Annual Report and Accounts

2017

BancoBNI
Europa

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Annual report

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The strategy implemented and the performance achieved were widely acknowledged both in Portugal and abroad, and led to several distinctions including the "Consumer Choice" and "Five-Star" awards, both in the Digital Bank category, as well as the "Most Innovative Bank", "Best Internet Bank" and "Best Digital Bank" awards.

Pedro Pinto Coelho CHAIRMAN OF THE BOARD OF DIRECTORS

Message from the Chairman of the Board of Directors

Dear Shareholders,

2017 was another year of considerable growth and consolidation for Banco BNI Europa's business, shown by the launch of new products and services and investment to increase assets, the deposit base, banking income and the number of customer accounts. Indeed, Banco BNI Europa was one of the banks operating in Portugal that had the highest growth rate in 2017.

This year was especially important for consolidating the strategy defined at the end of 2015, paving the way for the launch of new products and services and the implementation of conditions to allow 2018 to be a year when all business areas will contribute to the growth of the company. Especially noteworthy was the launch of the Puzzle brand in Portugal providing an entirely online system for granting loans, the many partnerships made with international credit systems and the agreement established with an international partner for distribution in Portugal of non-recourse factoring based through an entirely online system. Although in 2017 Banco BNI Europa followed through on its business plan, the commercial strategy of the Mortgage Lending Division had to be reviewed and preparations made for the launch of new products, given that the Cereja brand under which the equity release product was to be launched was suspended following a decision by the Bank of Portugal. The company now awaits the publication of the regulation that allows this product to be sold, which will be an important social policy tool against the background of an ageing population and the increasing strain on the social security system to support the population at the end of their working lives, or when retired. Also in terms of attracting deposit and savings customers, Banco BNI Europa continued to position itself in Portugal, and in the European jurisdiction where it operates, as a leading player in the supply of products and services that have a higher return on the market, at a competitive cost and based essentially on digital tools.

In 2017, the customer relations systems and channels were improved, in line with the digital banking strategy. At the same time, Banco BNI Europa continued to closely monitor the financial markets and to invest in public and corporate debt securities, which are important to maintain income during a business phase when investment in innovation and development and the launch of new products and services remains a significant outlay.

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As a result of the success and growth achieved, the workforce had to be adapted accordingly in all areas of the Bank (business, support and control), which led to an increased number of employees for the third successive year. At the same time, the Bank changed its headquarters and since late August 2017 has been operating in modern facilities located in Tower 1 of the Amoreiras Shopping Centre, thus providing a better working environment for its staff, better quality service for its customers and having significant room for future organisational growth.

In 2018, Banco BNI Europa aims to maintain the growth levels it has achieved, increase its supply of products and services, continue to improve its quality of customer service, namely by means of more robust and innovative digital means including a system to open an account entirely online, continue efforts for a more thorough internal control system and to maintain its financial performance. To do so, the will continue to invest in technology and qualified and flexible human resources, as well as broadening the range of supply of the Puzzle brand through innovative products such as Puzzle Fits, Puzzle POS, Puzzle Card, and the launch of FLEX Credit, a multi-purpose mortgage product, in addition to consolidating partnerships with *Parcela Já* (purchases made in instalments using a credit card), Ebebex (online non-recourse factoring) and 'Academia de Código' related credit for socially responsible consumption to support training for the unemployed. Simultaneously, the Bank will continue to invest abroad by developing partnerships and establishing new relationships with online systems to buy credit and attract deposits.

We believe this positioning will enable Banco BNI Europa to keep high growth rates, profits and solvency, becoming a benchmark in the new Fintech generation of European banks through the introduction of innovation into the Portuguese market, thus filling the gap in supply for customers whose needs are not met by the other financial institutions in the market.

I. Vision, mission and values

VISION

Banco BNI Europa, as a young bank still in its consolidation phase, aspires to be a benchmark in financial sustainability, operating efficiency and image in the domestic and international markets. We believe that the only way to contribute towards the success of our customers, shareholders, employees and other stakeholders is by supplying *i)* innovative and competitive solutions, *ii)* operating in new business segments and *iii)* establishing solid partnerships to leverage added value.

MISSION

We aspire to be a benchmark bank, with in-depth knowledge of the financial sector and the markets where we do business, by creating innovative products and services and following high standards of conduct and ethics, together with corporate principles of transparency and rigour.

VALUES

Customer Focus

Creation of products and services centred on customer needs, fully committed to exceeding their expectations to provide satisfaction and encourage loyalty.

Confidence

Customers are our most important asset. We build relationships for the future based on confidence, business sustainability, confidentiality and transparency.

Rigour

We do business in an ethical, conscientious, responsible and professional manner.

Innovation

We are geared towards innovation, constantly creating new tools, methodologies, products and services which put us at the cutting edge of the financial market.

Teamwork

We respect people. We share the responsibility for improving our performance to achieve our goals for everyone's success.

Banco BNI Europa sees itself as a benchmark bank in the Portuguese financial system for the quality and innovation of the products and services it offers to customers, its cooperative, transparent relationship with the regulatory authorities and its healthy relationship with all of its employees.

Banco BNI Europa's Code of Corporate Conduct and Ethics is reviewed on an annual basis and is a declaration of the ethical values and professional standards which the members of the Board of Directors and employees promise to follow, without exception, to sustain and strengthen our reputation for integrity, fairness with our partners and assumption of calculated risks. Banco BNI Europa undertakes to abide by the following tenets with its customers and the financial system:

- Honesty
- General obligation to confidentiality
- Equal treatment
- Prioritising of customer interests
- Technical competence, diligence and transparency
- Cooperation with customers
- Fair, respectful, discreet and non-discriminatory treatment of customers
- Fight against money laundering and terrorist financing
- Prohibition on the use of confidential information
- Manage conflict of interests
- Defence of the market
- Process complaints

With a view to fulfilling its obligations, the Bank has a governance and internal control model proportional and suited to financial sector regulations and the size and complexity of its business, based on policies, regulations and procedural manuals on relevant issues such as preventing and managing conflicts of interest and reporting irregularities, which shall be reviewed on a regular basis in line with their importance.

II. Code of conduct and ethics

III. Main indicators and highlights

Growth
Innovation
International
Team

2017 was Banco BNI Europa's third full financial year, and a year of consolidating the business and the strategy defined in late 2015. 2017 was an extremely positive year during which the results of previous years were reversed, with the Bank recording a net profit for the first time. As well as the net profit, 2017 was also an important year for the Bank owing to the launch of products and services that differ from anything available in the Portuguese market.

The following main business indicators are highlighted:
(data in thousands of euros)

2,286	509,474	309,765	313,119	29,600
Net Income	**Total Assets**	**Customer Deposits**	**Own Portfolio**	**Equity**

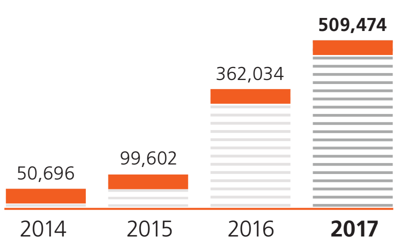
Balance Sheet Indicators

data in thousands of euros

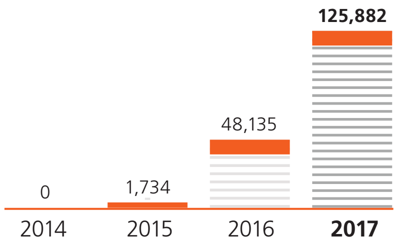
BUSINESS	2014	2015	2016	2017
Total Net Assets	**50,696**	**99,602**	**362,034**	**509,474**
Turnover[(1)]	1,190	34,545	534,657	762,797
Loans to Customers[(2)]	0	1,734	48,135	125,882
Customer Funds[(3)]	752	4,956	264,765	309,765
Own Portfolio[(4)]	3	13,841	206,234	313,119
Off-balance-sheet	434	14,014	15,523	14,031
Number of employees[(5)]	18	17	43	57
Number of customers	11	117	8316	11,731
Turnover per employee	64	1,685	12,434	13,382
Transformation ratio[(6)]	0%	35%	18%	41%

(1) Includes Loans to Customers as per note (2), Customer Funds as per note (3), Own Portfolio and Off-Balance Sheet Assets.
(2) Includes Loans to Customers, Commercial Paper and Investment Units in Funds or Bonds whose underlying assets are loans.
(3) Includes Funds from Other Credit Institutions, non-institutional or corresponding banks.
(4) Includes financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets, not including financial assets already appearing under the item "loans to customers".
(5) Includes external employees working full-time for the Bank.
(6) Calculated based on the item "loans to customers" as per note (2) and on customer funds.

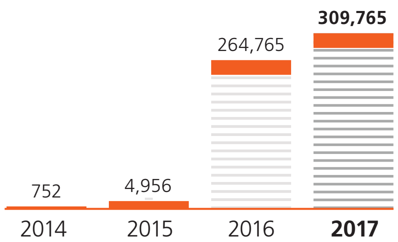
TOTAL ASSETS



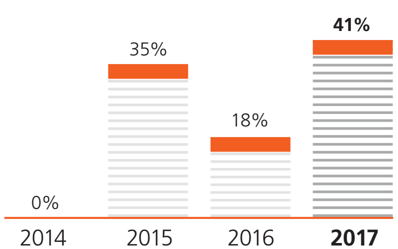
LOANS TO CUSTOMERS



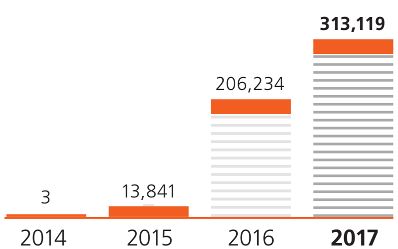
CUSTOMER DEPOSITS



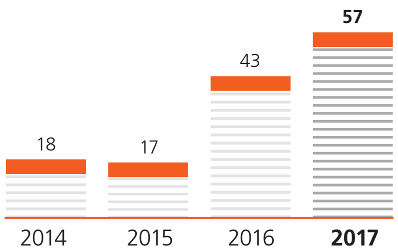
TRANSFORMATION RATIO



OWN PORTFOLIO



NUMBER OF EMPLOYEES



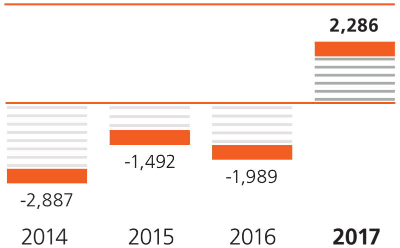
Outcome Indicators

data in thousands of euros

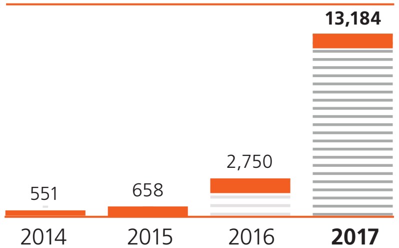
BUSINESS	2014	2015	2016	2017
Financial Margin	340	403	2	2,646
Net Fees	23	229	1,392	3,876
Financial Transaction Results	-29	21	2,213	10,291
Other Operating Results[1]	217	5	38	10
Banking Income	551	658	2,750	13,184
Banking Income per Employee	31	39	64	231
Operating Costs[2]	3,393	3,412	5,365	7,698
Cost to Income	616%	518%	195%	58%
Provisions and Impairment	0	-196	131	2,594
of which impairment for loans	0	-67	4	524
Cost of Risk (bp)	0	-385	1	55
Result for the Year	**-2,887**	**-1,492**	**-1,989**	**2,286**
Return on Assets (ROA)	-5.7%	-1.5%	-0.5%	0.5%
Return on Own Equity (ROE)	-14.0%	-5.3%	-7.9%	8.3%

(1) Includes Income from Capital Instruments.
(2) Includes capitalised income and expenses in projects with future economic benefits.

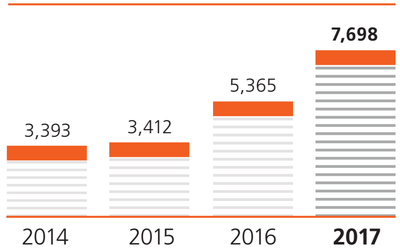
NET INCOME



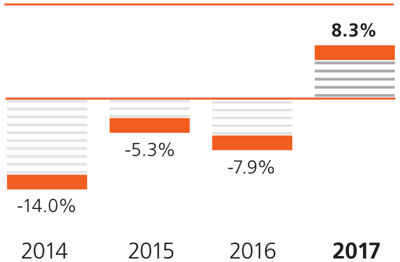
BANKING INCOME



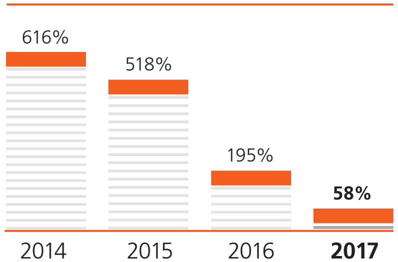
OPERATING COSTS



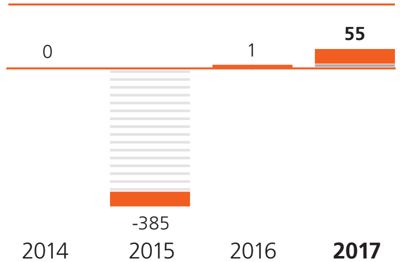
ROE



COST TO INCOME



COST OF RISK

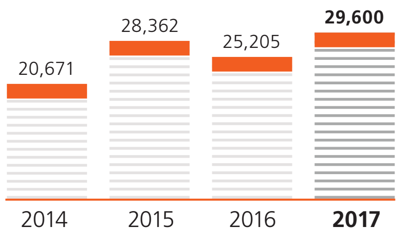


Capital Indicators

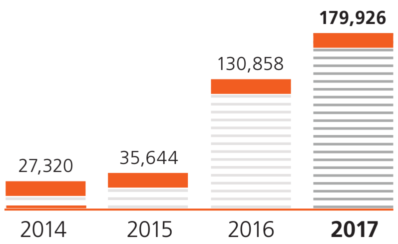
data in thousands of euros

BUSINESS	2014	2015	2016	2017
Own Equity	20,671	28,362	25,205	29,600
Equity	19,182	25,682	20,830	23,303
Risk-Weighted Assets (RWA)	27,320	35,644	130,858	179,926
Solvency Ratio	**70.2%**	**72.1%**	**15.9%**	**13.0%**
Common Equity Tier 1 Ratio (CRD IV/CRR phasing in)	70.2%	72.1%	15.9%	13.0%
Common Equity Tier 1 Ratio (CRD IV/CRR fully implemented)	70.2%	68.7%	14.7%	12.8%

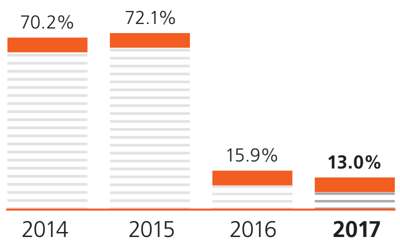
EQUITY



ASSETS WEIGHTED BY RISK



COMMON EQUITY TIER 1 RATIO



Highlights of the Year

Awards from specialised Portuguese and foreign press, including:

Portuguese:

"Banco que mais cresceu" (Highest growth bank) awarded by **Revista Exame** magazine

"Escolha do Consumidor" (Consumer Choice) in the **Digital Banking** category

International:

"5 Estrelas" (5 Stars) in the **Digital Banking** category

"Excellence in Growth for Retail Banking Portugal 2017" awarded by "**Finance Digest**" (second successive year)

"Bank of the year - Portugal 2017" awarded by "**The European**"

"Best Digital Bank Portugal 2017" awarded by "**Global Banking & Finance Review**" (second successive year)

"Best Internet Bank – Portugal 2017" awarded by "**Global Business Outlook**" (second successive year)

"Most Innovative Bank – Portugal 2017" awarded by "**International Finance**" (second successive year)

The following highlights occurred at Banco BNI Europa in 2017:

Type of Lending

Launch of ***Online* Puzzle Credit**.

Diversification of investment in loans and attracting term deposits using **digital platforms**.

Launch of partnership with **Parcela Já**.

Launch of Factoring product in partnership with **Edebex**.

Bank Products and Services

Launch of the **Cereja** brand and the **Crédito Inverso (Inverse Credit)** product.

Note: This product is suspended in the wake of the Bank of Portugal decision. The company is awaiting publication of the regulation that will allow this product to be sold.

Launch of the income--earning **Current Account**.

Launch of the **Visa Electron Debit Card**.

Launch of the **Homebanking** site for Companies.

In General Meetings of Shareholders held on 21 March 2016, 15 June 2016 and 27 March 2017, shareholders appointed the Bank's new corporate boards for the time period of 2016- 2019, comprised of the following members:

GENERAL MEETING OF SHAREHOLDERS

Pedro Miguel Patrício Raposo | Chairman
Marta Guerreiro Pereira Rosa | Secretary

BOARD OF DIRECTORS

Pedro Nuno Munhão Pinto Coelho | Chairman
António Miguel Maurício Rola Costa | Member
Nuno Luís do Rosário Martins | Member

In February 2017, Carlos Alberto Rodrigues Ballesteros Amaral Firme resigned from his post as a member of the Board of Directors, where he performed a non-executive role. The process to replace this non-executive director is suspended in compliance with the Bank of Portugal authorisation.

EXECUTIVE COMMITTEE

Pedro Nuno Munhão Pinto Coelho | Chairman
António Miguel Maurício Rola Costa | Member
Nuno Luís do Rosário Martins | Member

SUPERVISORY BOARD

Telmo Francisco Salvador Vieira | Chairman

João Carlos Espanha Pires Chaves | Member

Isabel Paiva, Miguel Galvão & Associados SROC Lda. | Member
(Represented by Isabel Gomes de Novais Paiva)

José Luís Guerreiro Nunes | Substitute Member

In February 2017, Rui Manuel Lopes Amendoeira resigned from his post as member of the Supervisory Board, and this post was occupied by the Substitute Member between April and June 2017, and subsequently by the Member João Carlos Espanha Pires Chaves.

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados – SROC, Lda. | Statutory Auditor
(Represented by Carlos José Rodrigues Figueiredo, Statutory Auditor (ROC) No. 1737)

Carlos Manuel Sim Sim Maia - Statutory Auditor (ROC) No. 1138 | Substitute Statutory Auditor

In the General Meeting held on 15 July 2016, the composition of the Senior Board was decided, which is a consultation and bank support body. The Senior Board comprises the following members:

Mário Abílio Pinheiro Rodrigues Moreira Palhares | Chairman

José Teodoro Garcia Boyol | Member

Sandro da Cunha Pereira Africano | Member

Pedro Paulo Louro Palhares | Member

António Luís Pimentel Araújo | Member

V. Macroeconomic background

According to estimates from the International Monetary Fund (IMF), the world economy grew 3.7% in 2017, which is a rise of 0.5p.p. compared to 2016. This growth is the result of a combination of several factors including: expansionist monetary policies, good indicators from the job market, good international trade relations and the rise in the price of raw materials.

Especially noteworthy was the performance of the European and Asian economies, which clearly surpassed expectations. China, the world's second biggest economy, grew 6.8% which was higher than the 6.5% estimate, while the euro zone economy grew 2.5%, which was its highest growth rate since 2007.

Upon approval of the tax reform in the United States, the first steps for its implementation were taken in 2017. Although this reform has made little impact so far, it is expected to give a significant boost to the U.S. economy, in turn driving growth in the global economy.

While on the one hand the climate is positive, economic activity is on the up and current financing can leverage strong growth, on the other hand there are weaknesses and/or significant economic and financial risks that must be considered for 2018.

U.S. economy

2017 was a year of economic recovery for the United States of America (USA). Albeit moderate, this recovery follows a year in which the growth of the U.S. economy had been its slowest for five years.

In the last three months of 2017, the U.S. economy grew 2.6%, which was less than the 3.2% achieved in the previous quarter and lower than the market estimate of 3%. However, in annual terms, the U.S. economy grew 2.3% compared to 1.5% growth in 2016.

The rise in private consumption was the main factor driving economic growth – the biggest increases occurred in services (1.8% compared to 1.1% the previous year), durable goods (14.2% compared to 8.6%) and non-durable goods (5.2% against 2.3%). In terms of the balance of trade, exports increased 6.9% while imports were 13.9% up, after they had fallen (-0.7%) in the previous year. Therefore, the impact on the balance of trade was -1.13% (+0.36% in relation to 2016).

In the job market, the unemployment rate in December 2017 was 4.1% compared to 4.8% at the start of the year, which equates to a fall of 926,000 in the number of unemployed. The annual inflation rate was 2.1%, although it fluctuated throughout the months of 2017. These indicators also reflect the efforts of the American Federal Reserve (FED) to bring about economic stability. The FED's goal is to standardise monetary policy, raising the reference rate targets/ranges three times (in March to the 1.00% target, in June to 1.25% and in December to 1.50%) and in October starting the process of gradually reducing the volume of financial assets purchased through its *Quantitative Easing* programme (FOMC 2017).

Also noteworthy is the evolution of the Consumer Confidence Index (CCI), to 2014 maximums. The CCI reached a maximum of 101.00 in November 2017, falling back to 100.98 in December 2017.

The taxation plan proposed by the Trump Administration – The Cuts and Jobs Act – was passed, which is expected to be an important economic tool that will have a positive impact on economic growth of 0.3 p.p. in 2018 and 0.2 p.p. in 2019. This plan aims to establish a set of permanent tax cuts for companies and individuals, simplifying the tax deduction and credit system for families and companies, and at the same time getting rid of or reducing some of the current deductions in order to finance the tax reductions.

Euro area economy

The euro area economy grew 2.6% in the third quarter of 2017 in relation to 2016, in line with expectations and above the 2.4% registered in the previous quarter. The Euro Zone countries that showed the highest economic growth in the third quarter include Romania (8.6%), Malta (7.7%), Latvia (6.2%) and Poland (5.2%). Growth was driven mostly by domestic demand, private consumption and investment. Economic activity was boosted by policies adopted recently, more favourable financial conditions and a relatively low oil price, in addition to the gradual recovery of the job market and easier access to bank credit.

The evolution of the employment rate was also positive, continuing its downward trend and reaching 8.7% in November 2017, its lowest level since January 2009. This figure is partly explained by the rise in the consumer confidence indices in the Euro area: the composite Purchasing Managers Index (PMI) rose 57.5 points in November to 58.1 points in December (highest reading since February 2011). In December, growth was again led by industrial production, which had its sharpest jump since the index began in June 1997. Services accelerated at their quickest pace since 2011, while job creation remained at a 17-year high.

Despite being in a positive cycle, inflation is still a long way off the European Central Bank's goal. Inflation in the Euro area dropped from 1.5% in November to 1.4% in December. Although price rises slowed down at the end of the year, the inflation rate was higher than the figure for the previous year (1.1% in December 2016). Prices were driven up mainly by fuel, tobacco and dairy products, while telecommunications and clothing put the brakes on a sharper rise. Leaving out energy and food costs, the annual rise in prices was 0.9%.

Portuguese economy

In 2017, growth in the Portuguese economy was boosted by the favourable international climate, borne out in an acceleration in external demand and a general improvement in monetary and financial conditions, aided by a broad set of monetary policy measures adopted by the European Central Bank. The ongoing economic recovery continued to have low inflationary pressures, both in the domestic and foreign markets, and the behaviour of the worldwide job market is particularly interesting from this point of view.

According to the current Bank of Portugal forecasts, GDP will grow 2.6% in 2017, steadily decelerating to 2.3% in 2018, 1.9% in 2019 and 1.7% in 2020. Should this come to pass, GDP growth rates will recover in mid 2018 to the levels seen before the international financial crisis, and will be around 4% above this level in 2020.

Domestic demand remains the bedrock of the economic recovery, with forecast growth of 2.7%, along with the positive export levels of goods and services, which will be 7.7% up on the same period the previous year. However, the most dynamic component of global demand in 2017 was the Gross Fixed Capital Formation (GFCF), which registered growth of 8.3% in 2017, clearly reflecting the recovery of corporate investment.

The job market has recovered significantly, with the unemployment rate dropping from 11.1% in 2016 to 9.2% in 2017 (Bank of Portugal estimate). However, the unemployment rate among the young remains high, which is also one of the major structural problems of the Euro area. The latest rate published by the Portuguese National Statistics Office (INE) is 25.6%.

The year 2017 was also marked by an increase in inflation (measured by the HICP), with the annual forecast rate of 1.6%, on the back of a 0.6% rise in 2016 and in line with the forecast data for the Euro area. Price rises in services related to the growing relevance of tourism in Portugal's economy and the recovery of oil prices contributed to this rise.

Up to November 2017, and according to the Bank of Portugal, the balance of trade in goods and services recorded a surplus of €3,838 million, albeit €513 million down on the figure from the previous year. The increase in the surplus of the balance of trade accounted for by services of €2,146 million was not enough to offset the rise in the deficit of the balance of trade of goods of €2,658 million. In the first eleven months of 2017, the financial balance of trade recorded an increase in Portugal's net assets abroad of €3,393 million. This increase is essentially down to investment in debt bonds by the financial sector and the reduction in central and local government liabilities. Also worthy of mention is the early repayment of €2,758 million in November 2017 to the International Monetary Fund, of the loan which was part of the Economic and Financial Assistance Programme.

According to the Directorate-General for Budget (DGO), central and local government budget implementation as at the end of 2017 had a €2,573.6 million deficit, €1,607.5 million less than the same period in 2016. This trend resulted in revenue growth (+3.8%) which was higher than expenditure (+1.6%), with a primary balance surplus of €5,725.4 million, up €1,667.2 million year-over-year. The increase in revenue also reflects a positive evolution in tax revenue, which was 4.7% up, 2.1% higher than forecast in the 2017

Budget, and increased social security contributions (+2.8 p.p.), which translated into 4.5% more revenue year-over-year. Tax enforcement was boosted by more collection of taxes such as VAT (+2.0 p.p.) and IRC - income tax (1.2 p.p.), which translated into 5.9% and 9.9% growth in these revenues compared to the previous year, respectively.

The Maastricht criteria public debt was 130.8% of GDP at the end of the third quarter of 2017, compared to 130.1% at the end of 2016. This result, which is 1.2 p.p. lower than the GDP in relation to the previous quarter, benefited from the denominator effect given that in nominal terms the debt stock increased. As for the net deposit debt, using the Maastricht criteria it was 2.2 p.p. down of GDP, to 119.3% of GDP.

Angolan economy

The year 2017 was marked by elections in Angola leading to a new President. The Ministry of the Economy and Planning (MINEP) forecast 1.1% growth in GDP in 2017, based on higher average oil production from 1.74 million barrels/day in 2016 to 1.79 million barrels/day in 2017.

The increase in the price of a barrel of oil on the international markets led the Angolan government to increase their initial expectations for tax enforcement. The latest data points to a 40.9% rise in oil taxes in relation to the figure initially forecast. The main Angolan tax challenges in the coming years are related to increasing the efficiency of tax collection, as the Angolan government intends to implement VAT in 2019.

For 2017, the Angolan government estimates the annual inflation rate will have reached 22.9% in December and that next year it will worsen to 28.7%. However, recent data published by the National Statistics Office show an inflation rate (CPI) of 26.3% at the end of 2017, which is equivalent to an average inflation rate of 32.2% in 2017 (32.1% in 2016). The worsening inflation rate in 2018 should reflect the impact of the exchange rate adjustment announced by the Government and the National Bank of Angola, that has now begun.

Angolan domestic debt stock rose to 5.3 billion kwanzas (€26.5 billion) by the end of 2017, while foreign debt reached 4.4 billion kwanzas (€22 billion). In 2017, in the issue of one-year treasury bonds alone, the Angolan state paid 23.9% interest according to the National Bank of Angola data. These figures correspond to a public debt stock more than 60% over the estimated Angolan GDP for 2017. The latest data disclosed by members of the Angolan government point to the need to renegotiate the debt, not only as regards its maturity (switching from short-term debt to longer term maturity), but also in order to increase the proportion of debt in Kwanzas (AOA).

According to the Angolan Budget, the budget balance will go from -4.5% of GDP in 2016 to -5.3% in 2017, given that public expenditure will continue to grow faster than revenues. In spite of oil revenues (which account for 52% of Angola's public revenue) growing 24% year-over-year, total revenue grew only 12%, which was less than the growth in total expenditure (+16%), of which the public debt interest payments were a huge proportion. The need to finance successive deficits has worsened Angola's public debt interest rates, as reflected in the cost of financing growing 51% and in consecutive downgrades of the country's rating. At the same time, the fact that a significant part of the public debt is issued in American dollars (USD) has also contributed to the increased cost of financing.

Hence, from the start of 2018, the National Bank of Angola will use the EUR/AOA exchange rate as the benchmark rate, instead of the USD/AOA rate.

The reasoning behind this measure lies in the fact that the national currency is overvalued and there is a considerable discrepancy between the formal exchange rate on the market and the parallel exchange rate used. This measure coming into force will allow the managed exchange rate system to be changed to a floating exchange rate with bands. The maximum and minimum bands will be decided in currency auctions between the National Bank of Angola and commercial banks.

For 2018, the Angolan macroeconomic situation depends on developments in external factors, such as the Brent price on the international markets and the impact that the exchange rate adjustment has on the prices of goods and services, as well as its impact on the public debt ratio as a percentage of GDP and on public expenditure (affecting the components listed in foreign currency).

VI. Background to the Portuguese banking sector

In 2017 several operations took place in the Portuguese banking sector. Portugal's major banks were practically all submitted to some kind of intervention: the capital injection for BCP (€1.3 billion), the completion of the second phase of the recapitalization plan for CGD, the completion of CaixaBank's public offer for BPI, the announcement by the Bank of Portugal of the sale of Novo Banco to LoneStar, the sale of Banco Popular Espanhol, S.A. to Banco Santander S.A. as part of the resolution measure applied to Banco Popular and the approval by Associação Mutualista Montepio to transform Caixa Económica Montepio Geral into a public limited company.

