued but which are not yet mandatory

Standards (new and amendments) and interpretations issued, whose application is mandatory for periods beginning on or after 1 January 2019, already endorsed by the European Union:

a) IFRS 16 (new), 'Leases' (to be applied in periods beginning on or after 1 January 2019). This new standard replaces IAS 17 with a significant impact on the accounting by lessees, who are now required to recognise a lease liability reflecting future lease payments and a "right of use" asset for all leases, except for certain short-term leases and low-value assets. The definition of a lease has also been modified, based on the "right to control the use of an identified asset." Regarding the transition regime, the new standard can be applied retrospectively or a modified retrospective approach can be followed. The standard was endorsed on 31 October 2017 and should be applied for periods beginning on or after 1 January 2019. This standard was not early adopted.

BAI Europa has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements. In addition, the Bank plans to apply IFRS 16 as of 1 January 2019, using the simplified retrospective approach, without restatement of comparative information.
The Bank plans to apply the practical file regarding the definition of a lease on the transition date, meaning that it will apply IFRS 16 to all contracts signed before 1 January 2019 and identified as a lease in accordance with IAS 17 and IFRIC 4. Thus, for leases previously classified as operating leases under IAS 17, the assets under right of use are measured by an amount equal to the lease liability, adjusted for the amount of any previous or increased lease payments related to that lease, recognised in the statement of financial position immediately before the date of initial application. Therefore, as of 1 January 2019, the impact on retained earnings will be nil.

Given the limited number of lease agreements that the BAIE holds, no significant impacts are expected on the application of this standard.

b) IFRS 9 (amendment), 'Prepayment elements with negative compensation'. (To be applied in periods beginning on or after 1January 2019). This amendment introduces the possibility of classifying financial assets with negative compensation prepayment conditions at amortised cost, provided that specific conditions are met, instead of being classified at fair value through profit or loss. This change may have an impact on the Bank's Financial Statements since it will have an impact on the SPPI tests to be performed whenever securities are acquired.

c) IFRIC 23 (new), 'Uncertainty over Income Tax Treatment'. (To be applied in periods beginning on or after 1 January 2019). This is an interpretation to IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when uncertainties exist regarding the acceptance of a certain tax treatment by the tax authorities, regarding income tax. In the event of uncertainty as to the position of the tax authority over a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12 and not IAS 37 - Provisions, contingent liabilities and contingent assets', based on the expected amount or the most probable amount. The application of IFRIC 23 can be retrospective or modified retrospectively: The application of this interpretation will be more complex for multinational companies operating in multi-fiscal complex environments. Companies must also ensure that they have a process in place that allows them to obtain the information they need to apply the interpretation in a timely basis. This interpretation is not expected to have an impact on BAIE.

34.4 New standards and interpretations already issued but not yet mandatory

a) IAS 19 (amendment), 'Changes, reductions and settlements of defined benefit plans'. (To be applied in periods beginning on or after 1January 2019). This amendment is still subject to the process of endorsement by the European Union. This amendment to IAS 19 requires an entity: (i) to use updated assumptions to determine the current service cost and net interest for the remaining period after the changes, reduction or settlement of the plan; and (ii) recognises in profit or loss, as part of the past service cost, or as gain or loss in the settlement, any reduction in the hedge surplus, even if the hedge surplus has not previously been recognised due to the impact of the asset ceiling . The impact on the asset ceiling is always recorded in Other Comprehensive Income, and cannot be recycled to profit or loss of the period. This standard is not expected to have any impact on the Bank's Financial Statements.

b) IAS 28 (amendments), 'Long-term investments in associates and joint ventures'. (To be applied in periods beginning on or after 1January 2019). This amendment is still subject to the process of endorsement by the European Union. This amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investment in associates and joint ventures), which are not being measured using the equity method, are accounted for under IFRS 9. Long-term investments in associates and joint ventures are subject to the estimated impairment loss model, before being added for impairment testing purposes to the global investment in an associate or joint ventures, when there are impairment indicators. It is expected that this standard may have an impact on the Bank's Financial Statements.

c) IFRS 3 (amendment), 'Definition of business' (To be applied in periods beginning on or after 1January 2020). This amendment is still subject to the process of endorsement by the European Union. This amendment constitutes a review of the definition of business for the purpose of accounting for concentrations of business activities. The new definition requires that an acquisition include an input and a substantial process that together generate outputs. Outputs are defined as goods and services that are delivered to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits to shareholders. 'Concentration tests' are allowed to determine whether a transaction refers to the acquisition of an asset or a business.

d) IAS 1 and IAS 8 (amendment), 'Definition of material' (To be applied in periods beginning on or after 1January 2020). This amendment is still subject to the process of endorsement by the European Union. This amendment introduces a modification to the concept of material. It includes clarifications regarding the reference to unclear information, corresponding to situations in which its effect is similar to omitting or distorting such information, within the overall context of the financial statements; and clarifications as to the term 'main users of financial statements', which are defined as 'current and future investors, fund providers and creditors' who rely on the financial statements to obtain a significant part of the information they need.

e) Improvements to standards 2015 – 2017 (To be applied in periods beginning on or after 1January 2019). This cycle of improvements is still subject to the process of endorsement by the European Union. This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

f) Conceptual framework, 'Amendments when referring to other IFRS' (To be applied in periods beginning on or after 1January 2020). This amendment is still subject to the process of endorsement by the European Union. As a result of the publication of the new Conceptual Framework, IASB introduced changes in the text of various standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of assets / liabilities and expenditure / income, as well as some of the characteristics of the financial information. These changes are retrospective, unless impracticable. This standard is expected to have an impact on the Bank's Financial Statements.

g) IFRS 17 (new), 'Insurance contracts' (To be applied in periods beginning on or after 1 January 2021). This amendment is still subject to the process of endorsement by the European Union. This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a complete "building block approach" or "premium allocation approach" (simplified). The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is retrospective. This standard is not expected to have an impact on the Bank's Financial Statements.