According to data referring to the third quarter of 2017 published by the Bank of Portugal, the banking system's total assets were up 0.3% to €385 billion, reflecting an increase in cash equivalents in central banks and loans granted to central and local government bodies – still high in the European context – which was partially offset by the reduction in public debt bonds held by the banking sector. Furthermore, loans to non-financial companies again dropped while loans to private customers remained stable in the third quarter of 2017.

The ratio between Capital Tier 1 and total assets increased 0.1 p.p., while the total solvency ratio was 14.7% in September 2017, which was slightly up on the previous quarter. Moreover, the Common Equity Tier 1 (CET1) ratio was 13.5%, which was 0.3 p.p. up on the second quarter of 2017, reflecting an increase in Capital CET 1 and a reduction in Risk-Weighted Assets (RWA).

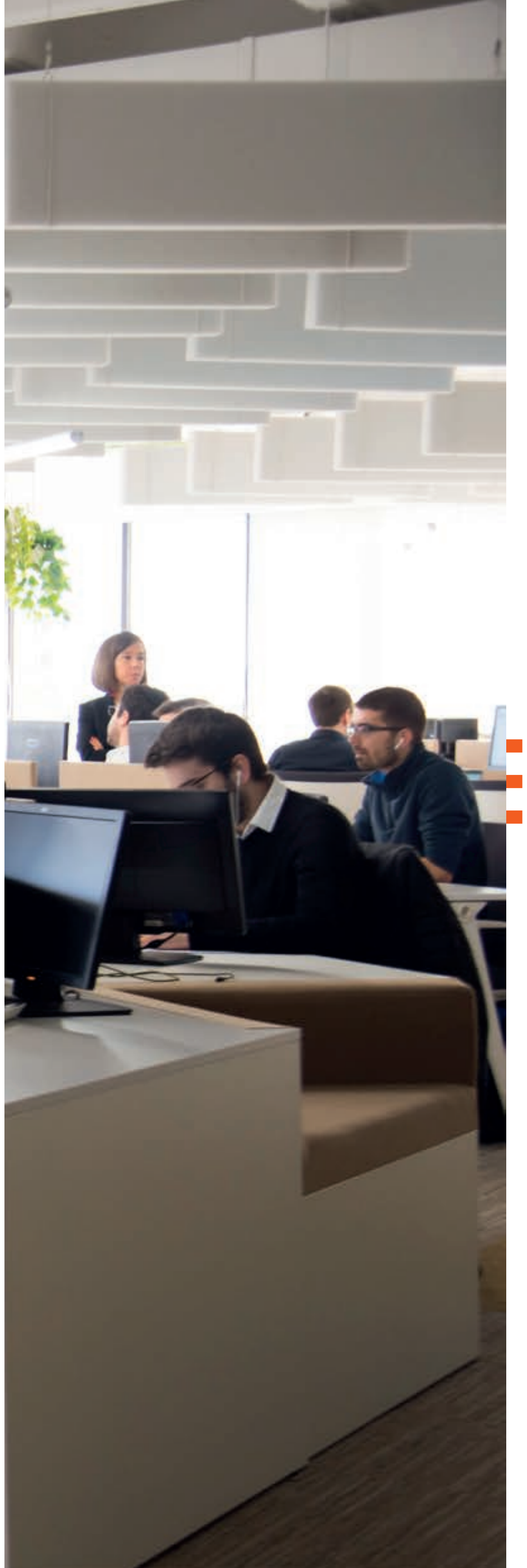
The leverage process of the Portuguese banks resulted essentially in reducing their international exposure. In 2017, according to data from the Association of Portuguese Banks (APB), the countries whose national banks had the highest exposure were Poland (22.2%), Spain (21.6%) and Italy (7.6%).

As for liquidity, the financing of the central banks was 2.8% down on the figures in 2016. Compared to the previous year, there was a larger number of Long-Term Refinancing Operations (LTRO) instead of Main Refinancing Operations (MRO) and other central bank resources. The net assets of the Portuguese banking system increased slightly and mainly comprise public debt bonds, cash equivalents in central banks and cash.

The Non-Performing Loans (NPL) ratio was 14.6% in September 2017, mainly because of the reduction in NPL by non-financial companies (-5.2% compared to June 2017, which equates to €-1.4 billion). However, NPL stock remains high in the euro area.

Growth in the results of financial operations and the sharp fall in the flow of impairments, especially relative to credit, contributed to a rise in the Return on Equity (ROE) of 4.7% and a Return on Assets (ROA) of 0.4% in the first three quarters of the year.

The cost-to-income ratio of the national banking system remained at the same level as 2016 at 61%, thanks to the stabilisation of operating costs due to the increase in non-recurring staff costs, in the wake of the restructuring process in some national institutions.



Business in 2017

Weaknesses in the Angolan economy since 2014 led to a redefinition of the Bank's strategy at the end of 2015 to focus on making BNI's business autonomous, which is an Angolan bank and benchmark shareholder of Banco BNI Europa. This strategic overhaul steered business towards the European market and market niches in Portugal, with the creation of new business areas for this purpose, whose products and services were partially launched in 2017. These new market offerings involved products and services supplied on its own and in partnership, which are innovative and provide added value vis-à-vis the current banking and financial market.

2017 was therefore a year of consolidation of strategy and growth, both as regards attracting deposits from resident and non-resident customers and through increased loans to customers through Fintech platforms or through the Bank's products and services, leading to a bigger financial margin. It was also a year of continuing investment in its own portfolio with the goal of increasing returns, either through the financial margin or by generating capital gains by selling bonds.

2017 was extremely important because of the launch of proprietor brands such as Puzzle and Cereja, the Online Credit and Inverse Credit products, and the establishment of several partnerships for the Portuguese and international market, which boosted the Bank's standing and the market's perception of its positioning and business. This recognition is shown in the different awards attributed to the Bank, in Portugal and abroad, in a wide range of categories. In relation to products, it should be noted that the Inverse Credit product was suspended by the Bank of Portugal, and the company is awaiting the passing of specific legislation that will allow the relaunch of this brand and product. In addition to the products and services

launched in 2017, new credit products were developed that will lead to a broader supply and increase the customer base.

2017 was also important because of the establishment of peer-to-peer system partnerships to attract deposits and for loan acquisition, the latter of which is one of the strategic pillars defined by the Bank. Also in 2017, the Bank launched the income-earning current account for the retail and corporate segment, with no associated fees, which offers 1% remuneration on accounts that have a balance of between €1,000 and €5,000.

To complete the supply of products to its customers, the Bank also launched its Visa Electron card in 2017.

To provide the foundation for the expected growth of the Bank's business, the internal reorganisation continued, strengthening the business, support and auditing areas, focusing especially on the Credit, Information Technology, Accountancy, Planning and Statistics, Internal Control and Risk, Legal and Organisation Departments.

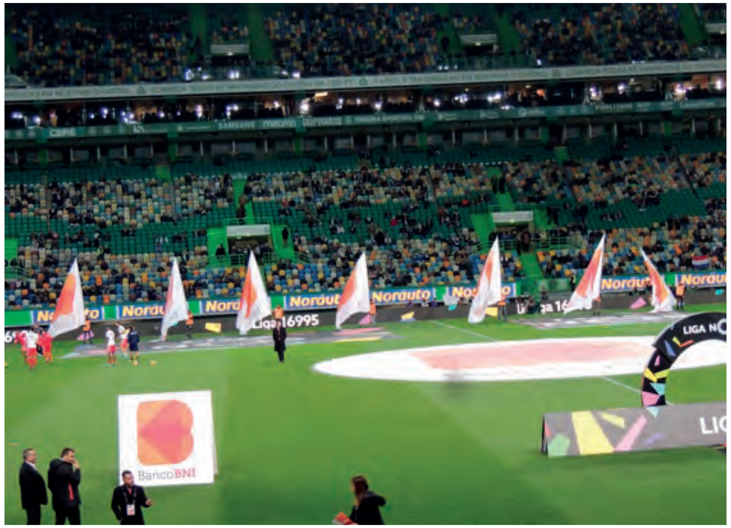
The Bank has continued to invest in improving its Information Technology resources and its partnerships with digital banking benchmark entities. Alongside the launch of the Puzzle brand, the Bank also launched the website and system to enable loans to be acquired totally online.

The Bank launched its Homebanking website for its corporate companies, and in early 2018 will launch the functionality to allow an account to be opened 100% online for private customers, while the development of essential applications for the new products and partnerships has also begun.

In terms of disseminating the brand, Banco BNI Europa, in partnership with its shareholder BNI, has been a visible presence at the Alvalade XXI stadium as the sponsor of Liga NOS football matches, in addition to permanent static advertising in the stadium and at Sporting's academy.

Throughout 2017, the Bank developed a marketing strategy to reach out to potential customers and boost the recognition of the Banco BNI Europa, Puzzle and Cereja brands through campaigns on the radio and in the press, namely in the Expresso and Público newspapers and the Sábado and Visão magazines, as well as digital Display and Adwords campaigns. This marketing strategy will intensify in 2018, shifting to digital media in order to target other segments.

The year 2017 also witnessed considerable initiatives abroad, through participation in a wide range of worldwide events, commercial and institutional presentations, and negotiation and formalisation of partnerships and/or partnership projects, which will leverage sharp growth in this market, both in terms of attracting deposits and in the acquisition of financial credit instruments.



As a result of the various initiatives organised, its international visibility and the results achieved in 2017, Banco BNI Europa won awards (in some cases for the second successive year) from the specialised press, both Portuguese and foreign, recognising the actions carried out by the Bank, and its strategy of investing in innovative multi-channel solutions, namely:

- "Banco que mais cresceu" (Highest growth bank) awarded by Revista Exame
- "Escolha do Consumidor" (Consumer Choice) in the Digital Banking category
- "5 Estrelas" (5 Stars) in the DIGITAL BANKING category
- "Excellence in Growth for Retail Banking Portugal 2017" awarded by "Finance Digest" for the second year running
- "Bank of the year - Portugal 2017" awarded by "The European"
- "Best Digital Bank Portugal 2017" awarded by "Global Banking & Finance Review" for the second year running
- "Best Internet Bank – Portugal 2017" awarded by "Global Business Outlook" for the second year running, and
- "Most Innovative Bank – Portugal 2017" awarded by "International Finance Magazine".

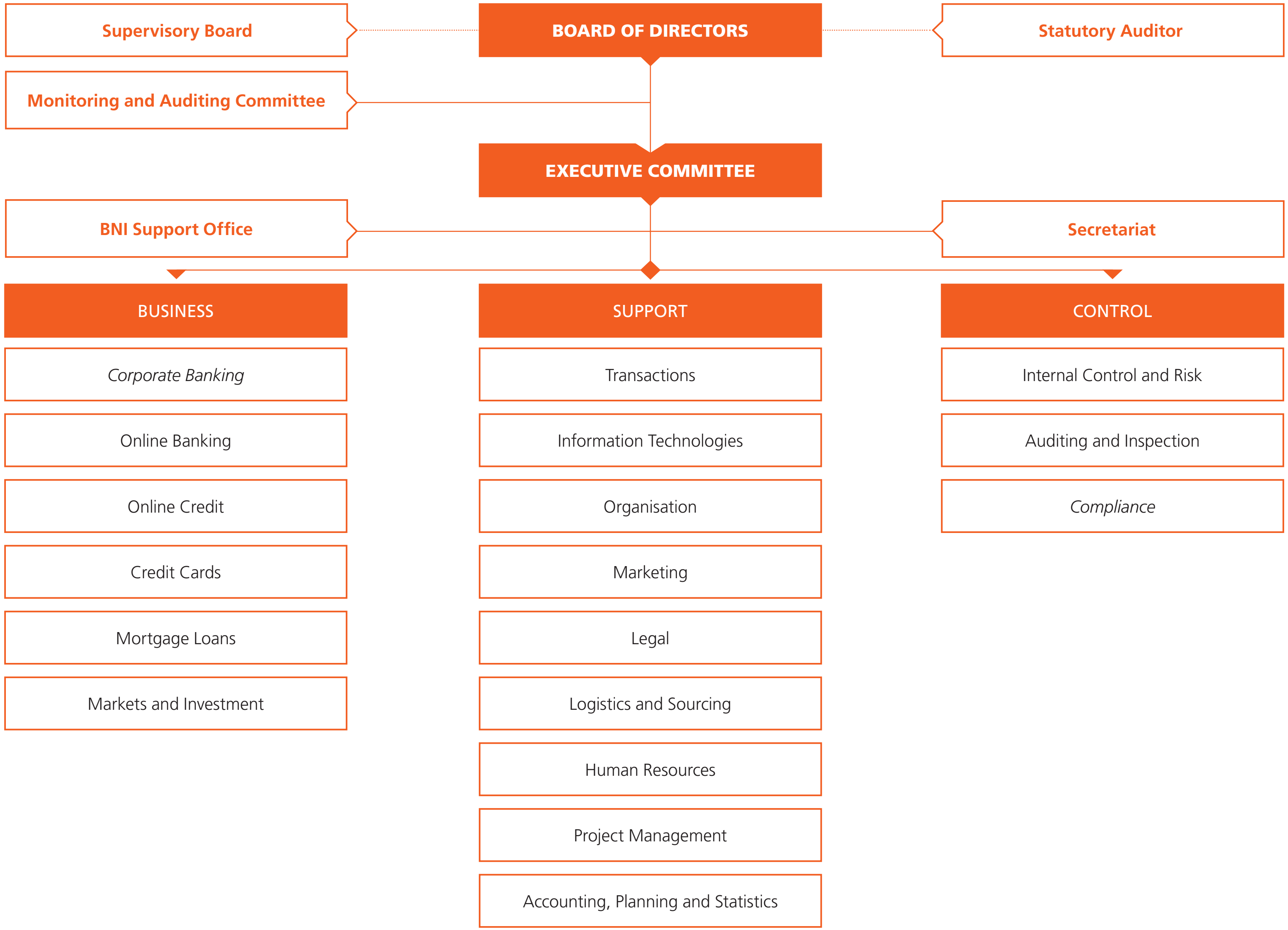
2018 Business Prospects

Based on the achievements of 2017, 2018 is a year of great importance to the Bank. The goals laid out are ambitious, with growth prospects similar to those of 2017. The business strategy is based on continuing to establish partnerships with credit and deposit platforms in different jurisdictions to boost diversity, reduce balance sheet risk and drive profitability through higher revenues and a lower percentage cost of funding. In 2018, the Bank will continue to launch new products and services, on its own and in partnership, which will broaden and diversify the customer base and revenue streams. Continued improvements to business support and information systems will be essential for every new product and service in order to accelerate and streamline customer relations and proximity, by implementing totally online digital processes.

With regard to the BNI Europa brand, investments will be made in consolidating awareness, marketing and the sales process for new products and services, and in strengthening confidence and recognition among customers and other stakeholders.

Organisational and human structure

In response to the growth challenges of its business, Banco BNI Europa's organisational structure underwent changes at the start of 2017. As of today's date, it has the following structure:



At the end of 2017, Auditing and Inspection was the only completely external area.

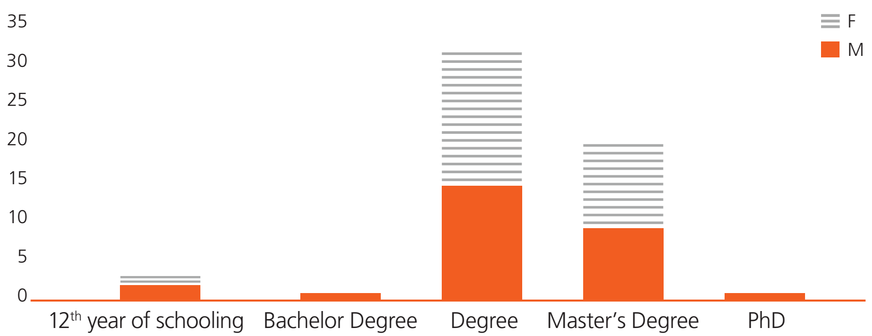
After the setting up and initiation of several Committees in 2016 and 2017, the organisational Committees are listed below.

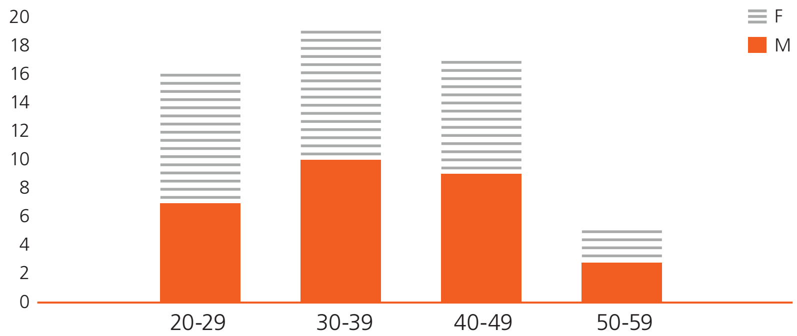
SPECIALISED COMMITTEES			
ALCO	*Compliance*	Internal Control	Credit
Investment	New Products and Services	Risks	Security

Note: The Credit and Security Committees have not begun functioning, but are planned to begin in 2018.

At the end of 2017 the workforce numbered 57 employees broken down as follows in terms of professional categories, age, gender and academic qualifications:

	2014	2015	2016	2017
Directors	3	4	4	3
Heads of business areas	2	2	6	6
Heads of support areas	3	2	4	5
Heads of control areas	2	2	3	4
Technicians	7	6	19	33
Secretarial staff	1	1	2	2
Trainees	0	0	5	4
Total	**18**	**17**	**43**	**57**





In 2017 the Bank hired several outsourcers who work at the Bank's premises, while others worked entirely externally, such as the maintenance/support staff for IT and communications, the Bank's core application system, Call Centre and default credit recovery department. The external outsourcers are allocated to the services/areas as follows:

	2014	2015	2016	2017
Accounting, Planning and Statistics	1	1	1.5	3
Information Technologies				
IT/Communications Support	0.5	1	1	2
Core Application Support	0	0	2	1
Application Development	0	0	0	1.5
Internal Audit	0	0	1.5	1.5
Internal Risk and Control	0	1	0	0
Secretarial staff	0	1	0	0
Call Centre	0	0	4	11
Debt Recovery	0	0	0	1
Total	**1.5**	**4**	**10**	**21**

The Bank has continued its policy of outsourcing some services to improve the efficiency of certain procedures and the amount of resources allocated to them, as well as easily obtaining specialised resources to deal with the situations that arise while controlling the time and cost associated with such services.

Human resources are the Bank's main asset, as it is they who are directly responsible for the implementation of the strategy and success of the business. Therefore, the Bank has a demanding recruitment process and a performance assessment methodology in place, and training plans adjusted to the needs of each employee, which together with a pleasant working environment and good relations between the various departments, provides the basis for sharing knowledge and encouraging the personal and professional development of all employees.

In the management of human capital, the following initiatives are important:

- Selective recruitment from Portugal's best universities;
- Support for doing Master's degrees and post-graduate qualifications
- Specialised training courses in law, taxation and regulation.

The cost of training in 2017 was €81,000, corresponding to around 1,467 of training hours.

Financial information

In 2017, the Bank increased resident and non-resident deposits, which allowed it to increase investment in financial instruments representing credit and credit acquisition and launch its own leading-edge products and services on the Portuguese market. The Bank also invested in sovereign debt securities from euro zone countries, especially Portugal, Spain and Italy, which allowed capital gains through the sale of some of these securities.

The balance sheet indicators presented in the table below show the growth in assets (€147,439,000), mainly based on the sharp growth of customer deposits (€42,913,000 up compared to December 2016) and funding from the ECB (€120,000,000), which allowed investments in its own portfolio in wide-ranging assets, some representing credit, and in the granting of credit, which generated suitable income to offset the risk. The investment in its Own Portfolio, the main goal of which was to sustain the Bank's financial margin, includes sovereign debt securities (€239,546,300), corporate bonds (€35,269,500) and Exchange Traded Funds (€37,422,000), as well as participation units representing funds and financial instruments representing credit (€84,103,400). In June, and in the wake of events on the market that resulted in the appreciation of the securities in the held-to-maturity financial assets portfolio, the Bank decided to extinguish this portfolio to realise the capital gains available. This decision was assessed by the different bank management bodies, together with the technical teams to assess the current situation in the capital markets, in line with the future outlook, regulations and evolution of the Bank itself, for the rest of 2017.

Customer Credit grew significantly throughout 2017, reaching €41,779,000 at the end of the year compared to €5,074,000 in 2016.

In the wake of recording deferred tax assets in relation to tax losses in 2012, and given the results calculated in December 2017 the Bank used these assets which were not recognised and part of the deferred taxes relative to tax losses in 2013, given the low income expected in 2017 upon the drawing up of the 2017-2021 Business Plan.

data in thousands of euros

	2017	2016	VARIATION ABSOLUTE	VARIATION %
Assets				
Cash and Cash Equivalents in Central Banks	35,717	80,102	-44,385	-55%
Investments and Cash on Hand at Credit Institutions	24,790	18,836	5,953	32%
Loans to customers	41,779	5,074	36,705	>500%
Own portfolio	397,222	249,295	147,927	59%
Tangible assets	740	359	382	106%
Intangible assets	4,513	3,793	721	19%
Current and deferred taxes	2,205	2,523	-319	-13%
Other assets	2,508	2,052	455	22%
Total Assets	**509,474**	**362,034**	**147,439**	**41%**
Liabilities				
Central Bank Resources	120,002	12	119,990	>500%
Credit Institution Resources	50,780	71,261	-20,481	-29%
Customer funds	305,148	262,234	42,913	16%
Provisions	97	27	70	262%
Current and deferred taxes	915	91	823	>500%
Other liabilities	2,933	3,204	-271	-8%
Total Liabilities	**479,874**	**336,829**	**143,045**	**42%**
Equity				
Share capital	34,250	34,250	0	0%
Results carried forward	-7,582	-5,592	-1,989	36%
Revaluation reserves	854	-1,889	2,743	-145%
Deferred tax reserves	-209	425	-634	-149%
Net result for the year	2,286	-1,989	4,275	-215%
Total Equity	**29,600**	**25,205**	**4,395**	**17%**

Among the outcome indicators in the following table, of particular note is Banking Income, which reached €13,184,000 (up more than 500% compared to 2016), primarily due to Financial Transaction Results from gains from the sale of securities. As mentioned earlier, of note was the decision to contaminate the held-to-maturity financial assets portfolio , selling around 80% of the public debt securities, with gains equivalent to around two years of financial margin, following the policy implemented relative to the financial assets portfolio held for sale, which led to a significant proportion of these capital gains being realised. The growth in the Financial Margin is also significant. In December 2017 it accounted for 20.3% of banking income (5.3% in December 2016). In managing the Bank's own portfolio, the strategy followed is underpinned by the assumption that gains will be made whenever securities surpass interest in one or more years, there is no potential further significant appreciation and there are good investment options on the market. Also of note is the natural rise in operating costs (€2,333,000 compared to 2016), to fund business growth during the year.

As regards the capital indicators, and as a consequence of the growth of the business and increase in assets, which grew €147,439,000 compared to December 2016, resulting in Weighted Assets of €179,926,000 (€130,858,000 in December 2016), there was a drop in the solvency ratio from 15.9% in December 2016 to 12.95% in December 2017. Equity increased €2,474,000 compared to 2016 due to the positive impact of fair value reserves on the available-for-sale portfolio and the positive net result for the year. The Bank's capital ratio remains comfortably higher than regulatory limit of 9.25%.

data in thousands of euros

	2017	2016	VARIATION ABSOLUTE	VARIATION %
Banking Income	**13,184**	**2,750**	**10,434**	**379%**
Financial Margin	2,680	146	2,534	>500%
Income from capital instruments	0	2	-2	-100%
Net fees	203	351	-148	-42%
Financial Transaction Results	10,291	2,213	8,078	365%
Other results	10	38	-28	-73%
Operating Costs	**-7,698**	**-5,365**	**-2,333**	**-43%**
Staff Costs	-2,972	-2,233	-740	-33%
General administrative costs	-3,667	-2,579	-1,088	-42%
Amortisation and depreciation	-1,059	-554	-505	-91%
Operating Result	**5,486**	**-2,615**	**8,101**	**>500%**
Provisions and Impairment	**-2,594**	**131**	**-2,725**	**<-500%**
Impairment for credit and other assets	-524	-4	-520	<-500%
Impairment for other financial assets	-1,973	135	-2,108	<-500%
Other provisions	-97		-97	0%
Result Before Taxes	**2,892**	**-2,484**	**5,376**	**>500%**
Taxes	-606	495	-1,101	<-500%
Current taxes	-491	-91	-399	<-500%
Deferred taxes	-115	586	-701	<-500%
Net Income	**2,286**	**-1,989**	**4,275**	**>500%**

	2017	2016	VARIATION ABSOLUTE	VARIATION %
Weighted Assets	179,926	130,858	49,068	37%
of which credit risk	176,840	129,726	47,114	36%
of which operating risk	3,087	1,132	1,954	173%
Total Assets	509,474	362,034	147,439	41%
Weighted Assets/Total Assets	35.32%	36.15%		
Common Equity Tier I	23,303	20,830	2,474	12%
Phasing in Common Equity Tier I Ratio	12.95%	15.92%		
Total Equity	23,303	20,830	2,474	12%
Phasing in Solvency Ratio	12.95%	15.92%		

Business areas

The Markets and Investments area focuses on treasury management, investment portfolio management, institutional investor relations and P2P platform connections for attracting deposits and acquiring loans. The own portfolio investment policy follows the premises of geographic diversification and limits proposed and approved by the Board of Directors. Throughout 2017, the Bank invested in Corporate and Sovereign bonds, Exchange Trades Funds of bonds (to diversify the risk and their coverage), credit funds, credit collateralised bonds, commercial paper and invoices and credit acquired from abroad, seeking to efficiently manage the Bank's funds, while at the same time maintaining a suitable return in relation to the risk.

With the goal of growing the volume of customer deposits and reducing the associated cost, the area has diversified in terms of sources of finance beyond Germany and Portugal, seeking new alternatives. Although in 2017 the Bank continued to increase its deposits in Germany and Portugal, the Bank also started attracting deposits in the Netherlands and Austria and also began to offer deposits for the corporate segment in Germany. Deposits taken through these platforms do not have the option of early repayment, a key aspect which has given the Bank greater stability in its funding, particularly in one to five-year terms. With regard to efficient liquidity management, the Markets and Investments area works in the monetary market, trading funds and exchanging swaps in three currencies: EUR, USD and GBP.

For 2018, and to continue to diversify and diminish the costs of funding and exchange hedging, less focus will be put on attracting euro deposits in Germany and bigger increases in other countries. The Bank has begun making contacts and seeking authorisations for this purpose. In order to better manage the exchange position and associated costs, the Bank plans to attract deposits in currencies other than euros, namely in pound sterling and US dollars. Furthermore, the Bank will continue to use financing from the Bank of Portugal whenever possible, within the internally defined limits and the collateral available for the purpose, allowing efficient liquidity management. There are also plans to make investments with more focus on financial instruments representing credit, as it is anticipated that market risks will have considerable levels of volatility. Despite the expected market risks, the area will remain vigilant, and will continue its strategy as per the internal policy of making gains whenever opportunities arise for adequate returns vis-à-vis risk.

Focusing on increasing the number of private customers, attracting resident and non-resident funds and associated transactions, especially in the digital and online channel, the Online Bank will base its business on the constant maintenance of the Bank's website, constant improvement in the account opening process and encouraging the use of the Homebanking service, whose simple and clean image gives it a clear leading edge on the market.

While the year 2016 finished with a substantial increase in funds following the campaign to attract deposits in partnership with DECO (which continued into the first months of the year), in the year 2017 the emphasis was put on the Income-Earning Current Account and in increasing the transactions linked to the use of Homebanking. This strategy had a clear impact on increasing the awareness and confidence of the market, as shown in the form of several national and international awards in the Digital Bank category.

In the first half of 2017, several campaigns were carried out to market the Income-Earning Current Account, both in traditional media (in the Expresso and Público newspapers and Sábado and Visão magazines), and in digital Display and Adwords campaigns, the latter of which was run throughout 2017. The area has also been establishing partnerships with important online media in the finance and economics area, namely Reorganiza and E-Konomista, with a view to encouraging the institutional brand and the different commercialised products.

As a result of the actions carried out in 2017, the Bank achieved sustainable growth in the form of attracting term deposits, and also increased awareness about them in Portugal. This greater awareness allowed more efficient management of funding and associated costs, allowing a reduction in the term deposits with maturities up to 12 months and investment in longer maturities. Although there has been a drop in interest rates, Banco BNI Europa has continued to consolidate itself as a benchmark on the market.

For 2018 the goal is to continue to increase the customer base to continue to reduce the cost of customer deposits. Opening an account totally online will be essential for this strategy (using video conferencing), which is planned to launch in 2018. This launch will be phased and the process made available in an initial phase only for individual accounts and rolled out for collective accounts by the end of the year. Further pursuing the goal of differentiation in the market, the Bank is assessing the possibility of allowing its customers to build term deposits in other European banks through its Homebanking website.

Simultaneously, and to reinforce its positioning as a digital bank, the redesign of the Bank's institutional website is under assessment, in the search for a completely novel solution in Portugal, which is clean, easy to navigate and more user-friendly.

In 2017 the Corporate Area remained geared towards the national and European market, namely towards Small and Medium-sized Enterprises (SMEs) and Institutional Customers. As the main events of the year, the following operations were carried out:

- Attracting deposits relative to treasury surpluses of SME customers;
- Launch of the partnership with the Edebex platform, a Belgian partner, allowing customers to optimise their treasury by selling customer invoices – customer debts – to investors, with the Bank having the twin functions of providing and investing in the platform for the Portuguese market;

edebex
innovative cash-flow solution

- Creation and structuring of lending operations with mortgage guarantee, as well as other investment projects;
- Launch of the Homebanking service for Companies in web and app format;
- Launch of the income-earning deposit account for companies; and
- Promotion of the Trade Finance, solutions, in the confirmation of Document Credits issued by the major shareholder of Banco BNI Europa, the Banco de Negócios Internacional, S.A.

In 2018, the area plans to launch the partnership announced in 2017 with the *Parcela Já* platform, in which the intention is to finance retailers by purchasing their invoices at a discount from their end customers, allowing these customers to pay for their purchases in instalments.

Parcela Já©

The area will also seek new partnerships that broaden the Bank's range of products and services for its corporate customers.

The **Online Credit Division** oversees the management of the consumer credit products business, the sales channel of which is essentially online, doing business under the Puzzle brand.

Créditos que encaixam contigo

Throughout 2017, an innovative and pioneering credit service in Portugal was developed, as a totally remote process, with no paper involved and essentially automatic, becoming the first totally online credit lending service in Portugal.

The first product to take advantage of this system was launched in June 2017, and was a consumer credit product backed up by a completely online credit request process. This consumer credit product was provided in the first phase for amounts up to €3,000 and with low maturities (up to 24 months), encompassing a broad range of potential customers with special focus on freelance professionals, a segment that has been given little attention on the market by the different credit offers.

In 2017, and in addition to the launch of the first product and development of the platform, important steps were taken in the development of other consumer credit products that will be launched in the first half of 2018, both under the Puzzle brand, specifically *Puzzle E-COMM*, *Puzzle Fits* and *Puzzle Card* (credit card).

The Puzzle Card product, developed under the management of the **Credit Card Division**, like the Bank's other credit products, will have a completely online application process, which is unmatched on the Portuguese market, enabling a significant and profitable market share to be acquired quickly. Throughout 2017, the focus of the division has been to set up a simple operation based on a flexible and scalable model. The launch of the Puzzle Card is planned for the first half of 2018 and will be based on a completely novel acquisition campaign, allowing the immediate use of the credit line and encouraging revolving behaviour. Furthermore, the main functionality of the credit card will be to allow the customer to select the payment method for purchases through small instalments, encouraging the use of the credit card as a renewable short-term loan, instead of sporadic usage to pay small amounts. Although the main channel for attracting customers will be online, the card will also be distributed through telephone sales. Other value propositions are scheduled to be launched geared towards user segments, in stores or online, or marketing campaigns backed by various enrolment incentives, including potential partnerships with key merchants/brands, together with exploiting other direct sales channels to reach customer segments which do not identify with the online channel but offer high profitability because of the low cost of attracting new customers.

Throughout the first months of 2017, the Mortgage Lending Division was focused on developing and implementing the Inverse Credit product and the Cereja brand, and the marketing strategy was successfully started in the second quarter of the year.

However, and after a long period of analysis by the Bank of Portugal, the Bank had to suspend the product because the Bank of Portugal deemed that the product should only be made available after introducing a specific legal regime to regulate it in the country. Although the Inverse Credit product is suspended, the Bank will continue to make every effort to make the respective authorities aware of the product's viability , given that the Portuguese market has been highly receptive to it.

In view of the suspension of the Cereja brand and Inverse Credit, the division redefined its strategy, albeit with the focus remaining on mortgage lending solutions. To this end, the division has been developing other products, in particular products to complement what is already on the market, focusing on particular niches. In 2018, these new mortgage lending products will start to be rolled out, the main feature of which is their flexibility.

Other information

The following business-related events occurred during 2017 through the present date:

- Amendments to the regulations of the Board of Directors and Executive Committee, the latter decided in a meeting of the Board of Directors dated 19 October 2017;
- Internalisation of responsibilities for the Accountancy, Planning and Statistics areas as of 30 September 2017;
- Outsourcing of the credit recovery service, coming into effect as of October 2017; and
- In December 2017, Banco BNI Europa's major shareholder, the Banco de Negócios Internacional, S.A., signed a contract with a foreign investor to sell the majority of the capital held in Banco BNI Europa. The process for the enforcement of this contract is under assessment by the Bank of Portugal.

VIII. Risk management and internal control

The Bank's Board of Directors is in charge of defining, implementing and periodically reviewing the Internal Control System to ensure that it is suited to the nature, size and complexity of the business and is properly aligned with the Bank's risk profile, with the goals of safeguarding:

- the going concern principle, by efficiently allocating resources and executing operations, effectively monitoring and controlling risk, carefully assessing assets and liabilities and securely controlling access to information and communication systems;
- the existence of accounting and management information, both financial and non-financial, which is complete, reliable and timely so as to support decision-making and control processes; and
- compliance with the legal stipulations, internal directives and ethical rules and conduct as regards relations with customers, counterparties of operations, shareholders and the supervisors/regulators.

The Internal Control System's core functions – risk management, compliance and internal auditing – are equipped with the material and human resources needed to fulfil its mission with the independence, standards and effectiveness required for the Bank to properly conduct its business. The Internal Control and Risk Department represents the Bank's risk management function, and is responsible for identifying, evaluating, monitoring, controlling and reporting the various types of risks relevant to the business to obtain a well-founded understanding of their nature and magnitude. This department reports directly to the Executive Committee, and operates independently from the areas that assume risks. Its scope includes proactive involvement in managing limits and decisions significantly changing the Bank's risk profile. The department is given full access to all activities, documents, information and controls considered relevant for the performance of its duties.

The Bank has internal rules governing the management and control of business risks, as laid out in policies and manuals, duly incorporated into the powers of the managing and control boards. Whenever needed, the managing board reviews policies and procedures, ensuring their disclosure to organisational bodies.

In addition to systematically managing risks and controls, in accordance with regulations in force, the Bank carries out stress and scenario tests for the principal balance sheet risks, and quantifies economic capital for the most prominent ones.

Internal Control Committees (ICCs) are held at the appropriate frequency for the Bank's business, usually every quarter, attended by members of the management and managing boards most closely involved in this matter. These committees have associated regulations promoting best standard practices for such forums, including the formalisation, validation and approval of meeting minutes and following of a pre-determined agenda, notwithstanding the discussion of other matters that require attention.

Like the ICC, the Assets and Liabilities Committee (ALCO) is in place, subject to the defined rules and regulations, where the members of the Board of Directors meet, as well as members of the management bodies who are more closely involved in this aspect of the Bank's business. This Committee is convened at a suitable frequency given the Bank's business, usually every quarter. As with the ICC, minutes of the meetings are drawn up which are validated and approved by all the Committee members, working through a predefined agenda and discussing any other matters that require attention.

In addition to these committees, there is also a Risk Committee (RC) for general discussion of all types of risks applicable to the Bank, likewise with specific regulations. As with the previous committees, the RC is convened as appropriate given the Bank's business, usually every quarter. Likewise, minutes of the meetings are drawn up, validated and approved by all the participating members, working through the topics listed in a predefined agenda, and the matters deemed pertinent to discuss in each meeting.

In view of the evolution of the business, the main risks the Bank is exposed to, despite not having changed substantially, have come into sharper focus in 2017. The main risks identified by the Board of Directors are as follows:

Credit risk

Credit risk stems from all of the transactions resulting in actual or potential rights over a given counterparty. Generally speaking, this is the most common risk for commercial banks, and is heavily linked to the likelihood of negative impacts on the results or to capital due to a counterparty's inability to meet its financial commitments to the institution, including potential restrictions on the transfer of payments from abroad. Credit risk exists primarily in exposure to credit (including securitised credit), credit lines, guarantees and derivatives.

With regard to the admission of credit risk, the assessment of loans requested by applicants who interact with the Bank, the following is complied with:

- the principles and rules outlined in the Credit Manual and the Internal Circulars concerning the management cycle of the operations from start to finish;
- delegation of competencies; and
- the approved service levels.

As of the reference date, the Bank has a stochastic model to aid decision-making, as regards the admission of credit risk, on its online credit lending platform. With regard to lending to companies, no similar model is available as this business represents little risk on the Balance Sheet, owing to the lack of historical patterns. The Bank does not yet have stochastic models that cater for specific reasons for management and maintenance of credit portfolios (behavioural). In particular, there is a lack of information that would allow a model with the desired degree of reliability to be developed. Even so, the Bank often uses score cards, developed empirically, based on the experience and knowledge available in the organisation, thus lending suitable support to decision-making.

Banco BNI Europa manages a credit portfolio at the end of 2017 that encompasses the credits held directly and the financial assets underlying the credits, comprising three segments:

1) Credit in the form of loans granted directly to the respective borrower(s) or in the form of receivables that give the Bank the right to hold cash-flows from credit granted directly by other entities;
2) Credit in the form of investment funds that give the Bank ownership of part of the cash derived from credit granted directly by other entities or receivables directly linked to credit, from the respective borrower(s); and
3) Credit in the form of structured bonds, whose underlying assets are credit granted directly or receivables on credit granted, and may be owned in their entirety or in part.

From the accounting point of view, only the segment mentioned in point 1 is registered in the Customer Credit item, in the light of the inclusion stipulations of the accounting regulations. This item totals €42,225,900 (excluding impairments). A sum of €30,600 in **Off-balance sheet** assets is added to this amount, making a total of €42,256,500, which represents 33.4% of all the management credit owned by Banco BNI Europa.

The item "Loans to Customers" is mostly made up of loans to small and medium-sized enterprises, broken down into directly granted credit (46.4%), credit in the form of invoices purchased at a discount (27.8%) and commercial paper (20.0%). The rest of the credit recorded in this item refers to loans to private individuals. This breakdown of different kinds of credit granted to small and medium-sized enterprises shows a very reasonable diversity in terms of original maturities, for the management of credit risk.

In terms of credit at risk, in line with Instruction No. 22/2011 from the Bank of Portugal, of 17 October, Banco BNI Europa presents the sum of €62,000 in the item "Loans to Customers", which is 0.1% of this credit. This very low percentage is explained by the in-depth and detailed analysis carried out when granting this credit category, and the high growth rate of this portfolio in 2017.

The Investment Funds held by the Bank, as of the end of 2017, totalled €37,801,000, accounting for 29.9% of the funds. The credit underpinning these funds included loans for purchase or refurbishment of properties (55.4%) and consumer credit (27.0%), among other categories.

As for the structured bonds, as of the end of 2017 they totalled €46,302,000, accounting from 36.6% of the credit portfolio. The assets underpinning these securities are, in their entirety, receivables on the cash-flows generated by consumer credit coming mostly from Germany.

As for assessment of impairment on the credit portfolio, Banco BNI Europa defined its policy and formal calculation method in the Impairment Manual. In 2017, with the sharp growth of the credit portfolio, the Bank developed its regular impairment measurement models to obtain estimates calculated from a collective analysis, in the light of the stipulations outlined in the Bank of Portugal Circular Letter No. 2 of 2014, and IAS 39. Taking into account the forecast evolution of the credit portfolio, the Bank will take advantage of its databases to increase the robustness of its models, and consequently obtain better estimates of the Probability of Default (PD), Loss Given Default (LGD) and Expected Loss (EL), in the light of the applicable regulations.

The credit portfolio recorded in the item Loans to Customers is shown in the following table, together with respective impairment values, for the balance sheet and off-balance-sheet accounts.

data in thousands of euros

BALANCE SHEET ITEM	CREDIT	IMPAIRMENT	IMPAIRMENT RATE
Non-Securitised Credit Subtotal	22,011.7	408.7	1.9%
Securitised Credit Subtotal	20,214.1	38.2	0.2%
Total Balance Sheet	**42,225.9**	**447.0**	**1.1%**
Total Non-Balance sheet	**30.6**	**0.1**	**0.2%**

The calculated impairment on the credit on the balance sheet accounts for 1.1% of the exposure identified as of 31 December 2017, which represents a Risk Cost of approximately 1.92%.

In addition to calculating impairment, the Bank regularly assesses the quality of its credit portfolio in an attempt to (i) properly match diversification to risk, (ii) comply with limits established for the purposes of controlling concentration risk, and (iii) assess profitability indicators for its operations.

In the Cash Equivalents and Investments at Credit Institutions, the Bank presented a sum of €24,790,000, mainly in institutions located in Portugal, United Kingdom and Germany.

There is also direct exposure to credit risks tied to the portfolio of securities held as Own Portfolio investments. An analysis is carried out of all issuers proposed for investment, a procedure first done by the Markets and Investments Department and then supplemented, in an independent manner, by the Internal Control and Risk Department. Issuers held in the portfolio undergo regular periodic monitoring for the purpose of updating financial information, potential changes in rating, macroeconomic events, etc. Furthermore, the credit risk associated with counterparties who issue securities is evaluated in conjunction with the managing board in terms of daily control of market risks, namely trends in the credit spread between the acquisition date and change in the interest rate structure.

On the reference date, the portfolio of Bonds Available-for-Sale Financial Assets was €274,206,000 (revaluation amount), broken down as follows:

data in thousands of euros

RATING		CURRENCY		COUNTRY	
A-	1,334	EUR	267,196	Portugal	194,376
A+	586	USD	6,979	Italy	53,982
AA	410			Rest of the World	19,775
AA-	418			Spain	6,043
AAA	208				
B+	1,634				
BB	1,113				
BB-	532				
BB+	3,324				
BBB	226,122				
BBB-	6,937				
BBB+	7,877				
NR	23,681				

Note: the Ratings of S&P and Fitch were used for distribution purposes

The category "NR" represents a group of investments in instruments without a Rating, with the amount shown tied to investments associated with the companies Sonae, Sugal and Galp.

The concentration of investments in the "EUR" currency is a strategic option aimed at controlling exposure to foreign exchange risk. The Bank has pursued a strategy of investing in Portugal, largely through government bonds, which also accounts for the concentration in the "BBB" Rating .

In addition to this portfolio of available-for-sale bonds, the Bank also has €37,422,000 in Exchange Traded Funds, split into three components: (i) Fixed Income, allowing a more diversified investment in bonds, (ii) Interest Rate Protection, to mitigate exposure to interest rate risk tied into the asset, and (iii) Gold, an investment with no correlation to the other movements of the portfolio.

data in thousands of euros

CURRENCY		TYPE OF INVESTMENT	
EUR	33,288	Fixed Income	24,421
USD	4,134	Gold	2,402
		Interest Rate Hedging	10,599

Considering all the items (including the structured bonds mentioned in the Credit item), the Available-for-Sale Financial Assets portfolio was €355,457,000.

At the end of the first half of 2017, Banco BNI Europa decided to extinguish its held-to-maturity financial assets portfolio to realise off-balance-sheet gains formed up to then, deriving from extraordinary market events and which resulted in the appreciation of the securities allocated to this portfolio. This decision was assessed by the different bank management bodies, together with the technical teams to assess the current situation in the capital markets, in line with the future outlook, regulations and evolution of the Bank itself, for the rest of 2017.

Banco BNI Europa's Board of Directors believes that the credit risk for these assets on its Balance Sheet is adequate, and that the monitoring tools in place will sufficiently safeguard them, with no objective evidence of additional impairment as of this date.

Country risk

Country risk is linked to changes or specific political, economic or financial disturbances, in locations where counterparties operate, which can put full compliance of their contractual obligations at risk, despite their willingness to comply.

As for the spread of the exposure in Banco BNI Europa's credit portfolio, per country, the biggest concentration is in the German market, with 31.3% exposure as of the reference date of 31 December 2017, followed by the Portuguese market, where the Bank's portfolio is 28.1% exposed on the same date. Among the highest concentrations, also noteworthy is the United Kingdom, with 14.2% exposure, and Belgium, with 13.6%, resulting to a large extent from the invoice discount business in these two countries.

These four positions represent a total of 87.3%, showing the geographical diversity of Banco BNI Europa's business. The other positions are considerably lower, spread across countries such as Cape Verde (8.3%), the Netherlands (4.2%) and Angola (0.2%).

Concentration risk

Concentration risk results from the possibility that a given exposure or group of exposures may give rise to significant losses ultimately compromising the Bank's solvency. This concentration risk may be tied to credit, liquidity, market or operating risk. It may arise from inadequate diversification policies and practices.

As a bank that started operating relatively recently, some assets and liability items also reveal a certain level of concentration. Notwithstanding, in 2017, Banco BNI Europa diversified its investments in terms of financial institutions as well as in terms of granting customer credit, acquiring third-party credit and portfolio investments. With regard to liabilities, measures are also underway to diversify sources of financing and fundraising, together with resource acquisition by expanding the customer base.

Liquidity risk

Liquidity risk results from the Bank's potential inability to finance its assets or meet its liabilities on their due dates, potential difficulties in settling portfolio positions and inability to access financing in acceptable market conditions (spreads).

The Bank has internal processes for managing liquidity risk which identify, assess and control such risks, including specific procedures for monitoring contractual due dates. In 2017, the Bank enhanced its market position in terms of diversifying sources of financing by means of the following:

- Strengthening and establishment of new partnerships with peer-to-peer, non-resident platforms to attract term deposits;
- Marketing of the Bank's products and services by the appropriate communication means;
- Use of the European Central Bank Eurosystem financing mechanism; and
- Access, if necessary, to Bank of Portugal intraday credit.

In the Bank's current phase, these sources of financing are primarily managed by the Markets and Investments Department, Online Banking Department and Corporate Banking Department, since a large part of current obligations are tied to these areas.

Market risk

Market risk is characterised by the likelihood of negative impacts on the results or on capital due to unfavourable changes in the market price of trading portfolio instruments caused by changes in stock prices, the price of merchandise, interest rates or exchange rates. This risk is primarily associated with short-term positions in debt and capital instruments, currencies, merchandise and derivatives.

At the reference date of this report, the Bank had no portfolio of held-for--trading financial assets.

Foreign exchange risk

Foreign exchange risk involves the likelihood of negative impacts on the results or on capital due to unfavourable changes in exchange rates, caused by changes to the prices of instruments with open positions in foreign currency, or due to a change in the institution's competitive position because of major fluctuations in exchange rates.

On 31 December 2017, in addition to transactions expressed in euros, the only applicable currency was the U.S. dollar (USD), which had a difference between assets and liabilities of minus €1,272,000 (negative amount).

The Bank does not have financial holdings that could devalue because of exchange rate variations. Furthermore, the Bank's policy is not to hold materially relevant open foreign-exchange positions, and hedges transactions or positions whenever the internally set risk level is surpassed.

Interest rate risk

Interest rate risk in the banking portfolio is characterised by the likelihood of negative impacts on the results or on capital due to unfavourable changes in interest rates, staggered maturities or dates for adjusting interest rates, the lack of a perfect correlation between interest rates received and accrued for various instruments, or the existence of embedded options in financial instruments on or off the balance sheet.

The Bank's strategy uses a balance sheet approach with a balanced mismatch between assets and liabilities and their associated currencies, so that any assets sensitive to interest rates have equivalent non-liability counterparties. The duration of the portfolio of available-for-sale financial assets was 2.39 years in euros and 2.55 years in U.S. dollars. Exposure to parallel 1 b.p. movement on the output curve results in a loss of €61,500 and $2,300, where 37.6% presented a variable rate and 62.4% a fixed rate.

Risk of non-compliance with laws, norms and regulations

This risk involves the Bank's need to operate in accordance with the laws, rules, norms, regulations and domestic and international agreements governing its business, which must be safeguarded to avoid legal penalties, regulatory penalties, financial losses or the loss of reputation through non-compliance with laws, regulations, codes of conduct, good practices, etc.

The Bank has been duly structured from an organisational and functional standpoint to ensure compliance with the regulatory requirements, with internal rules and policies addressing this risk, both in terms of the areas in charge of fulfilling obligations and in terms of the Compliance Department, which is responsible for monitoring and safeguarding this risk.

In view of the stronger procedures and controls implemented throughout 2017, the Board of Directors believes that the Bank is equipped with sufficient resources needed to properly manage this risk.

Internal control

In 2017, the Bank completed its Internal Control Report, pursuant to Bank of Portugal Notice No. 5/2008.

In this domain, formal procedures have been established in the Internal Control Manual, providing the basis for the principles and responsibilities of ensuring an adequate control environment. All of the organisation's structures are involved in finding shortcomings in internal control and areas for improvement to help streamline operations and curb operating risk.

At the same time, these control areas are also in charge of conducting self-assessment questionnaires, pursuant to the requirements laid out for these areas by the Bank of Portugal Notice No. 5/2008. Regular checks are carried out regarding how shortcomings or improvement opportunities are dealt with, both by the Executive Committee which has the same structure as the Board of Directors, and by the Supervisory Board, Statutory Auditor, Monitoring and Control Committee and Internal Control Committee.

IX. Corporate governance

According to the Bank's articles of association, its corporate boards are the General Meeting of Shareholders, the Board of Directors, the Executive Committee, the Supervisory Board and the Statutory Auditor.

General Meeting of Shareholders

At the General Meeting of Shareholders, shareholders decide on matters attributed by law or by the articles of association, together with all other issues not entrusted to other corporate boards.

The General Meeting of Shareholders' powers are those provided for by law and by the articles of association, including:

- Electing:
  - The Board of the General Meeting of Shareholders;
  - The members of the Board of Directors;
  - The members of the Executive Committee;
  - The members of the Supervisory Board; and
  - The Statutory Auditor.
- Assessing the Board of Directors' report, and discussing and voting on the balance sheet, accounts and other legally required documentation;
- Deciding on the allocation of profits for the year;
- Deciding on any amendments to the articles of association and capital increases; and
- Handling all other matters for which it has been summoned, or for which it has been legally empowered.

Voting rights

The Bank's capital is represented by 6,850,000 ordinary shares with a nominal value of five euros each.

Pursuant to the articles of association, voting rights are allocated proportionally by one vote for every 200 shares held. Shareholders holding a lower number of shares may group together to reach the minimum number of shares required, in this case represented by any shareholder of the group. There are no restrictions to voting rights.

Company Management

The Board of Directors, comprised of at least three members elected by the General Meeting of Shareholders for four-year terms, subject to re-election, is responsible for managing and representing the Bank.

Its decisions are made by a majority of votes, with the Chairman having the casting vote.

The Board of Directors is charged with exercising the powers of managing and representing the company, and carrying out all acts needed to pursue the activities of its corporate purpose, namely:

- Defining the Bank's general policies;
- Approving the strategic plan and other annual and multi-year plans and budgets, together with their amendments, while periodically monitoring their execution;
- Preparing documents for the rendering of accounts and proposal for the allocation of profits for submission to the General Meeting of Shareholders;
- Proposing any amendments to the articles of association and capital increases, together with the issuance of bonds beyond the scope of its powers, submitting the corresponding proposals to the General Meeting of Shareholders;
- Approving Banco BNI Europa's Corporate Code of Conduct and Ethics;
- Preparing proposals for the remuneration of corporate board members, if a remuneration committee does not exist, for submission to the General Meeting of Shareholders for approval;
- Deciding on all issues linked to the internal audit and inspection tasks;
- The Board of Directors is also responsible for carrying out all acts needed or appropriate to pursue the activities of the Bank's corporate purpose, namely:
  - Representing the company in and out of court, as a plaintiff or defendant, bringing and contesting any judicial or arbitration proceedings, making admissions in, compromising in and withdrawing from any proceedings, and engaging in arbitration;
  - Deciding, with the utmost latitude provided for by law and by the articles of association, on the acquisition, disposal or encumbrance of any assets or rights;
  - Deciding on the company's holding of equity stakes in other companies or in their establishment, in companies governed by special laws and in equity partnership agreements, in incorporated joint ventures and in European economic interest groupings, regardless of their corporate purpose; and
  - Establishing legal representatives to carry out given acts, or categories of acts, defining the extent of their respective delegated powers.
- Exercising other powers attributed by law or by the General Meeting of Shareholders.

To ensure its regular operation, the Board of Directors delegates the day-to-day running of the company to an Executive Committee, comprised of a minimum of three members, under the limits established in the decision granting this delegation.

Company Oversight

The company's oversight is allocated to the Supervisory Board and to the Statutory Auditor.

Supervisory Board

An Supervisory Board, comprised of three acting members and one substitute member, oversees the company's business, pursuant to the law. The members of the Supervisory Board, including its Chairman, are elected by the General Meeting of Shareholders for a four-year term, subject to re-election.

The Supervisory Board has the following powers:

- Overseeing the process of preparing and disclosing financial information;
- Overseeing the effectiveness of systems for internal control, internal auditing and risk management;
- Receiving notifications of irregularities submitted by shareholders, company employees or other individuals;
- Overseeing the legal revision of the accounts; and
- Assessing and overseeing the independence of the statutory auditor, namely when providing additional services to the company.

Statutory Auditor

The Statutory Auditor is responsible for inspecting the corporate accounts, either through an official accountant or an official accounting company as appointed by the General Meeting of Shareholders upon proposal by the Supervisory Board, for a four-year term, and may be re-elected. The Statutory Auditor must carry out all analyses and checks needed for the revision and certification of the accounts.

Company Secretary

The company has a secretary appointed by the Board of Directors, whose active duty coincides with the term of office of the Board of Directors. The secretary's powers are those provided for by law.

Senior Board

In 2017 the Senior Board began operating, to provide consultancy and strategic guidance to the Board of Directors. The Senior Board meets at least three times a year and currently comprises five members as elected by the General Meeting of Shareholders.

Relationships between the Company and the Management

There were no business dealings in 2017 between the company and its managers.

X. Remuneration policy

To fulfil legal and regulatory requirements, the Board of Directors proposed that the General Meeting of Shareholders approve the remuneration policy and subsequent amendments found in the supporting documentation to the agenda for the meetings held on 21 March 2016 and 15 June 2016.

The fixed remuneration amounts allocated to the managing and supervisory boards in 2017 were €679,824 (2016: €711,754) and €51,585 (2016: €37,259), respectively, with associated Social Security contributions of €238,367 (2016: €172,736). The number of remunerated managing board members averaged 3.3 in 2017 (3.6 in 2016).

The managing and supervisory boards received no variable remuneration in 2017. During this year, there was likewise no unpaid deferred remuneration, nor any remuneration deferred, paid or subject to reduction from adjustments according to the individual performance of the managing and supervisory boards.

figures in euros

			FIXED REMUNERATION		VARIABLE REMUNERATION	
			GROSS AMOUNTS	NET AMOUNTS	GROSS AMOUNTS	NET AMOUNTS
Pedro Nuno Munhão Pinto Coelho	Chairman of the Board of Directors/ Chairman of the Executive Committee	Full year	274,634.2	138,804.9	0.0	0.0
António Miguel Maurício Rola Costa	Member of the Board of Directors/ Member of the Executive Committee	Full year	201,260.6	95,083.6	0.0	0.0
Nuno Luís do Rosário Martins	Member of the Board of Directors/ Member of the Executive Committee	Full year	201,477.3	95,259.2	0.0	0.0
Carlos Alberto Rodrigues Firme(1)	Member of the Board of Directors	Until: March	2,452.3	2,066.5	0.0	0.0
Total Board of Directors			**679,824.4**	**331,214.2**	**0.0**	**0.0**
Telmo Francisco Salvador Vieira	Chairman of the Supervisory Board	Full year	22,863.8	17,147.8	0.0	0.0
José Luis Guerreiro Nunes	Member of the Supervisory Board	Full year	4,396.9	3,297.7	0.0	0.0
João Carlos Espanha Pires Chaves	Member of the Supervisory Board	From: June	7,350.0	5,212.5	0.0	0.0
Rui Manuel Lopes Amendoeira(2)	Member of the Supervisory Board	Until: March	0.0	0.0	0.0	0.0
Isabel Paiva, Miguel Gaivão & Associados	Member of the Supervisory Board	Full year	16,974.0	16,974.0	0.0	0.0
of which:						
Internal control report			*5,166.0*	*5,166.0*	*0.0*	*0.0*
Money laundering report			*6,888.0*	*6,888.0*	*0.0*	*0.0*
Total Supervisory Board			**51,584.7**	**42,632.0**	**0.0**	**0.0**
Total			**731,409.1**	**373,846.2**	**0.0**	**0.0**

(1) The member of the Board of Directors Carlos Alberto Rodrigues Firme resigned in March.
(2) Supervisory Board member Rui Manuel Lopes Amendoeira, by resigning on 6 February 2017, also waived his corresponding remuneration; as such, given the legality of the decision, he was paid nothing.

The combined remuneration of internal employees broken down by business area is shown in the following table:

figures in euros

	FIXED REMUNERATION		VARIABLE REMUNERATION	
AREA	GROSS AMOUNTS	NET AMOUNTS	GROSS AMOUNTS	NET AMOUNTS
Customer Banking and Online Banking	201,376.5	123,313.2	0.0	0.0
Markets and Investments	141,236.1	82,394.2	0.0	0.0
Business Units	401,638.4	234,472.4	0.0	0.0
Support Areas	665,079.9	415,340.1	0.0	0.0
Control Areas	519,431.1	309,427.2	0.0	0.0
Total	**1,928,762.0**	**1,164,947.1**	**0.0**	**0.0**

XI. Future outlook

The economic and financial outlook for 2018 harbours a number of major uncertainties, with persistent relevant risks regarding the performance of the global, European and especially the Angolan and Portuguese economies. The effects of Brexit and the elections in Italy, together with the ambiguous market price of oil in several economies such as Angola, will continue to be restricting factors, with ensuing impacts on the Portuguese economy.

With regard to Banco BNI Europa's prospects, given the initiatives and processes currently underway, the Board of Directors is confident that the Bank will continue to move forward and grow, with particular emphasis on the following:

- expanding the customer base and operations among resident customers, non-resident customers and in the individual and SME segments;
- diversification of the products and services supplied to customers, both directly by the Bank and through partnerships;
- focusing on electronic banking and streamlining processes for customer relations; and
- establishing partnerships to serve as differentiating assertions which add value for the Bank's customers and other stakeholders.

In this context, 2018 is expected to be a year of major growth, backed by greater diversity in sources of funding and a reduction in the percentage of funding costs, the granting of credit through investing in financial instruments representing customer credit and the generation or direct acquisition customer credit.

XII. Subsequent developments

No other relevant facts took place, either prior or subsequent, which should be considered for the purposes of preparing the financial statements for the period ended 31 December 2017.

XIII. Proposal for allocation of profits

At the General Meeting of Shareholders the Board of Directors proposed the profit recorded in the year ending 31 December 2017, of €2,286,186.21 (two million, two hundred and eighty-six thousand, one hundred and eighty-six euros and twenty-one cents), be allocated as follows:

- Legal reserve: €228,618.62 (two hundred and twenty-eight thousand, six hundred and eighteen euros and sixty-two cents);
- Results carried forward: €2,057,567.59 (two million, fifty-seven thousand, five hundred and sixty-seven euros and fifty-nine cents).