35. Subsequent events

After the balance sheet date and before the Financial Statements were issued, there were no significant transactions and/ or events that should be disclosed.

36. Note added for translation

These financial statements are a free translation of the financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards as adopted by the European Union. In the event of discrepancies, the Portuguese language version prevails.

Banco BAI Europa, SA

Statutory Auditors´ Report and Supervisory Board Report

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

Statutory and Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Banco BAI Europa, S.A. ("the Bank"), which comprise the Balance Sheet as at 31 December 2018 (showing a total of 1.146.002.232 euros and a total equity of 83.135.138 euros, including a net profit for the year of 5.907.569 euros), and, the Statement of Profit and Loss, Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Banco BAI Europa, S.A. as at 31 December of 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by European Union.

Basis for opinion

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

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

Key audit matters

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

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

1. **Measurement of loans to clients**

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet account Loans to Clients includes accumulated impairment of 1.880 thousand euros ("k€"), recognizing an income of 1.423 k€ in the year net profit, recorded in the Impairment for loans net of reversals and recoveries, as the amount of reversals occurred in the year amounted 1.748 k€ and the reinforcements amounted 326 k€. The gross amount of Loans to Clients amounts to 76.304 k€, which means that the accumulated impairment represents 2,46% of the loans amount. The impairment detail and the accounting policies, methodologies, concepts	We have performed the identification and evaluation of the audit risk which led to the definition of the audit approach in response to the risks of material misstatement. This approach included (i) a global response with effect on the way the audit was conducted and (ii) a specific response which resulted in the design and subsequent implementation of additional procedures, including tests of controls and substantive procedures, in particular:

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
and assumptions used are disclosed in the financial statements notes (note 2.4.1, note 9 and note 18). The impairment losses in loans to customers represents the Bank's management best estimate of the expected loss on the clients' loan portfolio with reference to December 31, 2018. For the calculation of this estimate, the Bank's management established assumptions, used external models (ECAIs), interpreted concepts and designed a model of expected credit loss ("ECL") calculation. In addition, since 1 January 2018, through the adoption of the International Financial Reporting Standard 9 - Financial instruments for the first time, the impairment loss reflects the expected loss (Incurred Loss model applied in 2017). This standard introduces two new concepts: the "significant increase in credit risk" and "forecasts of future economic conditions" (forward looking concept). The impacts of the transition are disclosed in the financial statements notes (note 2.15 and note 18). The use of the described models requires processing a significant amount of data that is not always available in the Bank's central systems, such as information on risk parameters. The use of alternative approaches, models or assumptions may have a material impact on the estimated impairment loss amount. Considering the subjectivity of the assumptions and complexity applied in estimating impairment loss, and its magnitude, we considered it as a key audit matter.	► Analytical review procedures regarding the evolution of credit impairment losses levels, when comparing them to the previous period and the expectations, which provides an understanding of the changes in the credit portfolio and underlying changes in the assumptions and methodologies on impairment losses; ► Sampling a portfolio of exposures individually assessed for impairment, to evaluate the assumptions used by the Bank's Management to quantify impairment. This analysis included: the validation of the information with the business models, the economic and financial position of the debtors and the appraisal of the collateral; inquiries to Bank's experts to determine the defined recovery strategy and confirm the assumptions made; ► With the support of internal risk specialists, we evaluated the reasonableness of the credit risk parameters used in the impairment calculation, highlighting the following procedures: i) understanding the methodology approved by the Bank's management when compared with methodology effectively applied; ii) evaluation of model changes, namely the changes in parameters aiming to reflect the expected credit loss (forward looking); iii) analysis of changes in credit risk parameters (PD, LGD and EAD) applied in 2018; (iv) on a sample basis, performed data quality substantive tests on the underlying data used to estimate credit risk parameters, and (v) inquiries to Bank experts responsible for impairment models; ► We have obtained an understanding and evaluated the design of the ECL model, recomputed the calculation, compared parameters used with the results of the ECL model and, compared the results with the impairment balance recorded in the financial statements;

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

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

The supervisory body is responsible for overseeing the process of preparation of the Bank's financial reporting and related financial disclosure.

Auditor's responsibilities for the audit of financial statements

Our objective is to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be bought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the information contained in the Management Report with the financial statements.

REPORT ON OTHER LEGAL REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, n. º 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

On additional items set out in article 10 of the Regulation (EU) n. º 537/2014

Pursuant to article 10 of the Regulation (EU) n. º 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as statutory auditors of Banco BAI Europa for the first time by decision of the general assembly of shareholders on May 16, 2017 for the period from 2017 to 2020;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report with the same date that we have prepared and delivered to the supervisory body of the Bank;
- We declare that we have not provided any prohibited services as described in article 77.º, n. º 8.º of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Bank in conducting the audit.

Lisbon, 12 April 2019

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

Silvia Maria Teixeira da Silva - ROC nº 1636
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