XIV. Acknowledgements

The Board of Directors would like to thank everybody who collaborated with the Bank in 2017, especially its employees, suppliers, service providers and other governance bodies.

Lisbon, 26 February 2018

Pedro Pinto Coelho | Chairman
Miguel Rola Costa | Member
Nuno Martins | Member

Financial statement

Balance sheet

on 31 December 2016 and 2017

figures in euros

	NOTES	2017	2016
Assets			
Cash and cash equivalents in central banks	16	35,717,375	80,102,203
Cash on hand at other credit institutions	17	21,141,187	7,779,257
Held-for-trading financial assets	18	752	-
Other financial assets at fair value through profit or loss	18	41,764,066	7,060,820
Available-for-sale financial assets	19	355,457,111	181,845,144
Investments at credit institutions	20	3,648,369	11,056,966
Loans to customers	21	41,778,903	5,074,246
Held-to-maturity investments	22	-	60,388,868
Other tangible assets	23	740,330	358,643
Intangible assets	24	4,513,145	3,792,526
Current tax assets	25	15,019	7,847
Deferred tax assets	26	2,189,753	2,515,504
Other assets	27	2,507,605	2,052,197
Total Assets		**509,473,616**	**362,034,222**
Liabilities			
Central Bank Resources	28	120,002,162	12,132
Held-for-trading financial liabilities	18	35,214	-
Other financial liabilities at fair value through profit or loss	-	-	-
Resources at other credit institutions	29	50,779,532	71,260,513
Resources from customers and other loans	30	305,147,644	262,234,343
Provisions	13	97,273	26,903
Current tax liabilities	25	490,614	91,422
Deferred tax liabilities	26	424,086	-
Other liabilities	31	2,897,505	3,204,065
Total Liabilities		**479,874,031**	**336,829,379**
Equity			
Capital	32	34,250,000	34,250,000
Revaluation reserves	33	644,967	(1,463,589)
Other reserves and retained earnings	34	(7,581,569)	(5,592,328)
Net result for the year	-	2,286,186	(1,989,241)
Total Capital		**29,599,585**	**25,204,843**
Total Liabilities and Capital		**509,473,616**	**362,034,222**

THE CHARTERED ACCOUNTANT
THE BOARD OF DIRECTORS

The attached explanatory notes are an integral part of the financial statements.

Income Statement

on 31 December 2016 and 2017

figures in euros

	NOTES	2017	2016
Interest and similar income	4	8,805,683	3,306,407
Interest and similar expenses	4	6,159,508	3,160,585
Strict financial margin		**2,646,175**	**145,822**
Income from capital instruments	5	-	2,392
Financial Margin		**2,646,175**	**148,214**
Income from services and fees	6	454,496	439,377
Service and commission expenses	6	217,237	88,285
Asset and liability results at fair value	7	(30,233)	-
Results of financial assets (net)	7	10,387,117	2,211,281
Currency revaluation results	8	(66,360)	1,534
Other operating income	9	10,421	38,204
Banking income		**13,184,379**	**2,750,326**
Staff Costs	10	2,972,457	2,232,535
General administrative costs	11	3,666,816	2,578,537
Amortisation and depreciation	12	1,058,832	554,079
Operating costs		**7,698,106**	**5,365,151**
Provisions net of write-offs	13	95,371	(687)
Loan impairment net of reversals and recoveries	13	525,629	(3,098)
Impairment from other financial assets (net)	13	1,573,323	(127,206)
Impairment from other assets (net)	13	19,246	-
Impairment in intangible assets	13	380,441	-
Impairments and provisions		**2,594,009**	**(130,991)**
Result before taxes		**2,892,264**	**(2,483,834)**
Current taxes	14	490,614	91,422
Deferred taxes	14	115,465	(586,015)
Taxes		**606,079**	**(494,593)**
Net result for the year		**2,286,186**	**(1,989,241)**
Basic earnings per share	15	0.36	(0.32)
Diluted earnings per share	15	0.36	(0.32)

THE CHARTERED ACCOUNTANT
THE BOARD OF DIRECTORS

The attached explanatory notes are an integral part of the financial statements.

Statement of Changes in Equity

for the years ending 31 December 2017 and 2016

figures in euros

	TOTAL EQUITY	CAPITAL	LEGAL RESERVE	FAIR VALUE RESERVES	OTHER RESERVES	RESULTS CARRIED FORWARD	NET RESULT FOR THE YEAR
31 December 2015	**28,362,156**	**34,250,000**	**-**	**(295,516)**	**-**	**(4,100,474)**	**(1,491,854)**
Allocation of income	-	-	-	-	-	(1,491,854)	1,491,854
Re-valuation reserves resulting from valuation at fair value	(1,507,191)	-	-	(1,507,191)	-	-	-
Deferred tax reserves resulting from valuation at fair value	339,118	-	-	339,118	-	-	-
Capital increase to hedge	-	-	-	-	-	-	-
Net result for the year	(1,989,241)	-	-	-	-	-	(1,989,241)
31 December 2016	**25,204,843**	**34,250,000**	**-**	**(1,463,589)**	**-**	**(5,592,328)**	**(1,989,241)**
Allocation of income	-	-	-	-	-	(1,989,241)	1,989,241
Re-valuation reserves resulting from valuation at fair value	2,742,928	-	-	2,742,928	-	-	-
Deferred tax reserves resulting from valuation at fair value	(634,372)	-	-	(634,372)	-	-	-
Net result for the year	2,286,186	-	-	-	-	-	2,286,186
31 December 2017	**29,599,584**	**34,250,000**	**-**	**644,967**	**-**	**(7,581,568)**	**2,286,186**

THE CHARTERED ACCOUNTANT
THE BOARD OF DIRECTORS

The attached explanatory notes are an integral part of the financial statements.

Comprehensive Income Statement

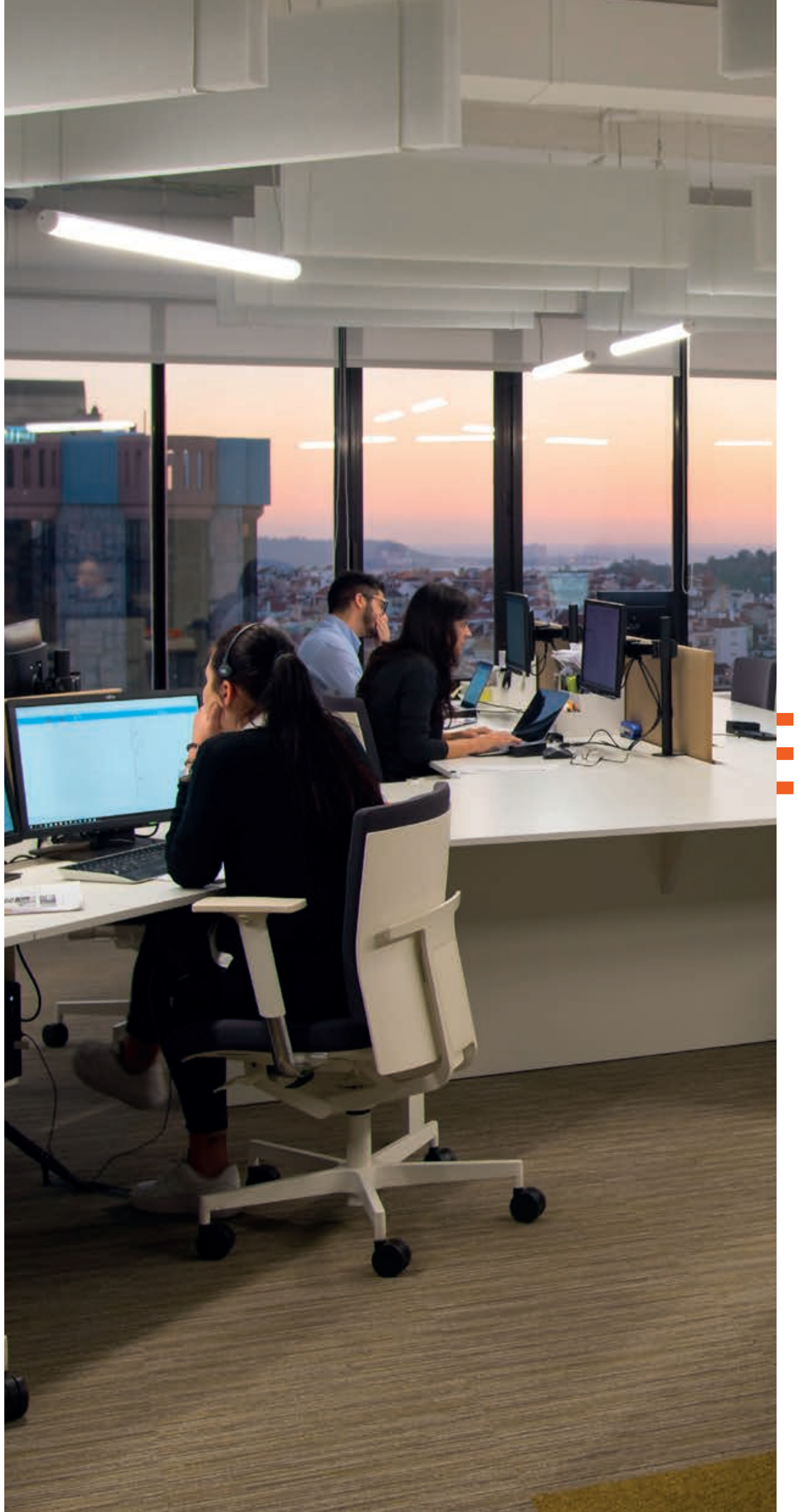
for the years ending 31 December 2017 and 2016

figures in euros

	2017	2016
Items that may be reclassified for the income statement		
Re-valuation reserves resulting from valuation at fair value	2,742,928	(1,507,191)
Deferred tax reserves resulting from valuation at fair value	(634,372)	339,118
Other comprehensive income for the year after taxes	2,108,556	(1,168,073)
Net result for the year	2,286,186	(1,989,241)
Total comprehensive income from the year	**4,394,742**	**(3,157,313)**

THE CHARTERED ACCOUNTANT
THE BOARD OF DIRECTORS

The attached explanatory notes are an integral part of the financial statements.



Cash Flow Statement

for the years ending 31 December 2017 and 2016

figures in euros

	NOTES	2017	2016
Cash flow from operating activities			
Interest, fees and other income received		9,326,173	1,660,696
Interest, fees and other income paid		(3,519,691)	(1,383,985)
Payments to suppliers and employees		(6,307,718)	(4,559,211)
Recovery of credit and interest		-	-
Other payments and receipts		(1,126,400)	3,238,485
		(1,627,636)	**(1,044,015)**
Change to operating assets and liabilities			
Loans to customers		(27,455,886)	(3,219,258)
Deposits by credit institutions and central banks		99,486,780	5,980,627
Customer funds		40,078,515	255,087,260
		112,109,409	**257,848,629**
Cash flow net of operating activities, before income tax		**110,481,774**	**256,804,614**
Income tax paid		(98,594)	38,364
		110,383,180	**256,842,978**
Cash flow from investment activities			
Investments at credit institutions		7,417,195	37,098,489
Sale of tangible and intangible assets	-	-	-
Available-for-sale financial assets		11,260,106	(170,063,643)
Acquisitions of tangible and intangible assets		(2,563,115)	(1,897,707)
Sale of tangible and intangible assets		21,535	-
Held-for-trading financial assets		(66,360)	-
Other financial assets at fair value through profit or loss		(34,697,607)	(7,060,820)
Held-to-maturity investments		(122,778,137)	(57,837,214)
Cash flow net of investment activities		**(141,406,383)**	**(199,760,895)**
Cash flow from financing activities			
Capital increase		-	-
Cash flow net of financing activities		**-**	**-**
Net change in cash and cash equivalents		(31,023,202)	57,082,083
Cash and cash equivalents at the start of the year		87,881,460	30,799,378
Cash and cash equivalents at the end of the year		**56,858,258**	**87,881,460**
Cash and cash equivalents include:			
Cash and cash equivalents in central banks	16	35,717,375	80,102,203
Cash on hand at other credit institutions	17	21,140,882	7,779,257
Total		**56,858,257**	**87,881,460**

THE CHARTERED ACCOUNTANT
THE BOARD OF DIRECTORS

The attached explanatory notes are an integral part of the financial statements.

Notes to the financial statements

Introduction

BNI – Banco de Negócios Internacional (Europa), S.A. ("Bank" or "Banco BNI Europa") is a public limited company with head office in Portugal at Av. Eng. Duarte Pacheco, CC das Amoreiras Torre 1 - Piso 7, established through a public deed on 2 June 2009. The Bank derived from a change in name and company mission of BIT – TITANIUM, Consultoria de Banca e Seguros, S.A. which was transformed into a bank through the public deed of 9 April 2012. When the company was established its core business was the provision of strategic and economic consultancy services for the banking and insurance sectors, provision of accountancy services, corporate consultancy and management, technical support for the establishment, development, expansion and modernisation of financial and non-financial companies, intervention, marketing and prospecting of financial markets, and the company also had capacity to take part in the establishment of or acquire holdings in companies that had missions different to the above, in consortia.

At this time, Banco BNI Europa's corporate purpose is limited to the banking business, including all supplementary, related and similar transactions compatible with this business and permitted by law. The Bank entered into the banking business on 16 July 2014.

NOTE 1

Basis of presentation

Under the provisions of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, as transposed into Portuguese legislation through Decree Law No. 35/2005 of 17 February and Bank of Portugal Notice No. 5/2015 of 20 December, the Bank's financial statements have been prepared in accordance with International Accounting Standards ("IAS"), as adopted by the European Union.

These International Accounting Standards entail the application of International Financial Reporting Standards (IFRS) to individual financial statements, as adopted, at any given time, by European Union regulations, and following the conceptual layout for preparing and presenting financial statements subject to these norms.

The IFRS include accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and their predecessor bodies.

The Bank's financial statements shown here are for the period ending 31 December 2017, and have been prepared according to the IAS, which include the IFRS in force as adopted by the European Union through 31 December 2017.

These financial statements were approved in a meeting of the Board of Directors on 26 February 2018. The Board of Directors expects them to be approved in the General Meeting of Shareholders with no significant changes.

They are expressed in euros, and have been prepared in accordance with the historic cost principle, except for assets and liabilities recorded at fair value. The totals shown in the financial statements and their notes may have small discrepancies from rounding to the nearest unit.

Preparing the financial statements according to the IAS requires the Bank to make judgements and estimates, and to use assumptions affecting the application of accounting policies and the amounts of income, costs, assets and liabilities. Any changes to these assumptions or differences vis-à-vis reality may impact current estimates and judgements. Areas involving a higher degree of judgement or complexity, or which use significant assumptions or estimates in preparing the financial statements, have been analysed in Note 3.

NOTE 2

Main accounting policies

The Bank's accounting policies to prepare its financial statements as of 31 December 2017 are consistent with those used to prepare the financial statements as of 31 December 2016.

The most significant accounting policies used in preparing the financial statements are as follows:

2.1 Financial Assets

An instrument is classified as a financial asset when a contractual obligation exists to settle it by means of cash or another financial liability, regardless of its legal form.

The financial assets are initially measured at added fair value, for those that are not measured at fair value through the results, of the respective transaction costs.

Subsequently they are measured in line with the respective classification taking into account (i) the goal of their acquisition (short-term trading or medium/long-term investment) and (ii) the existence of an active market where the prices are regularly checked.

2.1.1 Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss include (i) the financial assets for trading, which are acquired to be traded in the short term, and (ii) the financial assets designated at the moment of their initial recognition at fair value with the variations recognised in results, provided:

i) it eliminates or significantly lowers an inconsistency in measurement or recognition (sometimes called an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases, or

ii) a group of financial assets, financial liabilities or both is managed and their performance assessed based on fair value, in compliance with a documented risk management or investment strategy, and the information about the group is supplied internally to the key management personnel (as defined in IAS 24 Related Party Disclosures (reviewed in 2003)), e.g. the company's management and CEO.

These assets are recognised on the trade date, i.e. on the date the Bank commits to acquiring or selling the asset.

These assets are derecognised when (i) the contractual rights of the Bank related to their cash flows expire, (ii) the Bank substantially transfers all the risks and benefits associated with holding these assets, or (iii) notwithstanding it retains part, but not substantially all the risks and benefits associated with holding these assets, the Bank transfers control of the assets.

After their initial recognition, financial assets at fair value through profit or loss are measured at fair value, and their variations recognised in the results.

2.1.2 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that: (i) the Bank intends to keep for an indefinite length of time, (ii) that are designated as available for sale upon their initial recognition, or (iii) that were not classified as trading assets, designated at fair value through the results, held-to-maturity financial assets or as credit on other receivables.

These assets are recognised on the trade date, i.e. on the date the Bank commits to acquiring or selling the asset.

Available-for-sale financial assets are initially recognised at fair value, including the transactions' associated costs or income. Available-for-sale financial assets are subsequently measured at fair value. These assets are derecognised when (i) the contractual rights of the Bank related to their cash flows expire, (ii) the Bank substantially transfers all the risks and benefits associated with holding these assets, or (iii) notwithstanding it retains part, but not substantially all the risks and benefits associated with holding these assets, the Bank transfers control of the assets.

The respective variations of fair value are recognised directly in equity, up to the time the investments are derecognised or until an impairment loss is detected, at which point the accumulated potential gains and losses recorded in the fair value reserves (equity) are transferred to results, and recognised in the item "Results of available-for-sale financial assets " from the income statement.

The interest from the debt instruments and other fixed income securities and the differences between the cost of acquisition and the nominal value (premium or discount) are recorded in the results in accordance with the effective interest rate method. The income from variable income securities (dividends, in the case of shares) are recognised in results on the date they are attributed or received.

On each balance sheet date, an assessment is made of the existence of any objective evidence of impairment. A financial asset or group of financial assets is considered impaired whenever there exists objective evidence of impairment resulting from one or more events occurring after its/their initial recognition, such as: (i) for listed securities, a continued devaluation or devaluation of significant magnitude in share price, and (ii) for unlisted securities, when the event (or events) has/have an impact on the estimated future cash flows of the financial asset, or group of financial assets, which may be reasonably estimated.

2.1.3 Held-to-maturity investments

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intent and ability to keep to maturity.

If the Bank decides to sell a significant amount of financial assets recognised in this category, which do not fit into the exceptions outlined in the norms, this category must be fully reclassified to the portfolio of available-for-sale assets for 2 years, and no financial asset may be classified in this category.

The financial assets classified in this category are initially recognised at fair value plus transaction costs, then subsequently measured at amortised cost based on the effective rate method. At each balance sheet date a search is made for objective evidence of impairment resulting from one or more events occurring after its/their initial recognition, such as: (i) for listed securities, a continued devaluation or devaluation of significant magnitude in share price, and (ii) for unlisted securities, when the event (or events) has/

have an impact on the estimated future cash flows of the financial asset, or group of financial assets, which may be reasonably estimated. The corresponding loss is recognised in results.

2.1.4 Credit and other receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market and which the Bank does not intend to sell immediately or in the short term. "Loans to customers" includes loans originating at the Bank, not intended for short-term sale, recorded on the date of credit provision to the customer, at nominal value, according to Bank of Portugal Notice No. 1/2005, plus transaction costs, subsequently valued at amortised cost based on the effective rate method, minus impairment losses.

Loans to customers are recognised on the balance sheet unless: (i) the Bank's contractual rights related to their cash flows have expired, (ii) the Bank has substantially transferred all of the risks and benefits associated with their ownership, or (iii) the control of the assets has been transferred, even when the Bank retains part, but not substantially all, of the risks and benefits associated with their ownership.

The existence of objective evidence of impairment in the loan portfolio must be evaluated on a regular basis. Any impairment losses found are recorded against the results, then subsequently reversed if the amount of the estimated loss decreases at a later time.

After initial recognition, a loan or portfolio of customer loans with similar risk characteristics may be classified with impairment when there is objective evidence of impairment resulting from one or more events impacting the estimated value of the future cash flows of the loan or customer loan portfolio, whose measurement may be reasonably estimated.

In compliance with IAS 39, a loan granted to customers that is individually assessed as being impaired should not be included in a loan portfolio assessed collectively with regard to impairment.

A customer loan which is individually assessed as not being impaired should be included in a collective impairment assessment.

When collectively assessing impairment, loans are grouped together based on similar credit risk characteristics, as per the risk assessment defined by the Bank. Future cash flows for a loan portfolio whose impairment is assessed collectively are estimated based on contractual cash flows and historical experience with regard to losses. The methodology and assumptions used to estimate future cash flows are reviewed regularly by the Bank to monitor the difference between estimated and actual losses.

2.1.5 Reclassifications

After their initial recognition, financial assets may not be reclassified as financial assets at fair value through profit or loss.

A financial asset initially recognised at fair value through profit or loss may be reclassified from this category if it is a financial asset with fixed or determinable payments, initially held for trading, which after acquisition may no longer be traded on an active market and the Bank intends and has the ability to hold it in the short-term future until maturity. This financial asset may be reclassified to the "loans and other receivables" category provided the eligibility criteria of this category are fulfilled.

Derivative financial instruments should not be reclassified, removing them from the category of fair value through profit or loss, when they are held or issued.

A financial asset initially recognised as available for sale may be reclassified as held-to-maturity investments provided the respective eligibility criteria are fulfilled.

Furthermore, if a financial asset with fixed or determinable payments initially recognised as available for sale can no longer be traded in an active market and the Bank intends and has the ability to hold it in the short-term future or until maturity, it may be reclassified as "Loans and other receivables" provided the eligibility criteria are fulfilled.

Reclassified assets are transferred to the new category of their fair value on the reclassification date and are subsequently measured in line with the applicable rules.

For financial assets reclassified from the category to fair value through profit or loss, the gains and losses that have been recognised in the results are not reversed.

The fair value of the financial asset on the reclassification date becomes its new cost or amortisation cost, as applicable. For financial assets reclassified through withdrawal from the category of available-for-sale financial assets, any previous gain or loss that has been recognised should be amortised in the results over the remaining life of the held-to-maturity investment using the effective interest rate method.

2.2 Financial liabilities

An instrument is classified as a financial liability when a contractual obligation exists to settle it by means of cash or another financial asset, regardless of its legal form.

Non-derivative financial liabilities include resources from credit institutions, loans, responsibilities represented by securities and other subordinated liabilities.

These financial liabilities are recorded (i) initially at fair value, minus transaction costs incurred, and (ii) subsequently at their amortised cost, based on the effective rate method.

2.3 Derivative financial instruments

The Bank designates derivatives and other financial instruments to hedge interest rate risk and foreign exchange risk resulting from financing and investment activities. Derivatives which do not qualify for hedge accounting are recorded as trading derivatives. Hedging derivatives are recorded at fair value, with revaluation gains and losses recognised according to the hedge accounting model used by the Bank. A hedging relationship exists when:

- Formal hedging documentation exists on the initial date of the relationship;
- It is expected that hedging will be highly effective;
- The hedging's effectiveness can be reliably measured;
- The hedging is assessed on a continuous basis and actually determined to be highly effective over the financial reporting period; and
- In relation to hedging for a scheduled transaction, the transaction is highly probable, and has exposure to changes in cash flows that could ultimately affect the results.

When a derivative financial instrument is used to hedge foreign exchange variations arising from monetary assets or liabilities, no hedge accounting model is applied. Any gains or losses associated with the derivative are recognised in results for the year, along with the changes in foreign exchange risk of the underlying monetary items.

2.4 Offsetting of financial instruments

Financial assets and liabilities are shown on the balance sheet at their net value when the legal option exists to offset the recognised amounts, with the intention to settle them at their net value, or to realise the asset and settle the liability simultaneously.

2.5 Non-current assets held for sale

Non-current assets or groups for disposal (groups of assets for collective disposal in a single transaction, and directly associated liabilities which include at least one non-current asset) are classified as held for sale when their balance sheet value is recovered primarily through a sales transaction (including those acquired exclusively for the purpose of sale), the assets or groups for disposal are available for immediate sale and the likelihood of sale is high.

Assets received as payment in kind for credit, which may include real estate, equipment and other goods, are recorded, at the time of initial recognition, at their fair value minus expected cost of sale or at the balance sheet value of the credit to be recovered, whichever is lower. The unrealised losses determined for these assets are recorded in the results. Regular assessments are obtained, giving rise to impairment losses, whenever the resulting value of these assessments is less than the book value. Potential gains from assets received in kind for debt recovery are not recognised on the balance sheet.

2.6 Tangible assets

Tangible assets are recorded at acquisition cost, minus any respective cumulative depreciation and impairment losses. The cost includes expenses not directly attributable to the assets' acquisition.

Any subsequent tangible asset costs are only recognised if it is likely that the assets will result in future economic benefits to the Bank. All maintenance and repair expenses are recognised as a cost, in accordance with the principle of accrual-based accounting.

Depreciation for tangible assets is calculated using the straight-line method at the following rates, which reflect the assets' expected useful life:

	NUMBER OF YEARS
Real estate:	
Works in rented properties	5
Equipment:	
Furniture and materials	4 to 8
Machinery and tools	5 to 8
IT equipment	3 to 7
Interior fittings	5
Safety equipment	5 to 8
Other equipment	5 to 8

When evidence exists of an asset's potential impairment, IAS 36 requires an estimate of its recoverable value, with recognition of an impairment loss whenever an asset's net value exceeds its recoverable value. Impairment losses are recognised in the income statement, and are reversed in subsequent annual reports when the reasons for their initial impairment cease to exist. As such, the new depreciated amount will not be more than the accounted amount, if impairment losses for the asset have not been assigned, considering the depreciations it would have undergone.

The recoverable amount is calculated as the highest amount between its net sale price and its use amount, the latter calculated based on the current future estimated cash flow obtained from the continuous use of the asset and its sale at the end of its lifespan.

In 2017, the Bank decided to change its head office, meaning that in September 2017 an extraordinary depreciation began of the works in the previous premises.

2.7 Intangible assets

Costs incurred for software acquisition, production and development are capitalised, together with any additional expenses incurred by the Bank for their implementation. These costs are amortised on a linear basis over the assets' expected useful life, which normally ranges from 3 to 6 years.

In cases where the requirements outlined in the International Accounting Standard 38 – Intangible Assets are fulfilled, the direct internal costs incurred in software development, from which future economic gains are expected beyond the financial year, are capitalised and recorded as intangible assets.

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

2.8 Leases

The Bank classifies leasing transactions as financial or operating leases according to their substance and not their legal form, in compliance with the criteria laid out in IAS 17 – Leases. Transactions in which the underlying risks and benefits of an asset's ownership are transferred to the lessee are classified as financial leases. All other leasing transactions are classified as operating leases.

Operating leases

Payments made by the Bank under operating lease agreements are recorded as costs in their corresponding financial years.

2.9 Income tax

Income taxes include current taxes and deferred taxes. Income taxes are recognised in the results, except when related to items recognised directly under equity, in which case they are also recorded against equity.

Tax is recognised in each financial year's report based on management estimates of the annual average tax rate forecast for the entire financial year.

Current taxes are those expected to be paid based on the taxable profit calculated according to tax rules in force, and using the approved (or substantially approved) tax rate.

Deferred taxes are calculated, based on the balance sheet, against the temporary differences between the book values of assets and liabilities and their tax base, using the approved (or substantially approved) tax rate on the balance sheet date, which is expected to apply at the time the temporary differences are reversed.

Deferred tax assets and liabilities are recognised for all the taxable time differences, of the differences resulting from the initial recognition of assets or liabilities that do not affect either the accounting or the tax profit. Deferred tax assets are recognised only insofar as expected tax profits in the future are able to absorb the deductible time differences.

2.10 Provisions

Provisions are recognised when (i) the Bank has a present, legal or constructive obligation, (ii) demand for its payment is likely, and (iii) a reliable estimate of the obligation's value can be made.

When the discount effect is material, the provision corresponds to the present value of expected future payments, discounted at a rate which takes the obligation's associated risk into account.

2.11 Financial guarantees

Financial guarantees are defined as contractual agreements requiring the issuer to make payments to compensate the holder for losses incurred for breaches of the contractual terms of debt instruments, namely the payment of principal and/or interest.

Financial guarantees are initially recognised at their fair value. Subsequently these guarantees are measured by the greater of (i) the initially recognised fair value, or (ii) the amount of any obligation arising from the guarantee agreement, measured as of the balance sheet date. Any change in the value of an obligation associated with financial guarantees is recognised in the results.

Financial guarantees normally have a set maturity and periodic fee charged in advance, which varies according to the counterparty risk, amount and contract duration. On this basis, the fair value of the guarantees on the date of their initial recognition is approximately equivalent to the value of the initial fee received, taking into consideration the agreed market conditions. As such, the amount recognised on the contract date is equal to the amount of the initial fee received, which is recognised in the results during its corresponding period. Subsequent fees are recognised in the results in their corresponding periods.

2.12 Capital instruments

An instrument is classified as a capital instrument when there is no contractual obligation for its settlement by means of cash or another financial asset, regardless of its legal form, with a residual interest in the assets of an entity after deducting all of its liabilities.

Any costs directly attributable to the issuance of capital instruments are recorded against equity as a deduction from the issuance amount. Amounts paid and received for the purchase and sale of capital instruments are recorded in equity, net of transaction costs.

Distributions made on behalf of capital instruments are subtracted from equity as dividends, when declared.

2.13 Recognition of interest

Results from interest from financial instruments measured at amortised cost and from available-for-sale financial assets are recognised in the items "interest and similar income" or "interest and similar costs" using the effective rate method. The effective interest rate is the rate which precisely discounts estimated future payments or receipts during the financial instrument's expected lifetime or, when appropriate, a shorter time period, for the financial asset's or liability's balance sheet net present value.

The effective interest rate is set at the initial recognition of the financial assets or liabilities, and is not subsequently revised.

To calculate the effective interest rate, future cash flows are estimated based on all of the financial instrument's contractual terms and conditions, but not considering any future credit losses. This calculation includes fees comprising an integral part of the effective interest rate, transaction costs and all premiums and discounts directly related to the transaction. In the case of financial assets or groups of similar financial assets for which impairment losses have been recognised, the interest recorded in "interest and similar income" is determined based on the interest rate used to measure the impairment loss.

Specifically with regard to the policy for recording interest on loans due, the following aspects are considered:

- Interest on overdue credit with real guarantees, until reaching the prudentially assessed hedging limit, is recorded against the results in accordance with IAS 18 under the assumption that there is a reasonable likelihood of its recovery; and
- Interest already recognised and unpaid for overdue credit more than 90

days past not covered by a real guarantee is written off, and is not recognised until its receipt, since its likelihood of recovery is considered remote under the scope of IAS 18.

2.14 Recognition of income from capital instruments

Income from capital instruments (dividends) are recognised when the right to receive the payment is established.

2.15 Recognition of income from services and fees

Income from services and fees is recognised in the following manner:

- Income from services and fees obtained from the performance of a significant act is recognised in the results once the significant act is complete;
- Income from services and fees obtained as the services are being provided is recognised in the results in its corresponding period; and
- Income from services and fees comprising an integral part of a financial instrument's effective interest rate is recognised in the results using the effective interest rate method.

2.16 Results per share

Base earnings per share are calculated by dividing the net profits by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by adjusting for the effect of all the potential ordinary shares (convertibles, options etc.) on the weighted average number of ordinary shares in circulation and on net income.

2.17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are amounts recorded in the balance sheet with a maturity of less than three months from the date of acquisition/contracting, including cash, cash on hand at central banks and cash on hand at credit institutions.

Cash and cash equivalents do not include deposits of a mandatory nature at central banks.

2.18 Transactions in foreign currency

Transactions in foreign currency are converted into euros using the transaction date's exchange rate.

Monetary assets and liabilities expressed in foreign currency are converted into euros using the exchange rate in effect on the balance sheet date. Exchange differences resulting from this conversion are recognised in the results.

Non-monetary assets and liabilities recorded at historical cost, expressed in foreign currency, are converted using the transaction date's exchange rate. Non-monetary assets and liabilities expressed in foreign currency, recorded at fair value, are converted at the exchange rate in effect on the date the fair value is determined.

The resulting exchange differences are recognised in the results, except with regard to differences involving shares classified as available-for-sale financial assets , which are recorded in equity.

Exchange rates used by the Bank for exchange purposes as of 31 December 2017:
USD: 1.1993
GBP: 0.88723

2.19 Staff benefits

The Bank recognises, as expenses, short-term benefits for employees working in the respective accounting period, then as a liability after subtracting the amount already paid.

Profit-sharing and bonus plans

The Bank recognises the expected expense of payments for profit-sharing and bonuses when it has a present, legal or constructive obligation to make these payments as a result of past occurrences, and is able to make a reliable estimate of the obligation.

Obligations for holidays, holiday allowances and Christmas bonuses

In accordance with legislation in force in Portugal, employees are entitled to one month of holidays and one month of holiday allowances per year, a right which is acquired in the year prior to their payment. In addition, employees are entitled to one month of Christmas bonuses per year, a right which is acquired over the course of the year and settled in December of each calendar year. Therefore, these responsibilities are recorded in the period in which employees acquire the respective right, regardless of the date of payment.

The Bank is subject to the General Social Security Scheme and has no defined benefit plan, meaning there are no pensions, invalidity or survivor payments to pay its employees.

NOTE 3

Main estimates and judgements used in preparing financial statements

The IAS establish a series of accounting procedures and require the Board of Directors to make the judgements and estimates needed to decide which is the most appropriate accounting procedure. The main accounting estimates and judgements used in the Bank's application of the accounting principles are discussed in this note in order to provide a better understanding of how their application affects the Bank's results as reported and their disclosure.

A wide-ranging description of the main accounting policies used by the Bank is provided in Note 2 to the financial statements.

Considering that, in certain situations, there are alternatives to the accounting procedure adopted by the Board of Directors, the results reported by the Bank could have been different had a different procedure been chosen.

The Board of Directors considers the choices taken are appropriate and that the financial statements accurately reflect the Bank's financial position and the result of its operations in all materially relevant aspects.

3.1 Tax on profits, current and deferred

In order to determine the value of income taxes, a number of interpretations and estimates are required. There are various transactions and calculations for which the determination of the final value of the tax payable is uncertain during the normal business cycle.

Other interpretations and estimates could result in a different level of tax on profits, current and deferred, from that recognised in the year.

The Tax Authorities are entitled to review the Bank's tax calculation for a period of four or up to twelve years, in the event of reportable tax losses. This means that the taxable income may still be adjusted, due mainly to differences in the interpretation of tax law. However, the Bank's Board of Directors is confident that there will be no significant adjustments to taxes on income recorded in the financial statements.

3.2 Fair value of the derivative financial instruments and other assets and liabilities at fair value

Fair value is based on market listed prices when available and, failing these, is determined on the basis of the prices for recent similar arm's length transactions or else using valuation methods based on discounted future cash flows considering market conditions, the effect of time, the yield curve and volatility factors. These methods may require the use of assumptions or judgements in estimating the fair value.

Consequently, the use of different methods or different assumptions or judgements in applying a given model may lead to financial results different from those reported and indicated in Note 7.

3.3 Impairment losses on loans to customers

The Bank periodically reviews its loans portfolio in order to assess the existence of impairment, as referred to in Note 2.1.4. In order to determine whether an impairment loss should be recognised, the loan assessment process incorporates a number of estimates and judgements. This process includes factors such as default frequency, loss recovery rates and estimates of both future cash flows and of the respective receipt dates. The use of alternative methods and different assumptions and estimates may result in a different level of recognised impairment losses as outlined in Note 21.

3.4 Impairment of available-for-sale financial assets

An impairment is deemed to exist in available-for-sale financial assets when there is a continued or substantial reduction in their fair value or when an impact is expected on the future cash flows of the assets. This decision requires judgement, meaning that it is necessary to assess all the information relevant to reaching a decision, in particular the normal volatility of the prices of financial instruments. For this purpose, and as a consequence of severe market volatility, the following parameters are regarded as triggering impairment:

(i) Equity securities: continuing or substantial reduction in their market value in relation to their acquisition cost;

(ii) Debt securities: whenever there is objective evidence of events with an impact on the recoverable value of these assets' future cash flows.

In addition, valuations are also obtained by marking to market or marking to model, methods which require the use of given assumptions or judgement in setting the fair value estimates.

The use of alternative methods and different assumptions and estimates may result in a different level of recognised impairment losses.

NOTE 4

Strict financial margin

This item comprises:

figures in euros

	2017	2016
Interest and other similar income:		
Cash equivalents at central banks	-	28
Investments at credit institutions	24,395	179,129
Interest on loans to customers	1,453,985	482,528
Interest on overdue credit	551	37
Interest on other financial assets	7,276,738	2,585,537
Commission income associated with amortised cost	50,014	59,148
	8,805,683	**3,306,407**
Interest and similar expenses:		
Central Bank Resources	104,720	104,874
Credit institution resources	226,522	219,597
Interest on customer deposits	4,971,957	2,421,781
Other loans	-	2,636
Commission expense associated with amortised cost	820,184	411,698
Fees for lending operations	36,126	-
	6,159,508	**3,160,585**
Strict financial margin	**2,646,175**	**145,822**

The item Interest and similar income, totalling €8,805,683 (31 December 2016: €3,306,407) comprises mostly income from investments in bonds, commercial paper and Exchange Traded Funds (ETFs), totalling €7,276,738 (31 December 2016: €2,585,537) and interest on short-term investments totalling €24,395 (31 December 2016: €179,129). The interest on loans granted to customers totalled €1,453,985 (31 December 2016: €482,528) and the fees at amortised cost totalled €50,014 (31 December 2016: €59,148).

The item Interest and similar expenses comprises mostly interest on customer funds, totalling €4,971,957 (31 December 2016: €2,421,781), and interest on credit institution funds, essentially related to investments of Banco de Negócios Internacional, S.A., with head office in Angola, totalling €190,257 (31 December 2016: €190,715).

NOTE 5

Income from capital instruments

In December 2016, the value of this item totalled €2,392 and was comprised entirely of exchange-traded funds investments.

NOTE 6

Net service and commission income

This item comprises:

figures in euros

	2017	2016
Service and commission income:		
Documentary operations	638	56,364
For commitments accepted	84,280	128,878
For services rendered	274,335	169,838
Other charges received	95,243	84,297
	454,496	**439,377**
Service and commission expenses:		
For guarantees received	640	213
Other financial instrument operations	2,485	-
For third party banking services	214,112	88,072
	217,237	**88,285**
Net service and commission income	**237,259**	**351,093**

The item Service and commission income, totalling 454,496 (31 December 2016: €439,377) was up compared to the same period the previous year as a consequence of the Bank's increased business volume. The item **Documentary operations** relates to commission on documentary remittances which resulted from the confirmation of letters of credit. The item **For services rendered** includes commission on transfers of operations ordered by customers of Banco de Negócios Internacional, S.A., research and arrangement fees and commissions on lending operations. The item **For commitments accepted** includes commissions associated with guarantees provided in connection with credit facilities.

The item Service and commission expenses, totalling €217,237 (31 December 2016: €88,285) essentially comprise bank services provided by third parties totalling €214,112 (31 December 2016: €88,072), which essentially refer to maintenance costs and provision of services related to banks accounts and financial counterparties.

NOTE 7

Results of financial assets

This item comprises:

figures in euros

	2017	2016
Gains from financial assets available for sale:		
Fixed income	9,543,886	2,142,412
Variable income	899,755	68,958
	10,443,640	**2,211,370**
Losses in financial assets available for sale:		
Fixed income	(56,523)	-
Variable income	-	(89)
	(56,523)	**(89)**
	10,387,117	**2,211,281**

A significant part of the gain recognised in 2017 refers to the income resulting from the decision to sell a significant part of the investment portfolio in the category of held-to-maturity financial assets (see Note 22).

figures in euros

	2017	2016
Losses in asset and liability results at fair value		
Fixed income	-	-
Variable income	(30,233)	-
	(30,233)	-
	(30,233)	**-**

NOTE 8

Currency revaluation results

This item recorded a negative value of €66,360 (31 December 2016: €1,534), relative to the results deriving from real exchange rate operations and results relative to the exchange rate re-valuation of monetary assets and liabilities in foreign currency in line with the accounting policy outlined in Note 2.18.

figures in euros

	2017	2016
Gains in exchange rate re-valuation	3,842,266	1,391,615
	3,842,266	**1,391,615**
Losses in exchange rate re-valuation	(3,908,626)	(1,390,081)
	(3,908,626)	**(1,390,081)**
	(66,360)	**1,534**

NOTE 9

Other operating income

This item comprises:

figures in euros

	2017	2016
Other operating income:		
Reimbursement of expenses	189,226	53,922
Prior period adjustments	85	232,367
Other	37,759	738
	227,070	**287,028**
Other operating costs:		
Indirect taxes	157,651	70,573
Other	58,999	178,251
	216,650	**248,824**
	10,421	**38,204**

The item Other operating income includes **Reimbursement of expenses** totalling €189,226 (31 December 2016: €53,923) referring to the re-invoicing of Banco de Negócios Internacional, S.A. expenses, and **Other** profits totalling €37,759 (31 December 2016: €738) referring essentially to the subsidy received by the Employment and Professional Training Institute for an ongoing internship. On 31 December 2016, the item **Corrections relative to previous periods** was relative to the VAT amount requested from the State upon application of the pro rata method relative to the years ending in 2014 and 2015.

The item Other operating costs includes **Indirect taxes** totalling €157,651 (31 December 2016: €70,573). Most of this amount was the banking sector contribution, totalling €80,670 (31 December 2016: €51,198), and **Other** costs totalling €58,999 (31 December 2016: €178,251) referring to the contributions to the Deposits Guarantee Fund and the Resolution Fund, which were mandatory from the start of the Bank's activity.

NOTE 10

Staff Costs

This item comprises:

figures in euros

	2017	2016
Remuneration	2,831,981	2,247,930
Mandatory social charges	587,753	493,253
Remuneration and capitalised charges	(726,089)	(687,034)
Other charges	278,812	178,386
	2,972,457	**2,232,535**

The Bank is engaged in a vast range of projects, including its core application, means of payment, Homebanking, Online Credit, Cards, Mortgage Lending, AML Software and the latest Lendico, Raisin, Savedo and Edebex platforms. These projects have demanded significant internal efforts to support their implementation, and this task has fallen primarily to internal manpower, without whom the projects could not have been implemented, and have prepared the way for generating future economic benefits. Accordingly, as required by IAS 38, the sum of €726,089 was capitalised in 2017 (31 December 2016: €687,034) relative to the cost of internal staff, in proportion to the time allocated to each project and necessary to get the aforementioned intangible assets working.

The item **Other expenses**, totalling €278,812 (31 December 2016: €178,386) comprises expenses from work accident insurance and health insurance, canteen expenses and occupational medicine expenses, which increased owing to an increase in the workforce.

The Bank's personnel broke down as follows into the main occupational categories:

	2017	2016
Administration	3	4
Heads of business areas	6	6
Heads of support areas	5	4
Heads of control areas	4	3
Technicians	33	19
Secretarial staff	2	2
Trainees	4	5
	57	**43**

The sum of remunerations, including the respective fees, attributed to the Bank's management and supervisory bodies, in the financial years ending on 31 December 2017 and 2016, was as follows:

figures in euros

	2017	2016
Management Body		
Pedro Nuno Munhão Pinto Coelho	274,634	274,463
António Miguel Maurício Rola Costa	201,261	215,008
Nuno Luís do Rosário Martins	201,477	185,728
Paulo Alexandre Jacob dos Santos Santana	-	32,686
Carlos Alberto Rodrigues Firme	2,452	3,871
Supervisory Board		
Telmo Francisco Salvador Vieira	22,864	5,756
José Luis Guerreiro Nunes	4,397	-
João Carlos Espanha Pires Chaves	7,350	-
Isabel Paiva, Miguel Gaivão & Associados	16,974	3,914
Rui Manuel Lopes Amendoeira	-	3,914
Pedro Manuel Travassos de Carvalho	-	9,527
Ana Gomes & Cristina Doutor SROC	-	14,148
	731,409	**749,014**

NOTE 11

General administrative costs

This item comprises:

figures in euros

	2017	2016
Water, power and fuel	35,040	41,741
Printed materials and consumables	20,152	17,810
Other third party supplies	2,697	326
Hygiene and cleaning products	19,976	16,043
Books and technical documentation	2,727	45
Fast-wearing tools and utensils	6,791	-
Rentals	352,923	347,127
Communication and postage	248,910	116,861
Travel, accommodation and entertainment	249,345	102,700
Advertising and publications	412,562	112,969
Upkeep and repair	22,264	27,851
Personnel training	17,238	18,218
Insurance	33,252	16,641
Legal and notarial services	681	728
Safety and security	59,037	13,607
IT	39,624	17,869
Information	22,751	20,939
Data bank	57,019	50,312
Other specialist services	1,552,925	1,433,247
Other third party services	510,907	223,502
	3,666,816	**2,578,537**

The item **Rentals,** totalling €352,923 (31 December 2016: €347,127), refers primarily to rentals paid for the lease of premises where the Bank carries on its business, with a value of €124,688 (31 December 2016: €145,045), on leasing of IT equipment totalling €48,755 (31 December 2016: €42,089) as well as rental of vehicles totalling €179,479 (31 December 2016: €134,250).

The item **Other specialist services** totalling €1,552,925 (31 December 2016: €1,433,247), refers to the cost of consultancy services, at €408,527 (31 December 2016: €513,986), software maintenance costs, totalling €725,181 (31 December 2016: €422,970), the cost of legal services, at €113,031 (31 December 2016: €146,208) and the cost of accountancy services, at €88,276 (31 December 2016: €158,529).

The main components of the item **Other third party services**, totalling €510,905 (31 December 2016: €223,503) are the cost of the call centre totalling €209,949 (31 December 2016: €47,809) relates essentially to software licensing costs, totalling €131,363 (31 December 2016: €49,496).

The value in the item "Advertising and publishing" derives from expenses incurred in digital marketing and offline campaigns to attract online loans ("Puzzle" brand). The Bank launched this product on the market in the second half of 2017.

The fees invoiced (excluding VAT) by the Bank's official auditing company were as follows:

figures in euros

	2017	2016
PricewaterhouseCoopers (PwC)		
Legal auditing services	18,300	19,000
Reliability guarantee services	9,750	9,250
Other services	11,000	-
	39,050	**28,250**

The reliability guarantee services refer to (i) assessment of the suitability of the process to quantify the impairment of the credit portfolio (as per the Bank of Portugal's Instruction No. 5/2013 and audit of the internal control system - financial report (Notice No. 5/2008 of the Bank of Portugal).

The other services refer to the audit limited to the financial statements of the 6-month period ending 30 June 2017.

NOTE 12

Amortisation and depreciation

This item comprises:

figures in euros

	2017	2016
Tangible assets:		
Real estate:		
Works in rented properties	288,488	82,216
Equipment:		
Furniture and materials	41,925	20,097
Machinery and tools	4,513	2,578
IT equipment	22,933	3,614
Interior fittings	5,672	822
Safety equipment	8,075	6,902
Other equipment	12,120	423
	383,726	**116,651**
Intangible assets:		
Software	675,106	437,429
	675,106	**437,429**
	1,058,832	**554,079**

In the second half of 2017 the Bank moved its head office, subsequently implementing an extraordinary depreciation in the works carried out at its former office.

NOTE 13

Impairments and provisions

The item **Provisions and impairment** contains a balance of €943,913 (31 December 2016: €62,747).

The movement in the item "Provisions and impairment" is analysed as follows:

figures in euros

	IMPAIRMENT						PROVISIONS		
	LOANS TO CUSTOMERS	OTHER ACCOUNTS RECEIVABLE	OTHER FINANCIAL ASSETS	OTHER ASSETS	INTANGIBLE ASSETS	TOTAL	OFF-BALANCE SHEET EXPOSURE	RISKS AND FEES	TOTAL
1 January 2016	38,942	-	127,206	-	-	166,148	2,590	25,000	27,590
Movement in the period:									
Allocation	-	-	-	-	-	-	-	-	-
Reversals	(3,098)	-	(127,206)	-	-	(130,304)	(687)	-	(687)
	(3,098)	-	(127,206)	-	-	(130,304)	(687)	-	(687)
31 December 2016	**35,844**	**-**	**-**	**-**	**-**	**35,844**	**1,903**	**25,000**	**26,903**
Movement in the period:									
Allocation	525,629	-	1,573,323	19,246	380,441	2,498,638	-	97,274	97,274
Reversals	-	-	-	-	-	-	(1,903)	-	(1,903)
	525,629	**-**	**1,573,323**	**19,246**	**380,441**	**2,498,638**	**(1,903)**	**97,274**	**95,371**
Exchange rate differences	1,410	-	-	-	-	1,410	-	-	-
Utilisation	(115,929)	-	(1,573,323)	-	-	(1,689,252)	-	(25,000)	(25,000)
31 December 2017	**446,953**	**-**	**-**	**19,246**	**380,441**	**846,640**		**97,274**	**97,274**

In 2017, an impairment loss for loans to customers of €525,629 was recorded. This loss includes the amount of €115,929 relative to loans acquired through the Market Invoice platform, on which the total impairment was recognised and which were deducted on the balance sheet owing to non-compliance for more than 6 months, having used the recognised impairment to do so.

In the period ending 31 December 2017, impairment in other assets were recognised, totalling €19,246.

Furthermore, in 2017 the commercial strategy of the Mortgage Lending Division was reviewed, given that the Cereja brand under which the equity release product was to be launched was suspended, in the wake of a Bank of Portugal decision. The Bank is awaiting the passing of regulations to allow this product to be sold. As a consequence of this decision, the Bank recognised total impairment on the investment made with this product, totalling €380,441.

Banco BNI Europa holds a "Fintex Three" bond registered in the item "Available-for-sale financial assets", the overall investment in which totals €44.5 million as of 31 December 2017. This comprises consumer loans acquired in the German market. The impairment loss recognised in 2017 of €1,573,323 corresponds to actual losses in these loans.

NOTE 14

Taxes

Income tax expense in the period breaks down as follows:

figures in euros

	2017	2016
Current taxes:		
For the period	490,614	91,422
	490,614	**91,422**
Deferred taxes:		
Reportable tax losses (Note 26)	115,465	(586,015)
	115,465	**(586,015)**
Taxes	**606,079**	**(494,593)**

The Bank is subject to Corporation Tax (IRC) and the corresponding surtax. The tax rate adopted to calculate the tax amount on the Bank's financial statements is as follows:

figures in euros

	2017	2016
Tax rate	21.00%	21.00%
Municipal Surtax	1.50%	1.50%
State Surtax:		
- Taxable profits between €1.5 million and €7.5 million	3.00%	3.00%
- Taxable profits between €7.5 million and €35 million	5.00%	5.00%
- Taxable profits over €35 million	7.00%	7.00%
Average weighted tax rate applicable to the Bank	**24.43%**	**22.50%**

In Portugal, annual income declarations are subject to review and possible adjustment by the tax authorities for a period of 4 years. Should tax losses be presented, income declarations may be subject to review by the tax authorities up to the period in which these tax losses may be used. This means that taxable income may still be adjusted, due mainly to differences in the interpretation of tax law. However, the Bank's Management is confident that there will be no significant adjustments to taxes on income recorded in the financial statements.

As stated in Note 2.9 and in Note 3.1, the Bank periodically assesses the probability of recovering tax losses, reviewing for this purpose the execution of the Business Plan and the main critical variables and estimates underpinning it. Deferred tax assets recognised in relation to tax losses are detailed in Note 26.

Reconciliation of the annual tax amount is as follows:

	2017		2016	
	%	Euros	%	Euros
Result before taxes		2,892,264		(2,483,834)
Tax calculated based on the tax rate	21.00%	(607,376)	21.00%	521,605
Use of tax losses	-21.45%	620,530	0.00%	-
Establishment/(Reversal) of deferred taxes	3.99%	(115,465)	0.00%	-
Prior period adjustments	0.14%	(4,012)	0.00%	-
Non tax deductible impairment	7.38%	(213,371)	0.97%	24,079
Non-deductible costs	2.13%	(61,730)	-1.24%	(30,883)
Over-estimation for taxes	0.00%	18	0.00%	-
Tax/accounting gains and losses	0.00%	-	2.87%	71,215
Municipal Surtax	2.19%	(63,319)	0.00%	-
State Surtax	2.82%	(81,639)	0.00%	-
Autonomous taxation	2.76%	(79,715)	-3.68%	(91,422)
	20.96%	**(606,079)**	**19.91%**	**494,594**

NOTE 15

Earnings per share

Earnings per share are calculated as follows:

figures in euros

	2017	2016
Net Income	2,286,186	(1,989,241)
Average number of shares	6,282,329	6,282,329
Earnings per share (base)	**0.36**	**(0.32)**
Earnings per share (diluted)	**0.36**	**(0.32)**

Base earnings per share are calculated by dividing the net profits by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by adjusting for the effect of all the potential ordinary shares (convertibles, options etc.) on the weighted average number of ordinary shares in circulation and on net income.

At 31 December 2017 and 2016, the Bank had no such potential ordinary shares with a diluting effect, and consequently the diluted earnings per share are identical to the base earnings per share.

NOTE 16

Cash and cash equivalents in central banks

Cash and Cash Equivalents in Central Banks includes liquid amounts and others of a similar nature, such as notes and coins which are legal tender in the country or abroad.

This item breaks down as follows:

figures in euros

	2017	2016
Cash and cash equivalents		
Cash in national currency	40,287	34,491
Cash in foreign currency	18,002	20,321
Current accounts at Bank of Portugal	33,397,787	77,487,793
Total cash and cash equivalents	**33,456,075**	**77,542,603**
Minimum reserves at central banks		
Deposits at Bank of Portugal	2,261,300	2,559,600
Total minimum reserves	**2,261,300**	**2,559,600**
	35,717,375	**80,102,203**

The item **Cash in national currency and in foreign currency**, totalling €58,288 (31 December 2016: €54,812), corresponds to funds deposited in a safe.

The item **Current accounts at Bank of Portugal** includes the balance intended to meet the legal requirements for minimum cash reserves, totalling €2,261,300 (31 December 2016: €2,559,600), calculated on the basis of the value of deposits and other liabilities, as well as immediately available deposits of €33,397,787 (31 December 2016: €77,487,791).

The rules on constituting cash reserves, under the guidelines of the European System of Central Banks (Euro Zone), requires a balance to be maintained in deposits with the central bank equivalent to 1% of the average value of deposits and other liabilities, over each period in which reserves are constituted. This rate is different for countries outside the Euro Zone.

NOTE 17

Cash on hand at other credit institutions

This item breaks down as follows:

figures in euros

	2017	2016
Current accounts in Portugal	16,855,645	4,612,135
Current accounts abroad	4,285,542	3,167,122
	21,141,187	**7,779,257**

The item **Current accounts in Portugal** refers to ten accounts that the Bank has with four credit institutions in the country, and the item **Current accounts abroad** refers to six accounts with four credit institutions abroad, with the following amounts deposited at each institution:

figures in euros

	2017	2016
Current accounts in Portugal		
Figures In Euros	16,616,382	4,379,023
In Dollars	216,160	232,485
In Sterling	23,103	627
	16,855,645	**4,612,135**
Current accounts abroad		
Figures In Euros	2,934,570	638,959
In Dollars	510,154	1,814,098
In Sterling	840,818	714,066
	4,285,542	**3,167,122**
	21,141,187	**7,779,257**

NOTE 18

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

The item **Other financial assets and liabilities at fair value through profit or loss** comprises funds issued by residents and non-residents, as shown in the table below:

figures in euros

	2017	2016
Funds		
Issued by residents	4,136,536	7,060,820
Issued by non-residents	37,627,531	-
	41,764,066	**7,060,820**

As outlined in the accounting policy in Note 2.1.1, the **Other financial assets and liabilities at fair value through profit or loss** are stated at their market value, and the respective fair value recorded against profit or loss, as per Note 7.

The item **Held-for-trading financial assets** are recorded in the Bank's exchange rate *swaps*, the fair value of which on the date of the financial statements is €712, and the notional value of which is €1,126,352.

The item "Held-for-trading financial liabilities" is recorded in the Bank's exchange rate *swaps*, the fair value of which on the date of the financial statements is €35,214, and the notional value of which is €5,230,806.

An exchange rate Swap, is a contract between two parties consisting of the exchange of currencies at a forward exchange rate. It is an agreement to exchange cash flows in which one of the parties pays interest on the principal amount in one currency, in exchange for receiving interest on the principal amount in other currency. At the end of the operation, the principal amount in foreign currency is paid and the principal amount in domestic currency is received. Its purpose is to hedge and manage liquidity in foreign currency inherent in receivables and payments in foreign currency, by eliminating uncertainty as regards the future of a given exchange rate.

NOTE 19

Available-for-sale financial assets

This item breaks down as follows:

figures in euros

	2017	2016
Portuguese public debt instruments	174,262,290	73,910,774
Insubordinated debt instruments		
Issued by residents	19,807,864	5,785,626
Issued by non-residents	58,651,049	23,156,935
Subordinated debt instruments		
Issued by non-residents	-	2,215,120
Foreign public debt instruments	65,284,028	30,038,797
Other available-for-sale financial assets		
Issued by non-residents	37,422,029	46,721,546
Employees' Compensation Fund	29,851	16,346
	355,457,111	**181,845,144**

In 2017, the interest recognised in profit and loss was €5,184,341 (31 December 2016: €1,684,378). In 2017, the Bank recorded €8,813,794 from sales (31 December 2016: €2,211,281). The bond portfolio includes securities for re-discount transactions at the European Central Bank, totalling €174,262,290 (31 December 2016: €73,910,774), of which €137,427,910 are collateral.

The Bank also owns units in the Employee Compensation Fund with a value of €29,851 (31 December 2016: €16,346). The units refer to the value of contributions to the individual capitalisation fund intended to guarantee payment of up to half of redundancy payments, as required by Article 12 of Law 70/2013, of 30 August.

As described in the accounting policy referred to in Note 2.1.2, available-for-sale financial assets are stated at their market value, and the respective fair value recorded against fair value reserves, as per Note 33.

NOTE 20

Investments at credit institutions

This item breaks down as follows:

figures in euros

	2017	2016
Investments at credit institutions	3,641,911	11,041,911
Interest receivable	6,458	15,055
	3,648,369	**11,056,966**

This item breaks down by contractual maturities as follows:

figures in euros

	2017	2016
Up to 3 months	443,134	7,705,616
3 months to 1 year	3,205,235	3,351,351
	3,648,369	**11,056,966**

The item "Investments at credit institutions" fell sharply because of the investment in financial instruments and the end of the Banco de Negócios Internacional, S.A. treasury line. (€5,000,000).

As of 31 December 2017, the item "Investments in credit institutions" includes the sum of €441,911 (31 December 2016: €141,911), referring to collateralisation of a bank guarantee of an equal amount issued in the Bank's name. Two term deposits were also made of €200,000 and €3,000,000 as pledges to guarantee compliance with the responsibilities accepted by the Bank, linked to the methods of payment service.

NOTE 21

Loans to customers

This item breaks down as follows:

figures in euros

	2017	2016
Loans falling due:		
Internal		
Corporate		
Loan Accounts	1,117,149	712,055
Overdrafts on current accounts	20,420	3
Current account lending	-	728,113
Commercial Paper	8,450,000	-
Personal Clients		
Other loans	2,105,529	44,304
External		
Corporate		
Loan Accounts	11,616,779	3,439,704
Other loans	17,787,786	-
Personal Clients		
Current account lending	100,205	37
	41,197,867	**4,924,215**
Interest receivable	294,890	19,081
Overdue credit	734,742	167,432
	42,227,499	**5,110,727**
Commissions at amortised cost	(1,643)	(638)
	42,225,856	**5,110,090**
Credit impairment and provisions		
Internal	(172,191)	(6,212)
External	(274,762)	(29,631)
	(446,953)	**(35,844)**
	41,778,903	**5,074,246**

The amount in **Loans Accounts**, pertains to the portfolio of loans acquired through platforms, namely Market Invoice, Edebex, Lendico and Shelf.

In 2017, the **Commercial Paper** recorded in the available-for-sale financial assets portfolio was reclassified to the item "Loans to customers", in the wake of the decision outlined in Note 22.

The item "Loans to customers (gross)" breaks down as follows in terms of maturity of operations:

figures in euros

	2017	2016
Up to 3 months	17,879,680	4,527,025
3 months to 1 year	4,099,306	43,195
1 to 5 years	13,752,658	540,508
More than 5 years	6,495,855	-
	42,227,499	**5,110,727**

figures in euros

	2017	2016
Less than or equal to 50,000	26,683,919	3,250,677
50,000 to 250,000	6,263,792	344,930
250,000 to 500,000	821,031	787,008
500,000 to 1,000,000	1,550,661	728,113
More than 1,000,000	6,908,096	-
	42,227,499	**5,110,727**

As of 31 December 2017 and 2016, the loans to customers portfolio consisted, in its entirety, of exposure remunerated at the fixed interest rate.

NOTE 22

Held-to-maturity investments

This item breaks down as follows:

figures in euros

	2017	2016
Short term debt instruments issued by residents	-	14,650,907
Portuguese public debt instruments	-	2,004,651
Debt instruments: other non-resident public issuers	-	5,010,096
Insubordinated debt instruments	-	38,371,560
of which interest:	-	351,654
	-	**60,388,868**

In 2017, the interest rate recognised in profit and loss pertaining to the portfolio of held-to-maturity financial assets was €1,509,197 (31 December 2016: €126,886).

In the first six months of 2017, the Bank decided to sell a significant part of the investment portfolio recorded as held-to-maturity financial assets. This decision, in compliance with IAS 39, led to contamination of the rest of the investment portfolio of this category, which was consequently transferred to the available-for-sale financial assets portfolio and measured at fair value.

The effects of this reclassification on the transfer date can be analysed as follows:

	BALANCE SHEET VALUE	FAIR VALUE RESERVE	IMPAIRMENT	BALANCE SHEET VALUE
From:				
Held-to-maturity financial assets	182,815,351	-	-	182,815,351
To:				
Available-for-sale financial assets	182,815,351	4,632,275	-	187,447,627

NOTE 23

Tangible assets

This item breaks down as follows:

figures in euros

	2017	2016
Acquisition value:		
Real estate:		
Works in rented properties	435,591	529,133
Equipment:		
Furniture and materials	224,679	163,992
Machinery and tools	17,709	16,598
IT equipment	149,883	26,174
Interior fittings	16,449	4,833
Safety equipment	58,735	50,526
Other equipment	15,259	2,874
Ongoing tangible assets	41,682	-
	959,986	**794,130**
Accrued depreciation:	(219,655)	(435,487)
	740,330	**358,643**

Movements in **Tangible assets** during the year ending on 31 December 2017 are as follows:

figures in euros

	BALANCE AT 1 JANUARY 2017	ACQUISITIONS/ ALLOCATIONS	SALES/ WRITE-OFFS	BALANCE AT 31 DECEMBER 2017
Acquisition value:				
Real estate:				
Works in rented properties	529,133	435,591	(529,133)	435,591
Equipment:				
Furniture and materials	163,992	122,818	(62,131)	224,679
Machinery and tools	16,598	4,685	(3,573)	17,709
IT equipment	26,174	127,006	(3,297)	149,883
Interior fittings	4,833	16,449	(4,833)	16,449
Safety equipment	50,526	10,791	(2,581)	58,735
Other equipment	2,874	14,851	(2,466)	15,259
Under way	-	41,682	-	41,682
	794,131	**773,870**	**(608,015)**	**959,986**

figures in euros

	BALANCE AT 1 JANUARY 2017	ACQUISITIONS/ ALLOCATIONS	DISPOSALS/WRITE-OFFS	BALANCE AT 31 DECEMBER 2017
Accrued depreciation:				
Real estate:				
Works in rented properties	291,691	288,488	(529,133)	51,046
Equipment:				
Furniture and materials	80,248	41,924	(54,165)	68,008
Machinery and tools	9,035	4,513	(3,573)	9,975
IT equipment	22,317	22,933	(3,297)	41,953
Interior fittings	1,505	5,672	(4,833)	2,344
Safety equipment	28,988	8,075	(2,581)	34,481
Other equipment	1,704	12,119	(1,975)	11,848
	435,488	**383,725**	**(599,558)**	**219,655**
	358,643	**390,145**	**(8,457)**	**740,330**

A significant proportion of disposals and write-offs are due to the fact that the Bank moved to new premises during the second half of 2017. As a result, it wrote off the entire value of works in rented buildings, relating to its old premises.

Movements in **Tangible assets**, during the year ended 31 December 2016, are as follows:

figures in euros

	BALANCE AT 1 JANUARY 2016	ACQUISITIONS/ ALLOCATIONS	DISPOSALS/WRITE-OFFS	BALANCE AT 31 DECEMBER 2016
Acquisition value:				
Real estate:				
Works in rented properties	529,133	-	-	529,133
Equipment:				
Furniture and materials	147,801	16,191	-	163,992
Machinery and tools	13,378	3,220	-	16,598
IT equipment	26,174	-	-	26,174
Interior fittings	4,833	-	-	4,833
Safety equipment	50,526	-	-	50,526
Other equipment	2,874	-	-	2,874
	774,719	**19,411**	**-**	**794,130**

figures in euros

	BALANCE AT 1 JANUARY 2016	ACQUISITIONS/ ALLOCATIONS	DISPOSALS/WRITE-OFFS	BALANCE AT 31 DECEMBER 2016
Accrued depreciation:				
Real estate:				
Works in rented properties	209,475	82,216	-	291,691
Equipment:				-
Furniture and materials	60,151	20,097	-	80,248
Machinery and tools	6,458	2,578	-	9,035
IT equipment	18,703	3,614	-	22,317
Interior fittings	683	822	-	1,505
Safety equipment	22,086	6,902	-	28,988
Other equipment	1,281	423	-	1,704
	318,837	**116,651**	**-**	**435,487**
	455,883	**(97,240)**	**-**	**358,643**

NOTE 24

Other intangible assets

This item breaks down as follows:

figures in euros

	2017	2016
Intangible assets:		
Software in use	4,267,836	2,968,901
Software in development	1,946,557	1,469,324
	6,214,393	**4,438,226**
Accrued depreciation:	(1,320,806)	(645,700)
Impairment	(380,441)	-
	4,513,145	**3,792,526**

In the course of 2014, the Bank's directors resolved to substitute the business support software, and this process culminated in acquisition of a new core application (PFS Platform, from Exictos).

Given that, for example, the implementation processes for the new core software, for means of payment, homebanking, online lending, credit cards and mortgage lending, were planned to take place in stages, the amounts recorded in the financial statements express the investment already made and in use or still being developed.

Accordingly, the acquisition value of intangible assets breaks down as follows:

figures in euros

	2017	2016
Intangible assets:		
Software in use	4,267,836	2,968,901
Oracle	34,510	34,510
Exictos	2,043,645	2,060,097
Others (Lmsis, Mainroad, Microsoft)	118,157	33,323
Wolters	39,500	39,500
Saving Global	51,141	51,141
Homebanking	435,341	386,972
Means of Payment	425,588	363,358
AML Software	426,183	-
Online Credit	602,050	-
Other	91,721	-
Software in development	1,946,557	1,469,325
Oracle	-	-
Means of Payment	-	150,952
Homebanking	-	35,656
AML Software	-	266,531
Cards	1,197,584	291,916
Online Credit	25,898	453,758
Mortgage Loans	380,441	230,070
Puzzle Fits	113,532	-
POS point of sale	72,592	-
Parcela Já	45,145	-
100% Online Account	91,502	-
Other	19,863	40,442
	6,214,392	**4,438,226**

At 31 December 2017 and 2016, the amount for intangible assets in progress was €1,946,557 and €1,469,325, respectively, of which €13,019 corresponds to implementation of a module in the core Exictos application, €380,441 to the Mortgage Lending Project, €1,197,584 to the Cards Project, €25,898 to the Online Lending Project and €113,532 to the Puzzle Fits Project.

As stated in Note 10, work on these projects has demanded significant internal efforts for support implementation, and this task has fallen primarily to internal manpower, without whom the projects could not have been implemented. Accordingly, as required by IAS 38, the sum of €726,089 was capitalised in 2017 (31 December 2016: €687,034) relating to the personnel costs for internal employees, in proportion to the time allocated to each project (see Note 10).

Movements in **Intangible assets**, during the period ended 31 December 2017, are as follows:

figures in euros

	BALANCE AT 1 JANUARY 2017	ACQUISITIONS/ ALLOCATIONS	TRANSFERS	DISPOSALS/ WRITE-OFFS	BALANCE AT 31 DECEMBER 2017
Acquisition value:					
Software					
In use	2,968,901	1,298,934	-	-	4,267,836
Under way	1,469,324	477,233	-	-	1,946,557
	4,438,226	**1,776,167**	**-**	**-**	**6,214,393**
Accrued depreciation:					
Software in use	645,700	675,106	-	-	1,320,806
	3,792,526	**1,101,061**	**-**	**-**	**4,893,587**
Impairment					
Software in use (Note 13)	-	380,441	-	-	380,441
	3,792,526	**720,620**	**-**	**-**	**4,513,145**

Movements in **Intangible assets**, during 2016, were as follows:

figures in euros

	BALANCE AT 1 JANUARY 2016	ACQUISITIONS/ ALLOCATIONS	TRANSFERS	DISPOSALS/ WRITE-OFFS	BALANCE AT 31 DECEMBER 2016
Acquisition value:					
Software					
In use	1,946,058	1,081	1,021,762	-	2,968,901
Under way	613,862	2,115,015	(1,021,762)	(237,791)	1,469,324
	2,559,920	**2,116,097**	**-**	**(237,791)**	**4,438,226**
Accrued depreciation:					
Software in use	208,261	437,439	-	-	645,700
	2,351,659	**1,678,658**	**-**	**(237,791)**	**3,792,526**

NOTE 25

Current tax assets and liabilities

Current tax assets and liabilities break down as follows:

figures in euros

	2017	2016
Income tax stated in balance sheet		
Assets	15,019	7,847
Liabilities	490,614	91,422
Current tax stated in results (Note 14)	(490,614)	(91,422)

Current taxes, recorded under assets, with a value of €15,019 (31 December 2016: €7,847) refer to special payments on account. The payments made in the periods 2014 to 2017 are deductible from the tax payable in the respective tax year or, any remainder being deductible in subsequent periods, up to the 6th financial year thereafter. Any amount which cannot be deducted (after the six financial years), due to the absence of sufficient tax payable, may be received as a rebate, on the Bank's request, by making the relevant application.

The payments reported between 2013 and 2017 are deductible from tax payable in the 4 periods subsequent to that of payment for the 2013 amount and 6 periods for the payments after 2013. Any remaining portion which cannot be deducted due to the absence of sufficient tax payable, is repayable on application from the company, provided the requirements established in Article 93(3) of the Corporation Tax Code (CIRC) are met.

During 2017, the tax burden paid totalled €98,594 (31 December 2016: €47,751), which includes payment of corporation tax for 2016 (€86,153) and the Special Payment on Account (€8,172).

The provision for tax on profits was calculated in accordance with the taxation rules in force at the balance sheet date (see Note 14).

NOTE 26

Deferred tax assets and liabilities

Deferred tax assets and liabilities recognised in the balance sheet, together with movements in the period, break down as follows:

	DEFERRED TAX ASSETS					
	TAX LOSSES	IMPAIRMENT OF LOANS PORTFOLIO	IMPAIRMENT OF INTANGIBLE ASSETS	PROVISIONS	FAIR VALUE RESERVE - AVAILABLE-FOR-SALE FINANCIAL ASSETS	TOTAL
At 1 January 2016	**1,504,576**	**-**	**-**	**-**	**85,795**	**1,590,371**
Movements in 2016:						
Increase / (Reversal) through results:	586,015	-	-	-	-	586,015
Increase / (Reversal) through capital:	-	-	-	-	339,118	339,118
At 31 December 2016	**2,090,591**	**-**	**-**	**-**	**424,913**	**2,515,504**
Movements in 2017:						
Increase / (Reversal) through results:	(350,934)	120,742	92,957	21,770	-	(115,465)
Increase / (Reversal) through capital:	-	-	-	-	(210,286)	(210,286)
At 31 December 2017	**1,739,657**	**120,742**	**92,957**	**21,770**	**214,627**	**2,189,753**

	DEFERRED TAX LIABILITIES
Movements in 2017:	
Increase / (Reversal) through results:	-
Increase / (Reversal) through capital:	424,086
At 31 December 2017	**424,086**

Deferred tax assets relating to tax losses carried forward and tax credits are recognised when there is a reasonable expectation of future taxable profits. Uncertainty about the recoverability of tax losses carried forward is considered when determining deferred tax assets.

The Bank calculated deferred tax on the basis of the tax rate approved or substantially approved at the balance sheet date and which is expected to be applied when the temporary differences are reversed.

At 31 December 2017 and 2016, the deferred tax asset relating to tax losses carried forward, by date of expiry, breaks down as follows:

		2016		2017	
YEAR GENERATED	YEAR OF EXPIRY	AVAILABLE TAX LOSS	DEFERRED TAX ASSET	TAX LOSS/TAX RESULT	DEFERRED TAX ASSET
2012	2017	1,359,662	-		
2013	2018	2,123,833	446,005	528,591	111,004
2014	2026	2,826,912	593,652	2,826,912	593,652
2015	2027	2,440,823	512,573	2,440,823	512,573
2016	2028	2,563,627	538,362	2,487,756	522,429
		11,314,857	**2,090,591**	**8,284,082**	**1,739,657**

The assessment of the recoverability of deferred tax assets was based on the business plan for 2018-2020, although the tax losses generated in the periods from 2014 to 2016 may be used over a period of 12 years (2026, 2027 and 2028, respectively).

The expectation of generating future taxable income is supported fundamentally by the following assumptions:

- Growth in the Bank's balance sheet in 2018 and subsequent periods;
- Increase in customer lending, both directly (through the launch of new products), and indirectly (through online lending platforms):
- Diversification of funding sources and the consequent reduction in the Bank's funding costs;
- Capital increase in 2018;
- Increased yields on assets through investment in assets with longer maturities.

NOTE 27

Other assets

This item breaks down as follows:

figures in euros

	2017	2016
Public administrative sector	4,231	367,033
Other accounts receivable	180,201	77,173
Deferred expenses	1,384,729	522,568
Other interest and similar income	-	-
Other accounts receivable	92,197	79,449
Other operations for settlement	865,492	1,005,974
	2,526,851	**2,052,197**
Impairment from Other Assets	(19,246)	-
	2,507,605	**2,052,197**

The item **Public administrative sector**, totalling €4,232 (2016: €367,033), refers to VAT recoverable.

The item **Other accounts receivable**, totalling €180,201 (31 December 2016: €77,173), corresponds to amounts receivable from the RAIZE platform, totalling €139,583, and invoices issues in relation to the rebilling of expenses incurred on behalf of third parties, totalling €20,064, which include expenses relating to vehicles and respective insurance. An impairment loss was recorded for the amount of €19,246 in relation to invoices overdue by more than 6 months (see Note 13).

The account **Deferred expenses** includes essentially deferral of costs relating to: €405,427 referring to commissions payable to the Raisin, Lendico, Savedo and Credishelf platforms; €66,110 relating to health, civil liability, employer's liability and comprehensive insurance; €82,675 relating to software licensing and operational maintenance costs; €698,941 referring to miscellaneous expenses for deferral.

The item **Other accounts receivable**, totalling €92,197 (31 December 2016: €79,449), corresponds to the commitment fee on overdraft facilities and documentary credits, of €69,898 (31 December 2016: €58,044) and the management fees on lending operations totalling €21,292 (31 December 2016: €21,350).

The item **Other operations for settlement** includes the amount of €225,131 (31 December 2016: €256,143) relating to deposit of the Mastercard collateral and €464,425 in funds for future payments to suppliers.

NOTE 28

Central Bank Resources

This item breaks down as follows:

figures in euros

	2017	2016
Central Bank Resources		
Loans	120,002,162	12,132
	120,002,162	**12,132**

At 31 December 2017, the Bank had financial assets eligible for discount with the European System of Central Banks, with a fair value of 233,934,258, of which €137,427,910 was pledged as collateral for funding obtained (see Note 19).

NOTE 29

Resources at other credit institutions

This item breaks down as follows:

figures in euros

	2017	2016
Deposits by credit institutions abroad		
Deposits	50,729,907	71,233,156
Interest payable	49,625	27,357
	50,779,532	**71,260,513**

The account for **Deposits in Resources at other credit institutions** includes liquid funds in sight accounts of €20,019,447 (31 December 2016: €25,604,134) and funds in term deposits totalling €25,735,029 (31 December 2016: €43,100,044) held by Banco de Negócios Internacional, S.A.

Deposits by credit institutions break down as follows by contractual maturity:

figures in euros

	2017	2016
Sight	26,600,004	25,633,112
Up to 3 months	9,979,073	28,609,308
From 3 months to 6 months	4,977,008	12,947,198
From 6 months to 9 months	2,158,565	919,365
From 9 months to 12 months	7,064,882	3,151,531
	50,779,532	**71,260,513**

NOTE 30

Resources from customers and other loans

This item breaks down as follows:

figures in euros

	2017	2016
Deposits		
Current accounts		
Residents	8,576,467	4,280,158
Non-residents	4,201,934	1,549,776
	12,778,402	**5,829,934**
Term deposits		
Residents	72,306,060	41,475,462
Non-residents	215,025,237	212,725,788
	287,331,297	**254,201,250**
Interest payable	5,037,945	2,203,159
	305,147,644	**262,234,343**

Deposits break down by contractual maturities as follows:

figures in euros

	2017	2016
Sight	14,181,165	5,948,030
Up to 3 months	22,935,157	3,655,670
From 3 months to 1 year	116,361,777	8,678,749
More than 1 year	151,669,546	243,951,893
	305,147,644	**262,234,343**

NOTE 31

Other liabilities

This item breaks down as follows:

figures in euros

	2017	2016
Public administrative sector	176,333	129,386
Suppliers	961,699	296,026
Other accounts payable	9,019	1,011
Charges payable for holidays and holiday allowances	336,388	302,772
Other personnel costs	79,892	71,908
Other costs payable	852,227	537,271
Other operations for settlement	481,948	1,865,692
	2,897,505	**3,204,065**

The item **Public administrative sector**, totalling €176,333 (31 December 2016: €129,386), includes the sum of €101,791 (31 December 2016: €53,964) relating to tax withheld from employees' salaries, as well as the sum of €74,542 (31 December 2016: €57,784) relating to mandatory contributions to Social Security and Redundancy Funds, the sum of €31,703 (31 December 2016: €9,653) relating to withholding taxes on investment income and the sum of €7,940 (31 December 2016: €7,984) relating to the withholding of stamp duty.

The item **Other costs payable** includes the amount of €852,227 (31 December 2016: €537,271) relating to investment not yet invoiced associated with implementation of the new core software. This item also includes miscellaneous costs not yet invoiced, including software maintenance (€23,607), accounting services (€25,714), audits (€20,203) and communications (€7,500), as well as other smaller costs.

The item **Other operations for settlement** totals €481,948 (31 December 2016: €1,865,692), which is essentially explained by operations relating to the purchase of securities.

NOTE 32

Capital

In April 2015, the Bank increased its share capital by €9,250,000, corresponding to the issue of 1,850,000 shares, fully subscribed and paid up by the shareholder Banco de Negócios Internacional, S.A.

At 31 December 2017 and 2016, the share capital was €34,250,000, represented by 6,850,000 shares with a nominal value of €5, fully subscribed and paid up in cash.

The Bank's share capital is majority owned by Banco de Negócios Internacional, S.A., with a total of 6,369,700 shares corresponding to 92.988%, and the remaining capital is held by José Jaime Agostinho de Sousa Freitas and Elizabeth da Graça Isidoro, each with 240,000 shares and 3.504% of the capital and Nuno Fernando Teixeira Ferreira da Silva with 300 shares, representing 0.004%.

	2017		2016	
	Euros	**%**	**Euros**	**%**
BNI – Banco de Negócios Internacional, S.A.	31,848,500	92.988%	31,848,500	92.988%
José Jaime Agostinho de Sousa Freitas	1,200,000	3.504%	1,200,000	3.504%
Elizabeth da Graça Isidoro	1,200,000	3.504%	1,200,000	3.504%
Nuno Fernando Teixeira Ferreira da Silva	1,500	0.004%	1,500	0.004%
	34,250,000	**100%**	**34,250,000**	**100%**

NOTE 33

Revaluation reserves

This item includes the sum of €644,967 (31 December 2016: a negative figure of €1,463,589), resulting from valuation at fair value of securities (bonds) acquired and recorded under available-for-sale assets (as per Note 2.1.2 and Note 19) including the corresponding deferred tax.

Movements in this item break down as follows:

	FAIR VALUE RESERVE	DEFERRED TAX	TOTAL
1 January 2016	(381,311)	85,795	(295,516)
Movements in period	(1,507,191)	339,118	(1,168,073)
31 December 2016	**(1,888,502)**	**424,913**	**(1,463,589)**
Movements in period	2,742,928	(634,372)	2,108,556
31 December 2017	**854,426**	**(209,459)**	**644,967**

NOTE 34

Profit/(Loss) Carried Forward

This item breaks down as follows:

figures in euros

	2017	2016
Profit/(Loss) Carried Forward	(7,581,569)	(5,592,328)
	(7,581,569)	**(5,592,328)**

At 31 December 2017, the item **Profit/(Loss) Carried Forward** presented a negative total of €7,581,569 (31 December 2016: a negative figure of €5,592,328). This amount is explained by the negative results approved in prior periods, totalling €-11,650,325, less coverage of losses by Banco de Negócios Internacional S.A., in 2012 and 2014, totalling €6,057,997.

NOTE 35

Risk Management

The Bank is exposed to the following main risks in carrying on its business:

Credit

Management of credit risk involves systematic monitoring of the life cycle of operations carried out, i.e. identifying, measuring and monitoring them through to full settlement. The Bank assesses its exposures accepted on a case-by-case basis, identifying the real and potential risks, seeking to ensure yields in line with the respective counterparty and operational risks.

At the reference date, the Bank has a risk scoring model, developed in relation to a sample of private customers, for business conducted through the Puzzle platform, which supports a decision-making system with a very high level of automation. In loan applications received from outside this platform, submitted by private customers, the analysis is done manually, with a level of scrutiny and depth into all the surrounding circumstances that allows the Bank to take decisions on a properly informed basis.

In the case of lending to businesses in the Portuguese market, applications are subjected to analysis on the basis of all the information essential for reaching a decision and supported, whenever available, by external ratings issued by a recognised External Credit Assessment Institution. In the case of credit applications from entities based in jurisdictions where Banco BNI Europa operates, such as Germany and Holland, the Bank uses credit analysis processes implemented in the originators; a prior due diligence exercise is conducted, with a level of scrutiny and analysis appropriate for the purpose. In particular, for the invoice discounting component, the operating systems implemented use credit risk mitigation mechanisms which are suitable for the purpose, such as insurance of the invoice itself, which covers a very substantial part of the total exposure.

The loans portfolio is monitored systematically by monitoring the financial capacity of customers to service their debt, their deposits with the Bank and by checking that their obligations are promptly discharged.

The Bank does not have property as collateral for lending. This means it is not subject to devaluation of collateral, or to reduction in the corresponding level of hedging of its operations. The collateral recorded consists essentially of personal or cash guarantees, which are not subject to depreciation.

At the reference date, 0.18% of the customer loans portfolio is recorded as at-risk credit operations (defined on the basis of a situation of 90 days or more overdue). With regard to the component of the customer loans portfolio comprising borrower credit, the Bank has recorded no operation that is overdue, irregular or with signs of potential default.

In addition to the exposure stated on the Balance Sheet, an additional amount should be considered due to the existence of unused irrevocable credit facilities or documentary credits. At the reference date, these commitments accepted by the Bank presented a value of €30,623, and are 71.43% collateralised.

The counterparty risk resulting from transactions in the financial markets, in particular the purchase and sale of securities for the Bank's own portfolio, is assessed on a systematic basis and in keeping with the investment limits set by the Bank, both individually, and for the portfolio as a whole.

The accounting portfolio of available-for-sale financial assets is measured at fair value through other comprehensive income. Recognition may take place on the trade date or on the effective date on which the instrument is transferred (IAS 39 AG64). The financial margin must be recognised using the effective interest method (IAS39 AG5-AG8 and AG83).

As a result, net interest income is not determined only by the accrued coupons, but also through recognition of the associated premium/discount, plus the respective transaction costs (IAS39 AG13). Transaction costs are deemed to be all the costs needed to acquire the financial instrument.

When the Bank decided to break into the portfolio of held-to-maturity investments, selling most of the held-to-maturity instruments, it was obliged to reclassify the remaining instruments as available-for-sale financial assets. As a result of this decision, at the reference date, Banco BNI Europa did not have any financial instrument in that portfolio.

In view of the balance sheet structure at 31 December 2017, the credit risk is limited to the main financial counterparties with which the Bank deals, and the risk is monitored on the basis of the information available in the main market information media.

Market

Market risk reflects the potential loss which can be recorded by a given portfolio as a result of unfavourable movements in the market price of instruments in the trading book, caused by fluctuations in the prices of shares and commodities, in interest rates and exchange rates.

At the reference date of this report, the Bank's portfolio of held-for-trading financial assets totalled €752.

Foreign Exchange

Foreign exchange risk consists of the probability of the occurrence of negative impacts on income or capital, due to adverse movements in exchange rates.

At 31 December 2017, the Bank's exposure to this risk was essentially associated with the exchange rate exposure presented below; this risk is monitored on a daily basis and is hedged as a question of internal policy.

It should be noted that Banco BNI Europa uses foreign exchange swaps to ensure it has no exposure to material exchange rate risks, on the operations in carries out in currencies other than the Euro.

31 December 2017

	CURRENCY			
	EUR	USD	GBP	TOTAL
Assets				
Cash and cash equivalents in central banks	35,717,375	-	-	35,717,375
Cash on hand at other credit institutions	19,550,952	726,314	863,921	21,141,187
Available-for-sale financial assets	344,343,659	11,113,452	-	355,457,111
Investments at credit institutions	3,648,369	-	-	3,648,369
Loans to customers	36,729,303	1,272,377	4,224,176	42,225,856
Other financial assets at fair value through profit or loss	39,248,378	2,515,688	-	41,764,066
Total assets	**479,238,037**	**15,627,831**	**5,088,097**	**499,953,965**
Liabilities				
Central Bank Resources	120,002,162	-	-	120,002,162
Resources at other credit institutions	37,427,855	13,347,667	4,010	50,779,532
Resources from customers and other loans	304,139,511	1,008,133	-	305,147,644
Total liabilities	**461,569,528**	**14,355,800**	**4,010**	**475,929,338**
GAP (Assets - Liabilities)	**17,668,509**	**1,272,031**	**5,084,087**	**24,024,628**

31 December 2016

	CURRENCY			
	EUR	USD	GBP	TOTAL
Assets				
Cash and cash equivalents in central banks	80,081,883	20,321	-	80,102,203
Cash on hand at other credit institutions	5,017,982	2,046,583	714,692	7,779,257
Available-for-sale financial assets	160,111,443	21,733,701	-	181,845,144
Investments at credit institutions	11,056,966	-	-	11,056,966
Loans to customers	2,467,098	291,736	2,315,412	5,074,246
Held-to-maturity investments	60,388,868	-	-	60,388,868
Total assets	**319,124,241**	**24,092,341**	**3,030,104**	**346,246,686**
Liabilities				
Resources at other credit institutions	20,377,879	50,846,117	36,517	71,260,513
Resources from customers and other loans	261,840,934	393,409	-	262,234,343
Total liabilities	**282,218,813**	**51,239,526**	**36,517**	**333,494,855**
GAP (Assets - Liabilities)	**36,905,428**	**(27,147,185)**	**2,993,587**	**12,751,831**

Liquidity

Banco BNI Europa's liquidity management policy is set at the highest level of the management structure. The Balance Sheet funding structure is based on systematic assessment of assets and liabilities, the respective maturities and also optimisation of funding costs. At 31 December 2017 and 2016, cash flow forecasts for financial instruments broke down as follows, in relation to residual contractual maturity.

31 December 2017

figures in euros

	SIGHT	UP TO 3 MONTHS	FROM 3 TO 12 MONTHS	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Assets						
Cash and cash equivalents in central banks	35,717,375	-	-	-	-	35,717,375
Cash on hand at other credit institutions	21,141,187	-	-	-	-	21,141,187
Available-for-sale financial assets	29,851	13,000,980	1,011,676	230,646,965	110,767,639	355,457,111
Investments at credit institutions	-	443,135	3,205,235	-	-	3,648,370
Loans to customers	-	19,492,049	3,937,501	17,923,574	425,779	41,778,903
Financial assets at fair value through profit or loss	-	3,549,356	31,667	32,372,199	5,810,844	41,764,066
Total assets	**56,888,413**	**36,485,520**	**8,186,079**	**280,942,738**	**117,004,262**	**499,507,014**
Liabilities						
Central Bank Resources	-	120,002,162	-	-	-	120,002,162
Resources at other credit institutions	26,534,644	12,810,218	11,434,670	-	-	50,779,532
Resources from customers and other loans	12,774,522	25,973,384	114,723,577	151,676,161	-	305,147,644
Total liabilities	**39,309,166**	**158,785,764**	**126,158,247**	**151,676,161**	**-**	**475,929,338**
GAP (Assets - Liabilities)	**17,579,247**	**(122,300,244)**	**(117,972,168)**	**129,266,577**	**117,004,262**	**23,577,675**

31 December 2016

figures in euros

	SIGHT	UP TO 3 MONTHS	FROM 3 TO 12 MONTHS	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Assets						
Cash and cash equivalents in central banks	80,102,203	-	-	-	-	80,102,203
Cash on hand at other credit institutions	7,974,957	-	-	-	-	7,974,957
Available-for-sale financial assets	16,346	32,826,034	8,644,828	89,551,385	50,806,551	181,845,144
Investments at credit institutions	-	7,715,055	3,341,911	-	-	11,056,966
Loans to customers	-	5,030,385	43,861	-	-	5,074,246
Financial assets at fair value through profit or loss	-	10,217,770	7,479,256	37,847,799	4,844,044	60,388,869
Total assets	**88,093,506**	**55,789,244**	**19,509,856**	**127,399,184**	**55,650,595**	**346,442,386**
Liabilities						
Resources at other credit institutions	25,633,111	36,613,947	9,013,455	-	-	71,260,513
Resources from customers and other loans	5,845,484	13,791,540	116,092,315	126,505,004	-	262,234,343
Total liabilities	**31,478,595**	**50,405,487**	**125,105,770**	**126,505,004**	**-**	**333,494,856**
GAP (Assets - Liabilities)	**56,614,911**	**5,383,757**	**(105,595,914)**	**894,180**	**55,650,595**	**12,947,530**

Interest rate

At 31 December 2017, financial instruments sensitive to interest rate risk exposure broke down as follows:

31 December 2017

figures in euros

	NON-SENSITIVE	UP TO 3 MONTHS	FROM 3 TO 12 MONTHS	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Assets						
Cash and cash equivalents in central banks	-	35,717,375	-	-	-	35,717,375
Cash on hand at other credit institutions	-	21,141,187	-	-	-	21,141,187
Available-for-sale financial assets	13,030,832	41,648,009	63,489,551	187,946,857	49,341,862	355,457,111
Investments at credit institutions	-	443,135	3,205,235	-	-	3,648,369
Loans to customers	-	19,492,048	3,937,501	17,923,574	425,779	41,778,903
Financial assets at fair value through profit or loss	4,136,536	3,549,356	31,667	32,372,199	1,674,308	41,764,066
Total assets	**17,167,368**	**121,991,110**	**70,663,954**	**238,242,631**	**51,441,949**	**499,507,012**
Liabilities						
Central Bank Resources	-	120,002,162	-	-	-	120,002,162
Resources at other credit institutions	-	39,317,694	11,461,838	-	-	50,779,532
Resources from customers and other loans		38,747,907	114,723,577	151,676,161		305,147,644
Total liabilities	**-**	**198,067,763**	**126,185,414**	**151,676,161**	**-**	**475,929,338**
GAP (Assets - Liabilities)	**17,167,368**	**(76,076,653)**	**(55,521,460)**	**86,566,470**	**51,441,949**	**23,577,674**

NOTE 36

Impairment of loans portfolio

QUALITATIVE DISCLOSURE

A - Credit risk management policy

The credit risk management process at BNI Europa follows the policies set out in this chapter. These also define the philosophy underlying the activities involved in this process.

Creating an appropriate credit risk management environment

- Define, review and periodically approve Banco BNI Europa's Strategy, General Credit Risk Management Policies and Credit Risk Appetite;
- Implement the Credit Risk strategy and develop processes and procedures to identify, quantify, monitor and control this risk, through indicators suited to the portfolios and products marketed by Banco BNI Europa;
- Manage the credit risk involved in all products and business areas;
- Ensure that the methodologies used, in particular with regard to forecasting models, are developed and implemented in accordance with best practices; and
- Ensure that all staff are able to perform the functions entrusted to them, in compliance with Banco BNI Europa's ethical and professional principles.

Ensure adequate controls over credit risk management

- Establish a system that complies with the independence requirements for credit risk management; and
- Ensure that the credit risk management function is being effectively managed and monitored.

Operate through clear credit granting processes

- Define credit risk approval criteria in a way that is clear for the entire organisation, by keeping up to date the "Lending Handbook" dealing with delegation of decision-making powers;
- Define and communicate clearly the processes and hierarchical levels for approval/granting of new credit and changes to existing credit;
- Ensure that concentration levels in the loans portfolio match the strategy defined by the Board of Directors; and
- Keep the "Related Parties Transactions Control Policy" up to date and appropriate, in order to implement principles of independence and impartiality in granting and assigning credit to companies related to Banco BNI Europa, and also to its employees.

Create and maintain an appropriate system of credit risk monitoring

- Ensure a continuous process of monitoring of the loans portfolio and check that impairment is at adequate levels;
- Subject all Customers/Counterparties/Issuers and all operations to a credit risk assessment based on risk assessment models suited to the loans portfolio (risk profile, product size and characteristics), or through case-by-case analysis as applicable, taking risk acceptance characteristics into account; and
- Consider foreign market conditions and monitor trends in key economic indicators, such as unemployment rates, GDP, interest rates and stock market indexes, in order to perceive the potential effects on the operations of Banco BNI Europa and the extent to which they might limit its risk appetite, in order to optimise the Bank's economic and financial performance.

Recover overdue credit effectively and swiftly

- Ensure that recovery processes under way are monitored and that recovery procedures are differentiated by customer segment and type of product, whether promoted internally, or through external specialist firms; and
- Ensure periodic monitoring of the performance of credit recovery indicators, along with LGD parameters, in view of their relevance in determining credit impairment, and consequently in Banco BNI Europa's results.

Ensure that operations comply with Portuguese law and regulations issued by Banco de Portugal

- Ensure that lending operations and internal rules comply with the law regulations.

Powers to approve lending

- The Bank has lending rules, duly approved by the Board of Directors, set out in the Lending Handbook, and lending is subject to a procedure that requires periodic review, at minimum intervals set at one year;
- The Lending Handbook lays down the guiding principles for lending, through procedures and rules to be applied in each phase of the life cycle of operations. This Handbook is published on the Bank's intranet, and so is available to all staff in general, and in particular to all those dealing most closely with customers and lending operations.

The Lending Handbook addresses:

> The information/documents needed for a credit application, with a special focus on all the information/documents needed to apply the subsequent procedures entailed by analysis of the customer risk and the risk of the operations involved;

> The level of detail required in all analyses of credit applications, together with the information/documents needed for a correct assessment of customer risk and the risk of the operations in question, in particular with regard to solvency analysis, in order to support the decision-making processing, leading to approval or rejection;

> Delegation of powers, illustrated in the specific grid, established on the basis of the lines of authority relevant and most appropriate to the types of credit currently making up the Bank's loans portfolio;

> Rules on credit monitoring and design of intervention plans; and

> Credit recovery procedures.

B - Loan write-off policy

A loan is written off from the assets when it is considered wholly irrecoverable and the impairment recorded covers 100% of the total value of the exposure, and when all the Bank's contractual rights relating to the respective cash flows have expired. Before writing off the loans, it should be ensured that all collection efforts regarded as appropriate are made.

C - Impairment reversal policy

Reversal of credit impairment consists of reducing or cancelling, in a given reporting period, the impairment amounts recorded in previous periods. The amount resulting from reversal can be no greater than the accrued impairment amounts recorded previously, and the Bank may reverse impairment amounts on the following terms:

- Payment, by the customer (without recourse to fresh credit from the Bank) of overdue interest and/or principal;
- When specific provisions are reduced;
- Improvement in risk class corresponding to the quality table;
- When new collateral is obtained or existing collateral increases in value;
- Through accrual of the value of existing collateral securing the credit, provided the valuation made has been effected in the past year by an independent valuer (in the case of real estate property); and
- In the case of loans for property development projects, when the value of the project underlying the finance improves the LTV or when more favour-

able conversion factors are applied to guarantees for the project issued by the Bank.

D - Conversion policy for outstanding principal from debtor (if applicable)

Not applicable

E - Description of restructuring measures applied and respective associated risks, together with procedures for controlling and monitoring these risks.

In the case of restructured credit, Banco BNI Europa follows the rules defined in Instruction No. 32/2013 of Banco de Portugal. In accordance with the regulator's instructions, the Bank will identify and flag, in its IT systems, as soon as grounds for this occur, the credit agreements of a customer which finds itself in financial difficulties, whenever changes are made to the terms and conditions of these contracts, resulting from the identification of "customer financial difficulties".

The following are deemed changes to the contract:

a) Amendment of the respective contractual terms and conditions to the customer's benefit, in order to boost its capacity to pay the existing debt, by extending the repayment period, introducing grace periods, capitalising interest, reducing interest rates (when not the result of a commercial strategy), pardoning interest or principal, adjusting interest payment and principal repayment periods and/or rescheduling debt servicing; and
b) Contracting from the Bank of a new credit operation or new credit facilities, which benefit the customer or person belonging to the same business group as the customer, for (total or partial) settlement of the existing debt, sufficient evidence of which is considered to be the granting of new operations on a date close to that of settlement of the original debt; and in this case, both the new credit operation, and that which has been partially settled should be flagged as credit restructured due to the customer's financial difficulties;
c) The new terms and conditions of the credit contract should be more favourable than those applied to other customers with the same risk profile.

Banco BNI Europa considers that a customer is in a situation of financial difficulties when it has defaulted on some of its financial obligations contracted or if, in the light of the available facts and information, it is sufficiently foreseeable that this will happen in the very near future, defined for this purpose as a period of 3 months, in the light of the following evidence:

a) Default recorded in the Central Credit Register kept by Banco de Portugal in the previous 12 months;
b) Inclusion in the list of cheque users who represent a risk (LUR);
c) Use of revolving credit operations, in particular current accounts and overdrafts, with at least 95% of the limit originally authorised over a consecutive period of no less than 12 months, if this was not envisaged when originally contracted;
d) Increase of more than 30% in relation to the previous reporting period in the level of hedging through impairment or recognition of economic loss;
e) Transfer of assets in lieu of payment or total or partial pardon of debt (Principal or Interest);
f) Other qualitative factors such as the existence of debts to the tax and/or social security authorities, calling of bank guarantees, highly plausible expectations of insolvency, judicial proceedings and litigation with material impact, lack of accounting documents with reference dates in the past 18 months, default on contacts with the institution; and
g) On the basis of the knowledge obtained through management of the customer relationship, other factors may be known to the Bank which point to financial difficulties.

In addition, a credit operation should be flagged as credit restructured due to the customer's financial difficulties whenever at least one of the following circumstances is found to occur on modification of the respective terms and conditions of the credit agreement:

a) The credit operation is classified as at risk or is likely to be classified as an at-risk credit, if the terms and conditions of the credit agreement are not modified;
b) The customer has a credit operation classified as at-risk-credit; and
c) The credit operation has been wholly or partially overdue by more than 30 days, at least once during the three months prior to modification of the terms and conditions of the credit agreement.

At the reference date, Banco BNI Europa has no credit operation flagged as restructured credit.

However, the Bank strengthened its IT systems so as to meet the requirements for identifying and monitoring restructured credits, including flagging and unflagging these credits. This is related with the expectation that, as a result of the launch of new products on the Portuguese market, the first cases will arise in the normal course of events in early 2018.

F - Description of valuation process and collateral management

Valuer Selection Policy

Whenever necessary, Banco BNI Europa uses the services of independent external valuers to obtain a valuation or revaluation of any collateral to be obtained. Although the Bank's size and the complexity of its business are still at low levels, the Bank has included in its Internal Policies the requirements that several commercial proposals should be sought in order to promote comparability between the different proposals, keeping in close contact with the market for services in this area. Accordingly, the criteria for contracting services ensure:

- That the valuer is independent;
- That the valuer is accredited by the Securities Market Commission (CMVM); and
- That the valuation methods used are prudent and appropriate for the state and type of the property to be valued.

As required by Circular 54/2014/DSC of Banco de Portugal, the Bank makes the external valuation report on the property available to its customers, whenever the valuation costs are borne by these.

Frequency of revaluation

Collateral must be revalued at periods in accordance with rules set by the supervisor, in keeping with the time limits and procedures determined in Notice No. 6/2006 of Banco de Portugal, of 11 June 2006.

Property to be received as security for loans must be valued prior to acceptance (as a condition for granting the loan) and to recording the credit.

Mortgaged property must be revalued:

a) Whenever a substantial reduction may have occurred in the value of the property, according to credible information supported by due grounds, obtained by Banco BNI Europa; and
b) At least every three years for loans in excess of 5% of the Bank's equity (under the regulations, the value to be considered should be the lower of 5% of Equity and € 1,000,000, in the cases of a mortgage for commercial purposes, or € 500,000 if the property is residential).

Recording of collateral

All relevant information relating to guarantees received by way of collateral is recorded through processes instituted in Banco BNI Europa, supported by a technological app designed for this purpose.

Valuation of collateral

In order to analyse the suitability of collateral valuations, the age of the valuation supporting the value currently assigned must be taken into consideration. Accordingly, whenever applicable, the Bank has recent valuations, in line with the periods defined in Notice No. 6/2006 of Banco de Portugal, of 11 June 2006.

It is Banco BNI Europa's policy to keep its valuations up to date and to value its collateral in accordance with these valuations, avoiding the applications of blanket haircuts.

In the case of property given as collateral, depending on the age of the valuation, its value must be adjusted in accordance with the Minimum Discounts and Benchmarks Tables which are aligned with the recommendations in Circular No. 2/2014 of Banco de Portugal, as follows:

- In the case of listed securities, the value to be considered shall be the market value at the reference date of the financial year; and
- For unlisted securities, the valuations considered must be made on the basis of the last audited accounts with a reference date no more than 1 year previous. In relation to other collateral (e.g. pledge of equipment, works of art, etc.), depending on how long ago the valuation was made and the particular features of the assets, discounts in line with their specific nature should be considered, subject to professional judgment.

G - Nature of the main judgments, estimates and hypotheses used in determining impairment.

The policies and procedures that Banco BNI Europa defined for the purpose of calculating impairment are conservative and appropriate to the loans portfolio. The policies, procedures and methodologies will evolve in line with macro-economic trends, the characteristics of the portfolio and in line with the risk policies adopted in keeping with the Bank's strategy.

H - Description of impairment calculation methods, including how portfolios are segmented to reflect the different characteristics of credits

Under IAS 39, accounts receivable from non-significant customers may be included in homogeneous segments with similar credit risk characteristics, and may be assessed for the purposes of determining impairment using collective analysis models. Accordingly, Banco BNI Europa has adopted segmentation based on the similarity of the products making up the assets it acquires or originates, and whenever possible it has recourse to outputs generated from stochastic models such as ratings and/or scores.

As a result of this segmentation, Banco BNI Europa applies an appropriate methodology for obtaining estimates of PD, LGD and EAD parameters (when applicable), on the basis of the quantity and soundness of the internal data available. In particular, in cases where the information is still not sound enough to develop models capable of more advanced estimates, the Bank uses methods based on transition matrices; from a statistical point of view, this is a well recognised tool for situations or contexts in line with the behaviours to be explained, in connection with credit risk. In cases where the information available so permits, Banco BNI Europa develops more advanced models, where estimates of PD, LGD and EAD parameters (when applicable) are obtained on the basis of observable samples of internal data, and complemented by prospective scenarios for the macroeconomic context, in order to comply with the point-in-time approach required by the applicable standards and regulations.

Nonetheless, Banco BNI Europa includes in its impairment calculation policy a series of criteria which allow it to identify the exposures which require individual analysis, in order to determine a level of impairment more appropriate for those particular situations.

I - Indication of evidence of impairment by credit segments

In keeping with the applicable good practices, Banco BNI Europa must ensure that losses incurred are identified promptly and that the associated impairments are recognised in the accounts, adopting conservative standards for evidence of impairment, appropriate to each type of credit or customer.

In accordance with Circular No. 2/2014 of Banco de Portugal, Banco BNI Europa regards the following events as evidence of impairment:

- Customer with no less than 1 credit with a payment overdue by more than 30 days; or
- Customer with at least 1 credit in litigation; or
- Customer with at least 1 credit restructured due to financial difficulties, or the prospect of restructuring, or else with a pending application for restructuring; or
- Customer with no less than 1 overdue credit in the banking system, principal and interest written off/cancelled or in litigation, according to information available in the Central Credit Register kept by BdP; or
- Customer with a credit rating contained in the lower quartile of the internal rating system (note that Banco BNI Europa still does not have sufficient data to construct an internal rating model, although this is part of its medium term development plans); or
- Customer with a deterioration of more than 30% in the internal rating scale (please see the comment to the previous item, concerning the fact that Banco BNI Europa still lacks an internal rating model); or
- Customer whose cheques have been returned and/or barred from using cheques; or
- Credit where the collateral underwent a material decline in value (more than 20%), when this results in an LTV of more than 80% (applicable in cases where the credit is granted for a specific real estate project); or
- Customers with disputed/uncollected bills; or
    - Customer with expectation of insolvency or undergoing Special Recovery Programmes; or
    - Customer with overdue debts to the tax or social security authorities or attachment enforced by the State; or
- Other factors that point to deterioration of ability to service the debt (e.g. the absence of an active market for the goods/assets for which the lending is provided, significant reduction in turnover and/or loss of a major customer (for companies), periods of unemployment (private customers) or other factors as set out in Instruction No. 32/2013 BdP).

J - Indication of thresholds set for individual analysis

In order to apply an impairment assessment based on individual analysis, Banco BNI Europa uses the following criteria:

- Net exposure of more than €1,000,000; or
- Net exposure of more than €100,000, with evidence of impairment.

K - Policy on grades of internal risk, specifying the treatment given to a borrower classed as defaulting

Banco BNI Europa still has no internal risk rating model, considering the absence of historical data which would allow for modelling. Even so, whenever possible, the Bank makes use of predictive information available in the form of data supplied by platforms originating credit with which it deals, and which have implemented models of this type in their loans portfolio management processes.

Borrowers who default on products which Banco BNI has launched on the Portuguese market are handled by an external credit recovery firm with recognised experience in this sector. When the loans contracted by these borrowers have been obtained or granted through platforms based in jurisdictions outside Portugal, the platforms in question have internal resources or else external contractors equipped with full credit recovery processes, suited to the products or type of lending in question. It should be noted that these resources, together with their suitability to the product or type of lending in question, is one of the issues considered in the due diligence process undertaken prior to establishing a partnership with any loan originator platform.

L - General description of how the current value of future cash flows are calculated in determining impairment losses assessed individually and collectively

Whenever it is necessary to calculate the current value of future cash flows, in particular in models for obtaining estimates for LGD parameters to be used to calculate impairment on portfolios subject to collective analysis, Banco BNI Europa applies a discount rate equal to the original contract rate. In cases where the Bank has recourse to estimated provided on the basis of historical data from the platforms with which it deals, an assessment is carried out to ensure that the methods used consider levels of prudence in line with, or even more conservative than, those applicable in the case of the calculations that can be carried out when a significant quantity of data is available.

In situations where Banco BNI Europa applies an impairment calculation on the basis of an individual analysis, the assessment model follows the recommendations of Circular No. 2/2014 of Banco de Portugal, adopting the practices prescribed by the regulator and established in IAS 39, as per the Impairment Handbook approved by the Board of Directors.

M - Description of emergence periods used for different segments and rationale

Where applicable, Banco BNI Europa applies an emergence period of twelve months, in order to obtain PD estimates. Similarly to the previous item, whenever the Bank uses parameters furnished by credit originator platforms, an assessment is carried out to ensure that conservative levels of prudence are adopted in calculating those estimates.

N - Detailed description of the costs associated with the credit risk, including disclosure of the PD, EAD, LGD and cure rate

In line with the information provided in the section on Risk Management and Internal Control, we can report that Impairment calculated at the reference date stood at €446,953. Below we present the breakdown of impairment calculated on the customer loans portfolio, by types of lending.

IMPAIRMENT BY TYPE OF LENDING

TYPE OF LENDING	IMPAIRMENT (€)	MEAN PD (%)	MEAN LGD (%)
Lending not represented by securities	**408,721**	**7.2%**	**57.4%**
Dept. Customer Banking	39,486	N.A.	N.A.
Dept. Online Banking	4,748	N.A.	N.A.
Uni. Online Credit	127,957	15.14%	40.00%
Lendico	128,774	3.01%	50.65%
Raize	16,883	6.87%	63.83%
Creditshelf	90,873	3.65%	75.00%
Lending represented by securities	**38,232**	**0.8%**	**57.4%**
Market Invoice	16,643	0.93%	81.13%
Edebex	8,904	1.20%	15.84%
Commercial Paper	12,685	0.27%	45.00%
Total	**446,953**	**4.0%**	**57.4%**

Impairment associated with loan credits originated by the Customer and Online Banking Department results exclusively from the application of an IBNR (Incurred but not Reported) rate, given that the difference in relation to expected cash flows, discounted at the interest rate of the original contract, and the current exposure, is lower than that rate.

With regard to credit represented by securities, the Impairment figure recorded results from application of the following PD and LGD parameters presented above.

O - Conclusions concerning sensitivity analyses of the value of impairment and changes in the main assumptions

With regard to the component of the loans portfolio granted by the Corporate Banking Department and the Online Banking Department, this sensitivity analysis does not apply, as these credits are subject to individual analysis and the PD and LGD parameters are not used to determine impairment.

In relation to the other components of credit, whether or not represented by securities, as in the table below, an increase of 20% was considered in the PD and LGD parameters in order to measure the sensitivity of impairment to a reasonable adverse scenario. As a result of this analysis, impairment is increased to €643,612, representing a variation of 44%.

IMPAIRMENT BY TYPE OF LENDING

TYPE OF LENDING	MEAN PD INCREASED BY 20% (%)	MEAN LGD INCREASED BY 20% (%)	IMPAIRMENT (€)
Lending not represented by securities	**8.6%**	**68.8%**	**588,559**
Dept. Customer Banking	N.A.	N.A.	56,859
Dept. Online Banking	N.A.	N.A.	6,838
Uni. Online Credit	18.17%	48.00%	184,258
Lendico	3.61%	60.78%	185,435
Raize	8.24%	76.60%	24,311
Creditshelf	4.38%	90.00%	130,858
Lending represented by securities	**1.0%**	**68.8%**	**55,054**
Market Invoice	1.12%	97.36%	23,966
Edebex	1.44%	19.01%	12,821
Commercial Paper	0.32%	54.00%	18,267
Total	**4.8%**	**68.8%**	**643,612**

QUANTITATIVE DISCLOSURE

At the reference date of 31 December 2017, the loans portfolio stood as follows:

figures in euros

DETAILS OF LOANS PORTFOLIO	GROSS VALUE	FAIR VALUE OF COLLATERAL	IMPAIRMENT	NET VALUE OF COLLATERAL AND IMPAIRMENT	PROPORTION (OF NET VALUE)
Balance Sheet Exposure					
Loans to Customers (not represented by securities)	22,010,898	484,785	408,721	21,117,392	
Loans falling due	21,489,487	484,785	380,011	20,624,691	
Overdue Credit	521,411	-	28,711	492,701	
Subtotal	**22,010,898**	**484,785**	**408,721**	**21,117,392**	**52%**
Loans to Customers (represented by securities)	20,216,600	-	38,232	20,178,368	
Loans falling due	19,895,373	-	29,836	19,865,537	
Overdue Credit	321,227	-	8,396	312,831	
Subtotal	**20,216,600**	**-**	**38,232**	**20,178,368**	**48%**
Total	**42,227,498**	**484,785**	**446,953**	**41,295,760**	**100%**
Off-balance sheet exposure					
Guarantees provided	-	-	-	-	
Documentary credits	-	-	-	-	
Irrevocable credit facilities	30,623	-	61	30,623	
Subtotal	**30,623**	**-**	**61**	**30,623**	
Total	**30,623**	**-**	**61**	**30,623**	

Lending on the balance sheet benefits from financial collateral with a value of €484,784.90. Off-balance sheet lending is not backed by financial collateral.

a) Breakdown of exposures and impairment constituted

a1) By credit quality

figures in euros

	TOTAL EXPOSURE						TOTAL IMPAIRMENT		
SEGMENT	TOTAL EXPOSURE	PERFORMING LOANS	OF WHICH RECOVERED	OF WHICH RESTRUCTURED	NON-PERFORMING LOANS	OF WHICH RESTRUCTURED	TOTAL IMPAIRMENT	PERFORMING LOANS	NON-PERFORMING LOANS
Corporate	19,611,055	19,250,888	-	-	360,167	-	276,016	233,362	42,654
Construction and CRE	-	-	-	-	-	-	-	-	-
Residential	-	-	-	-	-	-	-	-	-
Personal Clients	2,400,675	2,239,431	-	-	161,244	-	132,705	107,128	25,577
Commercial Paper	8,458,757	8,458,757	-	-	-		12,685	12,685	-
Factoring	11,755,369	11,434,142	-	-	321,227	-	25,547	17,151	8,396
Total	**42,225,856**	**41,383,218**	**-**	**-**	**842,638**	**-**	**446,953**	**370,326**	**76,627**

a2) By days of default

figures in euros

	TOTAL EXPOSURE					TOTAL IMPAIRMENT			
	TOTAL EXPOSURE	PERFORMING LOANS		NON-PERFORMING LOANS		TOTAL IMPAIRMENT	PERFORMING LOANS	NON-PERFORMING LOANS	
		Days overdue <30		Days overdue			Days overdue		
SEGMENT	31/12/17	Without evidence	With evidence	<=90	>90	30/06/17	<30	<=90	>90
Corporate	19,611,055	19,246,415	-	307,473	52,694	276,016	233,362	3,133	39,521
Construction and CRE	-	-	-	-	-	-	-	-	-
Residential	-	-	-	-	-	-	-	-	-
Personal Clients	2,400,675	2,239,431	-	84,116	77,128	132,705	107,128	4,491	21,086
Commercial Paper	8,458,757	8,458,757				12,685	12,685	-	-
Factoring	11,755,369	11,434,142	-	320,567	660	25,547	17,151	7,864	532
Total	**42,225,856**	**41,378,745**	**-**	**712,155**	**130,483**	**446,953**	**370,326**	**15,488**	**61,139**

b) Breakdown of loans portfolio by segment and year of lending.

figures in euros

	CORPORATE			PERSONAL CLIENTS		
YEAR OF LENDING	NUMBER OF OPERATIONS	AMOUNT	IMPAIRMENT CONSTITUTED	NUMBER OF OPERATIONS	AMOUNT	IMPAIRMENT CONSTITUTED
2014 and prior	-	-	-	-	-	-
2015	3	337,638	3,376	1	25,039	250
2016	1	166	2	1	205	2
2017	400	19,273,252	272,638	1,256	2,375,431	132,453
Total	**404**	**19,611,056**	**276,016**	**1,258**	**2,400,675**	**132,705**

	COMMERCIAL PAPER			FACTORING		
YEAR OF LENDING	NUMBER OF OPERATIONS	AMOUNT	IMPAIRMENT CONSTITUTED	NUMBER OF OPERATIONS	AMOUNT	IMPAIRMENT CONSTITUTED
2014 and prior	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	6	8,458,757	12,685	733	11,755,369	25,547
Total	**6**	**8,458,757**	**12,685**	**733**	**11,755,369**	**25,547**

c) Breakdown of gross lending exposure and impairment assessed individually and collectively, by segment, sector and geographical region

c1) By segment

figures in euros

	CORPORATE		PERSONAL CLIENTS		COMMERCIAL PAPER		FACTORING	
VALUATION	EXPOSURE	IMPAIRMENT	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT
Individual	4,229,082	39,486	199,282	4,748	8,458,757	12,685	11,756,358	25,547
Collective	15,382,165	236,530	2,200,213	127,957	-	-	-	-
Total	**19,611,247**	**276,016**	**2,399,495**	**132,705**	**8,458,757**	**12,685**	**11,756,358**	**25,547**

c2) By business sector

figures in euros

	SERVICES		INDUSTRY		AGRICULTURE	
VALUATION	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
Individual	3,802,119	42,565	750,417	608		
Collective	4,273,503	52,564	2,688,271	51,077	95,902	1,151
Total	**8,075,622**	**95,129**	**3,438,688**	**51,685**	**95,902**	**1,151**

	RETAIL		CONSTRUCTION		OTHER	
VALUATION	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
Individual	3,906,221	8,998	166	166		
Collective	6,312,805	143,109	1,974,490	36,923	11,756,358	25,547
Total	**10,219,026**	**152,107**	**1,974,656**	**166**	**11,756,358**	**25,547**

Investments made by Banco BNI Europa relating to factoring are in fairly diverse business sectors, and are accordingly stated under "Other".

c3) By geographical region

figures in euros

	PORTUGAL		ANGOLA		CAPE VERDE		GERMANY	
VALUATION	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT
Individual	9,281,607.3	23,659.5	100,205.9	1,000.0	3,521,388.9	32,259.7	-	-
Collective	2,596,192.3	144,839.8	-	-	-	-	13,209,519.4	203,010.2
Total	**11,877,799.6**	**168,499.3**	**100,205.9**	**1,000.0**	**3,521,388.9**	**32,259.7**	**13,209,519.4**	**203,010.2**

	HOLLAND		BELGIUM		UNITED KINGDOM	
VALUATION	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT
Individual	-	-	-	-	-	-
Collective	1,760,741.4	16,637.3	5,757,889.9	8,903.8	5,999,953.4	16,642.8
Total	**1,760,741.4**	**16,637.3**	**5,757,889.9**	**8,903.8**	**5,999,953.4**	**16,642.8**

d) Breakdown of portfolio of restructure lending by restructuring measure applied

There were no restructured loans in the portfolio at 31 December 2016 and 2017.

e) Movements in restructured loans portfolio

There were no restructured loans in the portfolio at 31 December 2016 and 2017.

f) Breakdown of fair value of collateral for loans portfolio in corporate, Construction, Commercial Real Estate (CRE) and Residential segments

figures in euros

	CORPORATE				PERSONAL CLIENTS			
	REAL ESTATE		OTHER COLLATERAL		REAL ESTATE		OTHER COLLATERAL	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
< €0.5M	1	384,785	-	-	-	-	1	100
>= €0.5M and < €1M	-	-	-	-	-	-	-	-
>= €1M and <€5M	-	-	1	100,000	-	-	-	-
>= €5M and <€10M	-	-	-	-	-	-	-	-
>= €10M and <€20M	-	-	-	-	-	-	-	-
>= €20M and <€50M	-	-	-	-	-	-	-	-
> €50M	-	-	-	-	-	-	-	-
Total	**1**	**384,785**	**1**	**100,000**	**-**	**-**	**1**	**100**

g) LTV ratio for Corporate, Construction, CRE, Residential and Other segments

	NUMBER OF PROPERTIES	PERFORMING LOANS	NON-PERFORMING LOANS	IMPAIRMENT
Corporate	-	-	-	-
Without associated collateral	n.a	n.a	n.a	n.a
< 60%	-	-	-	-
>= 60% and < 80%	-	-	-	-
>= 80% and < 100%	-	-	-	-
>= 100%	1	384,785		3,848
Total	**1**	**384,785**	**-**	**3,848**

h) Breakdown of fair value and net book value of properties received in lieu of payment, by type of asset and by age

Not applicable.

i) Breakdown of loans portfolio by internal risk rating

Not applicable.

j) Disclose of risk parameters associated with impairment model by segment

Not applicable.

l) The breakdown of credit quality at 31 December is as follows:

	IMPAIRMENT	INCREASE	USE	FOREIGN EXCHANGE DIFFERENCES	IMPAIRMENT
SEGMENT	31/12/2016				31/12/2017
Corporate	5,769	270,247	-	-	276,016
Construction and CRE	-	-	-	-	-
Residential	-	-	-	-	-
Personal Clients	443	132,262	-	-	132,705
Commercial Paper	-	12,685	-	-	12,685
Factoring	29,631	110,435	115,929	1,410	25,547
Total	**35,844**	**525,629**	**115,929**	**1,410**	**446,953**

NOTE 37

Related party transactions

All transactions and operations carried out by the Bank with related parties (controlled, controlling or group companies) are conducted on an arm's length basis and are part of the Bank's normal operations.

At 31 December 2017 and 2016, the list of related parties was as follows:

SHAREHOLDERS	
BNI - Banco de Negócios Internacional, S.A.	
José Jaime Agostinho de Sousa Freitas	
Elizabeth da Graça Isidoro	
Nuno Fernando Teixeira Ferreira da Silva	

CORPORATE BOARDS	
Pedro Nuno Munhão Pinto Coelho	Chairman of the Board of Directors and of Executive Board
António Miguel Maurício Rola Costa	Member of the Board of Directors and of Executive Board
Nuno Luís do Rosário Martins	Member of the Board of Directors and of Executive Board
Telmo Francisco Salvador Vieira	Chairman of the Supervisory Board
João Carlos Espanha Pires Chaves	Member of the Supervisory Board
Isabel Paiva, Miguel Galvão & Associados SROC Lda.	Member of the Supervisory Board
PricewaterhouseCooper & Associados – Sociedade de Revisores Oficiais de Contas, Lda.	Statutory Audit Firm
Pedro Miguel Patrício Raposo	Chairman of the General Meeting of Shareholders
Marta Guerreiro Pereira Rosa	Company Secretary

OTHER RELATED PARTIES	
BPI- Banco Privado Internacional (IFI), SA	Financial counterparty

At 31 December 2017 and 2016, the Bank's balances with related parties, and also transactions with those entities in the periods of 2017 and 2016 are as follows:

figures in euros

	2017				
	BALANCE SHEET		OFF-BALANCE-SHEET	INCOME STATEMENT	
	Assets	Liabilities		Costs	Income
BNI – Banco de Negócios Internacional, S.A.	-	45,029,137	14,000,000	190,257	193,675
	-	45,029,137	14,000,000	190,257	193,675

	2016				
	BALANCE SHEET		OFF-BALANCE-SHEET	INCOME STATEMENT	
	Assets	Liabilities		Costs	Income
BNI – Banco de Negócios Internacional, S.A.	53,349	68,704,178	14,825,433	190,715	398,255
	53,349	68,704,178	14,825,433	190,715	398,255

The main transactions carried out with related parties derived from the placement and deposit of funds for custody by Banco BNI Europa, and the corresponding remuneration, together with investments by BNI - Banco de Negócios Internacional, S.A. and the corresponding cost.

NOTE 38

Fair value

At 31 December 2017 and 2016, the fair value of financial assets and liabilities stated on the Balance Sheet at amortised cost breaks down as follows:

figures in euros

	2017	
	BOOK VALUE	FAIR VALUE
Financial assets:		
Cash and cash equivalents in central banks	35,717,375	35,717,375
Balances at credit institutions	21,141,187	21,141,187
Investments at credit institutions	3,648,369	3,648,369
Loans to customers	41,778,903	41,778,903
Financial liabilities:		
Resources at other credit institutions	50,779,532	50,779,532
Resources from customers and other loans	305,147,644	305,147,644
Central Bank Resources	120,002,162	120,002,162

	2016	
	BOOK VALUE	FAIR VALUE
Financial assets:		
Cash and cash equivalents in central banks	80,102,203	80,102,203
Balances at credit institutions	7,779,257	7,779,257
Investments at credit institutions	11,056,966	11,056,966
Loans to customers	5,074,246	5,074,246
Held-to-maturity investments	60,388,868	60,388,868
Financial liabilities:		
Resources at other credit institutions	71,260,513	71,260,513
Resources from customers and other loans	262,234,343	262,234,343
Central Bank Resources	12,132	12,132

The main methods and assumptions used in estimating the fair value of financial assets and liabilities stated on the balance sheet at amortised cost were as follows:

- Cash and balances at central banks, Balances at credit institutions, Investments in credit institutions, Loans and advances to customers, Deposits by other credit institutions and Deposits by customers and other loans.

Considering the short terms associated with these financial instruments, the balance sheet value is a reasonable estimate of their fair value.

- Held-to-maturity financial assets.

These financial assets are stated in the accounts at amortised cost net of impairment. The fair value is based on market prices, whenever these are available. When none exist, calculation of fair value is based on the use of numerical models, using discounted cash flow methods which, in order to estimate the fair value, use market interest rate curves adjusted by factors associated predominantly with the credit risk and the liquidity risk, determined in accordance with market conditions and respective maturities.

NOTE 39

Encumbered assets and unencumbered assets

The Bank does not have a policy of encumbering its assets, although it may do so on a case-by-case basis, when approved by the Board of Directors.

The following information is provided in accordance with Instruction No. 28/2014 of Banco de Portugal, of 23 December, and in compliance with the guidelines published by EBA on 27 June 2014, entitled "Guidelines on recognition of encumbered and unencumbered assets":

figures in euros

	2017			
	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
Bank's Assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Equity instruments	-	-	41,764,066	41,764,066
Debt securities	138,927,910	138,927,910	216,529,953	216,529,953
Other assets	3,872,565	3,872,565	108,379,122	108,379,122
Total assets	**142,800,475**	**142,800,475**	**366,673,141**	**366,673,141**

	DEC 2016			
	ENCUMBERED ASSETS 2016		UNENCUMBERED ASSETS	
Bank's Assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Equity instruments	-	-	7,060,820	7,060,820
Debt securities	1,618,588	1,618,588	240,615,425	240,615,425
Other assets	5,068,281	5,068,281	107,671,108	107,671,108
Total assets	**6,686,869**	**6,686,869**	**355,347,353**	**348,286,533**

Other encumbered assets relate to investments in credit institutions totalling €441,911 (31 December 2016: €141,911), referring to collateral for a bank guarantee of the same value issued in the Bank's favour, and also consists of two term deposits, of €200,000 and €3,000,000, which were pledged to secure satisfaction of liabilities accepted by the Bank, associated with the means of payment service.

As mentioned in Note 19, the Bank's Debt Securities include eligible securities, of which €137,427,910 is pledged as collateral in rediscount operations with the European Central Bank.

NOTE 40

Fair value of securities portfolio and other lending represented by securities

The fair value of financial instruments is estimated whenever possible using listed prices from active markets. A market is regarded as active and liquid, when counterparties act with equal knowledge and carry out transactions on a regular basis. For financial instruments for which there is no active market, due to the lack of liquidity and the absence of regular transactions, valuation methods and techniques are used to estimate the fair value. Financial instruments have been classified by levels in accordance with IFRS 13.

At 31 December 2017 and 2016, this item broke down as follows:

	2017		
	LEVEL 1	**LEVEL 2**	**LEVEL 3**
ASSETS	**Market or listed value**	**Valuation model with parameters observable on the market**	**Valuation model with parameters not observable on the market**
Other Financial Assets at Fair Value through Results	-	41,764,066	-
Available-for-Sale Financial Assets	311,627,662	-	43,829,450
Loans to customers	-	-	8,450,000
	311,627,662	**41,764,066**	**52,279,450**

	2016		
	LEVEL 1	**LEVEL 2**	**LEVEL 3**
ASSETS	**Market or listed value**	**Valuation model with parameters observable on the market**	**Valuation model with parameters not observable on the market**
Other Financial Assets at Fair Value through Results	1,500,000	5,060,820	-
Available-for-Sale Financial Assets	180,345,144	2,000,000	-
	181,845,144	**7,060,820**	**-**

The following assumptions were used in preparing the above table:
1) Market values (Level 1): this column includes financial assets valued on the basis of listed prices in active markets;
2) Market analysis (Level 2): this column includes financial instruments valued on the basis of internal models using observable market inputs.
3) Others (Level 3): this column includes financial instruments valued using variables not observable in markets. This level includes unlisted shares and units in investment funds.

Movement in financial assets valued using methods with non-observable market parameters (level 3 in the fair value hierarchy) during the period ended 31 December 2017 and 2016 breaks down as follows:

	LOANS TO CUSTOMERS
Opening balance	-
Acquisitions	-
Outflows by maturity	-
Outflows by settlement	-
Inflows	52,279,450
Outflows	-
Variation in value	-
Closing balance	**52,279,450**

NOTE 41

Solvency

The Bank uses the standardised approach to calculate capital requirements for credit risks and to cover operational risk.

The Bank's equity is determined in accordance with the applicable regulatory standards, in particular Directive 2013/36/ EU and Regulation (EU) No. 575/2013 of the European Parliament and of the Council (CRD IV/CRR). The equity determined in accordance with Directive 2013/36/EU and Regulation (EU) No. 575/2013 of the European Parliament and of the Council includes tier 1 equity and tier 2 equity. Tier 1 includes common equity tier 1 (CET 1) and additional tier 1 equity. Common equity tier 1 includes:
i) paid up share capital, issue premiums, reserves and retained earnings; and
ii) deductions related to own shares, goodwill, intangible assets, deferred tax assets from tax losses, unrealised gains/losses in assets valued at fair value and deposits with interest rates above the threshold set by Banco de Portugal.

Deductions are also considered in relation to holdings of more than 10% in financial institutions and insurance companies, in this case in respect of the amount in excess of the upper limits of 10% and 15% of the common equity tier 1, when analysed individually and in aggregate, respectively.

Tier 2 includes subordinated debt and other adjustments on the terms established by the Regulation.

The legislation provides for a transition period between the equity requirements determined in accordance with national legislation and those calculated in accordance with Community legislation, to phase out the inclusion/exclusion of elements previously considered and to phase in the inclusion/deduction of new elements. The transition period will continue through to the end of 2017 for most elements, except for the deduction related to deferred taxes generated prior to 1 January 2014, for which the period extends through to the end of 2023.

The Basel II regulatory framework has also made changes to the calculation of risk-weighted assets, in particular the risk-weighting at 250% of deferred taxes from temporary differences and financial holdings of more than 10%

in financial institutions and insurance companies within the limits established for non-deduction from common equity tier 1 (instead of 0% and 100%, respectively).

Under the new prudential framework, institutions are required to report common equity tier 1, tier 1 and total ratios of no less than 4.5%, 6% and 8% respectively, in addition to a conservation buffer of 2.5%, although benefiting from a transitional period that will run until the end of 2018. However, the Banco de Portugal has determined that institutions should report a common equity tier 1 ratio of no less than 7% during the transitional period, so as to ensure appropriate compliance with the future capital requirements.

Figures for equity and equity requirements, determined using the CRD IV/CRR methods referred to above, are as follows:

figures in euros

	2017	2016
Capital	34,250,000	34,250,000
Retained earnings and Net Result for the Year	(5,295,382)	(7,581,569)
Regulatory deductions	(5,651,201)	(5,838,772)
Common equity Tier 1	**23,303,417**	**20,829,660**
Tier 1 equity	**23,303,417**	**20,829,660**
Tier 2 equity	**-**	**-**
Total equity	**23,303,417**	**20,829,660**
RWA		
Credit risk	176,839,585	129,726,131
Operational Risk	3,086,533	1,132,221
Total	**179,926,118**	**130,858,352**
Capital Ratios		
CET1 ratio	12.95%	15.92%
Tier 1 ratio	12.95%	15.92%
Tier 2 ratio	0.00%	0.00%
Total Capital ratio	12.95%	15.92%

NOTE 42

Recently issued accounting standards and interpretations

In preparing the financial statements at 31 December 2017, the Company adopted the following standards, interpretations, amendments and revisions, the application of which has been mandatory since 1 January 2017:

a) IAS 7 (amendment), 'Review of disclosures' (for application in periods starting on or after 01 January 2017)

This amendment introduces an additional disclosure concerning changes in liabilities arising from financing activities, separated into transactions that gave rise to cash movements and those which did not, and how this information is conciliated with cash flows from financing activities in the Statement of Cash Flows.

b) IAS 12 (amendment), income taxes

Recognition of deferred tax assets on potential losses' (for application in periods starting on or after 1 January 2017). This amendment clarifies accounting for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are temporary deductible differences and how to assess the recoverability of deferred tax assets when restrictions exist in tax law.

Adoption of the standards, interpretations, amendments and revisions referred to above had no significant effects on the Bank's financial statements for the period ended 31 December 2017.

NOTE 43

IFRS disclosures – new standards at 31 December 2017

1. Published standards, application of which is mandatory for annual periods starting on or after 01 January 2018, which the European Union has already endorsed:

a) IFRS 9 (new), 'Financial instruments' (for application in periods starting on or after 1 January 2018). IFRS 9 replaces the requirements of IAS 39, concerning: (i) classification and measurement of financial assets and liabilities; (ii) recognition of impairment in accounts receivable (using the expected loss model); and (iii) requirements for recognition and classification of hedge accounting.

b) IFRS 15 (new), 'Revenues from contracts with customers' (for application in periods starting on or after 1 January 2018). This new standard applies only to contracts for delivery of products or provision of services, and requires the entity to recognise the revenue when the contractual obligation to deliver assets or provide services is performed and for the amount reflecting the consideration to which the entity is entitled, as established in the "5-step method".

2. Standards (new and amendments) and interpretations published, application of which is mandatory for annual periods starting on or after 1 January 2017, but which the European Union has not yet endorsed:

2.1 - Standards

Improvements to standards 2014 – 2016 (for application, in general, in periods starting on or after 1 January 2017). This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28.

IAS 40 (amendment), 'Transfers of investment property' (for application in periods starting on or after 1 January 2018). This amendment is still subject to the EU endorsement process. This amendment clarifies that assets may only be transferred from and to the investment property category when there is evidence of a change in use. A change of management intention alone is not sufficient for making the transfer.

IFRS 2 (amendment), 'Classification and measurement of share-based payment transactions' (for application in periods starting on or after 1 January 2018). This amendment is still subject to the EU endorsement process. This amendment clarifies the measurement basis for cash-settled share-based payment transactions and the accounting for changes in a share-based payments plan, which reclassify it from cash-settled to equity-settled. It also introduces an exception to the principles of IFRS 2, which now requires that a share-based payments plan be treated as if fully equity-settled, when the employer is obliged to retain an amount of tax from the employee and pays this amount to the tax authority.

IFRS 9 (amendment), 'Prepayment features with negative compensation' (for application in periods starting on or after 1 January 2019). This amendment is still subject to the EU endorsement process. This amendment introduces the possibility of classifying financial assets with prepayment conditions with negative compensation, at amortised cost, provided specific conditions are met, instead of being classified at fair value through profit or loss.

IAS 28 (amendment), 'Long-term interests in associates and joint ventures' (for application in periods starting on or after 01 January 2019). This amendment is still subject to the EU endorsement process. This amendment clarifies that long-term interests in associates and joint ventures (components of an entity's interests in associates and joint ventures), which are not measures using the equity method, are accounted for under IFRS 9 and subject to the expected loss impairment model, prior to any impairment test on the interest as a whole.

Improvements to standards 2015 – 2017 (for application in periods starting on or after 1 January 2019). This cycle of improvements is still subject to the EU endorsement process. This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

2.2 – Interpretations

IFRIC 22 (new), 'Foreign currency transactions and advance consideration' (for application in periods starting on or after 1 January 2018). This interpretation is still subject to the EU endorsement process. This is an interpretation of IAS 21 'The Effects of Changes in Foreign Exchange Rates' and concerns determination of the "transaction date" when an entity pays or receives advance consideration for contracts denominated in a foreign currency. The "transaction date" determines the exchange rate to be used to convert transactions into foreign currency.

IFRIC 23 (new), 'Uncertainty over Income Tax Treatments' (for application in periods starting on or after 01 January 2019). This interpretation is still subject to the EU endorsement process. This is an interpretation of IAS 12 - 'Income Taxes'. referring to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of a given tax treatment by the Tax Authorities in relation to Income Taxes. In the event of uncertainty as to the Tax Authorities' position on a specific transaction, the entity must make its best estimate and record income tax assets or liabilities in keeping with IAS 12 and not IAS 37 - 'Provisions, Contingent Liabilities and Contingent Assets', on the basis of the expected value or the most likely value. A retrospective or modified retrospective approach may be taken to application of IFRIC 23.

The Bank does not estimate any relevant impact on its financial statements from future adoption of the standards and interpretations referred to above, except for IFRS 9, which will have the following impacts:

In July 2014, the IASB issued the final version of IFRS 9, which substitutes IAS 39 – Financial Instruments: Recognition and Measurement, which was endorsed by the European Union on 3 November 2017. IFRS 9 introduces new requirements concerning (i) classification and measurement of financial assets and liabilities, (ii) measurement and recognition of impairment in credit over financial assets, using the expected loss model and (iii) hedge accounting.

Application of IFRS 9 is mandatory in periods starting on or after 1 January 2018 and these new rules are to be applied retrospectively as from that date. However, the respective comparative balances will not be restated.

The impacts on the Bank's financial statements from adoption of this new standard have been estimated with reference to 1 January 2018, on the basis of information available at the date and of a series of assumptions. On the basis of these estimates, and considering that at this date the Bank is still working to assess with greater rigour the impact that IFRS 9 will have on its financial statements, with models that are still being perfected and validated internally and externally, it is likely that adoption of IFRS 9 will result in a reduction in the Bank's net worth at 1 January 2018 of approximately €400,000. This impact arises mostly from recognition of expected credit losses, revaluation of equity instruments at fair value and changes to the classification of financial assets through the Bank's business model.

The tax treatment of the impacts that will result from adoption of IFRS 9 is dependent on the tax legislation which is approved in the course of 2018.

During 2018, the Bank will continue to calibrate the models it has developed to comply with the new requirements of IFRS 9 and will keep abreast of any new guidelines from national and international regulators concerning application of this standard.

Classification and measurement - Financial assets

Under IFRS 9, financial assets are classified using three criteria:

(1) The business model within which the financial assets are managed;
(2) The type of financial instrument, i.e. (i) derivative financial instruments, (ii) equity instruments or (iii) debt instruments; and
(3) The characteristics of the contractual cash flows of debt instruments (representing only principal and interest).

In this context, the main categories of financial assets provided for in IFRS 9 may be summarised as follows:

- A debt instrument that (i) is managed within a business model where the aim is to hold the financial assets and collect all the contractual cash flows and (2) has contractual cash flows on specific dates, corresponding solely to payment of principal and interest on the outstanding principal - must be measured at amortised cost, unless stated at fair value through profit or loss under the fair value option – "Hold to Collect".
- A debt instrument that (i) is managed within a business model whose aim is achieved either by collecting the contractual cash flows or by selling the financial assets and (2) has contractual clauses that give rise to cash flows corresponding solely to payment of principal and interest on the outstanding principal - must be measured at fair value through other comprehensive income (FVTOCI), unless stated at fair value through profit or loss under the fair value option – "Hold to Collect & Sale".
- All other financial debt instruments must be measured at fair value through profit or loss (FVPL).

The Bank has assessed its business models on the basis of a broad set of indicators, including its business plan, the main KPIs, but also current risk management policies. For the Hold to Collect business model, in order to assess the frequency and materiality of sales, quantitative thresholds were set on the basis of past experience. The sales envisaged for the financial assets classified under this business model are below the thresholds set by the Bank.

As regards other financial instruments, equity instruments and derivatives are by definition classified at fair value through profit or loss. For equity instruments, there is the irrevocable option of stating that all fair value variations are recognised in other comprehensive income, and in this case only dividends are recognised under results, as gains and losses are not reclassified to results, even when derecognised/sold.

Credit Impairment

IFRS 9 introduces the concept of expected credit losses, which differs significantly from the concept of incurred losses used in IAS 39, and anticipates recognition of credit losses in institutions' financial statements. IFRS 9 requires the concept of impairment based on expected losses to be applied to all financial assets except for financial assets measured at fair value through profit or loss and equity instruments measured at fair value through other comprehensive income. The concept of expected losses in IFRS 9 also includes financial assets at amortised cost, debt instruments at fair value through other comprehensive income, off-balance sheet exposures, finance leases, other receivables, financial guarantees and credit commitments not valued at fair value.

This conceptual change is introduced in conjunction with new classification and measurement criteria for expected credit impairment losses, and financial assets subject to impairment are required to be classified in different stages, depending on the evolution of their credit risk, from the date of initial recognition and not on the basis of the credit risk at the reporting date:

- Stage 1: financial assets are classified at stage 1 whenever a significant increase occurs in the credit risk after initial recognition. For these assets, the expected credit impairment loss resulting from default events possible within 12 months of the reporting date must be recognised in results for the period;
- Stage 2: includes financial assets where a significant increase has occurred since initial recognition. For these financial assets, expected credit impairment losses are recognised over the assets' lifetime. However, interest will continue to be calculated on the gross carrying amount;
- Stage 3: assets classified in this stage present objective evidence of impairment at the reporting date, as the result of one or more events which have occurred and result in a loss. In this case, the expected credit impairment loss will be recognised in results for the period during the expected residual life of the financial assets. Interest is calculated on the net balance sheet value of the assets.

In general, impairment losses determined on assets classified in stages 1 and 2 substitute to a large extent the impairment recognised collectively for financial assets as provided for under IAS 39. For their part, the impairment losses determined on assets classified in stage 3 substitute to a certain extent the impairment recognised individually and collectively for financial assets already subject to impairment as provided for in IAS 39.

Main drivers in calculating expected losses

Expected losses are calculated as the product of (i) the probability of default (PD) of the financial instrument, (ii) the loss given default (LGD) and (iii) exposure at default (EAD), discounted at the effective interest rate for the contract at the reporting date.

As mentioned above, the main difference between impairment losses measured for financial assets classified in stages 1 and 2 is the time horizon in calculating the PD. The expected losses for financial assets at stage 1 will be calculating using a PD of 12 months, whilst expected losses at stage 2 use a lifetime PD. The calculation of expected loss for stage 3 financial assets has been leveraged in the existing processes for estimating impairment, developed to comply with IAS 39, updated to reflect the new requirements of IFRS 9, in particular the need to consider point in time and forward-looking information.

Significant increase in credit risks and definition of default

Financial assets move from stage 1 to stage 2 when their credit risk increases significantly when compared with the credit risk on initial recognition. The significant increase in credit risk must be determined through analysis of internal quantitative and/or qualitative indicators used by the Bank in the normal management of credit risk, requiring increased coordination of accounting requirements with the credit risk management policies instituted by the Bank.

Assessment of significant increase in credit risk is a new concept introduced by IFRS 9, requiring application of a significant element of judgment. The existence of a significant increase in credit risk is assessed for each financial asset, by considering a series of quantitative and qualitative indicators, including:

(1) Variation in lifetime PD compared to the moment of acquisition of origination of the financial assets; percentage and absolute variation intervals have been established for this. The intervals established differ depending on the product and/or business;
(2) Qualitative indicators.

IFRS 9 adopts the refutable assumption that financial assets no less than three days past due must be classified in stage 2, i.e. as showing evidence of occurrence of a significant increase in credit risk after initial recognition. The Bank has not refuted this assumption. However, for more significant exposures, the Bank has carried out additional qualitative reviews and adjustments as necessary, in order to ensure that credits where the credit risk has significantly increased are correctly identified.

In general, financial assets move from stage 2 to stage 3 when default occurs.

IFRS 9 provides no objective definition of default, but it adopts a refutable assumption that default occurs at the moment that an exposure is more than 90 days past due. The Bank has not refuted this assumption. This definition of default is consistent with the definition used in the Bank's current credit risk management policies.

Forward-looking information

The measurement of the credit losses expected in each stage and assessment of the significant increase in credit risk must consider not only information about past events, but also current conditions and justified and reasonable predictions of future events and economic conditions (i.e. forward-looking information).

Estimating and applying forward-looking information requires a significant degree of judgment. The risk factors (i.e. PD, LGD and EAD) used to estimate impairment losses were estimated so as to consider the forecast evolution for the macroeconomic variables which are correlated with the evolution of the expected credit losses. The macroeconomic scenarios used in calculating expected credit losses contain forecasts for the behaviour of the most significant economic variables - in particular unemployment, GDP, bond yields, CDS spreads, share prices, market volatility, residential and commercial property prices and the price of goods.

Regulatory capital

Regulation (EU) 2017/2395 of the European Parliament, of 12 December 2017, amending Regulation (EU) No. 575/2013, instituted temporary rules in the European Union designed to cushion the impact of adoption of IFRS 9 on the equity of financial institutions, also altering the treatment of the major risks of certain public sector exposures when denominated in the national currency of any Member State. This regulations allows financial institutions to derogate from these transitional rules, and the Bank decided to adopt the transitional rules for 'static' and 'dynamic' components.

Disclosures

IFRS 9 requires a fairly extensive set of additional disclosures, in particular with regard to credit risk and calculation of expected losses. The Bank is analysing the information currently available in order to identify potential needs for additional information, and is at the same time implementing a process of collecting and monitoring the data needed to meet these new requirements.

NOTE 44

Contingent liabilities

Operations not included in the balance sheet are as follows:

figures in euros

	2017	2016
Commitments to third parties		
Revocable commitments	14,000,000	14,847,321
Irrevocable commitments	30,624	30,792
Assets pledged as collateral		
Securities		
Refinancing operations with the European Central Bank	137,427,910	118,587
VISA EUROPA Collateral	1,500,000	1,500,000
Deposits	3,872,565	3,342,138

NOTE 45

Subsequent developments

There are no other relevant facts, either prior or subsequent, which should be considered for the purposes of preparing the financial statements for the period ended 31 December 2017.

Statutory audit report

pwc

Statutory Audit Report

(Free translation from the original in Portuguese)
Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of BNI – Banco de Negócios Internacional (Europa), S.A. (the Bank), which comprise the balance sheet as at 31 Decemeber 2017 (which shows total assets of Euro 509,473,616 and total shareholders' equity of Euro 29,599,585, including a net profit of Euro 2,286,186), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of BNI – Banco de Negócios Internacional (Europa), S.A. as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

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

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 year. 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Receção: Palácio Sottomayor, Avenida Fontes Pereira de Melo, nº16, 1050-121 Lisboa, Portugal
Tel +351 213 599 000, Fax +351 213 599 999, www.pwc. pt
Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Key Audit Matter	*Summary of the Audit Approach*
Measurement and disclosure related to impairment losses of loans and advances to customers presented in Notes 2.1.4., 3.3., 13, 21 and 36 of the financial statements of the Bank	
The calculation of impairment losses on loans and advances to customers requires the application of a set of assumptions and judgments by the Bank, regarding both the identification of the moment of the recognition as well as the corresponding amount, justify that this has constituted a key matter for the purposes of our audit. As at 31 December 2017, the gross amount of loans and advances to customers amounts to Euro 42,225,856 and impairment losses recognized as at that date amounts to Euro 446,953. Impairment losses on loans and advances to customers are determined by the Bank on an individual basis for the most significant exposures, while for the remaining portfolio, impairment is determined on a collective analysis. Thus: • The Bank undertakes a process of individual analysis for the customers which have more significant exposures, evaluated in terms of the amount of their responsibilities, the observation of triggers of default and its vigilance classification in accordance with the criteria defined for internal purposes by the Bank. In these cases, the impairment amount is calculated through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future to fulfil its responsibilities or (ii) the valuation of the collaterals received in connection with the granting of the loan, whenever its recovery is anticipated as being through the foreclosure/execution and/or sale of those collaterals. When from the individual	The developed audit procedures included the identification and review of the controls established by the Bank in relation to the approval, recording and monitoring of loans and advances to customers, as well as the appraisal of the methodologies, data and assumptions adopted by the Bank in calculating the corresponding impairment losses. These procedures covered, amongst others, the detailed testing of the key controls and the credit risk management procedures implemented by the Bank, with particular emphasis on the internal controls underlying the timely identification, recording and correct measurement of impairment losses. In this context, we tested the design and operational effectiveness of the key controls instituted by the Bank to identify customers with impairment triggers or in default and to determinate the corresponding impairment losses. The procedures and controls tested comprised those related to: (i) the timely identification of customers with impairment triggers or in default; (ii) the actual calculations itself of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iii) the estimation of the recoverable value of the collaterals, when applicable; and (iv) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analysed a number of customers in order to obtain our own judgment regarding the existence of impairment triggers, and to assess how the

Key Audit Matter	*Summary of the Audit Approach*
analysis did not result in any impairment loss, these exposures are transferred to the collective analysis and an IBNR ("incurred but not reported") impairment loss is applied. • For the exposures not covered by the individual analysis, the Bank developed and applies a collective analysis model to calculate the impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of this group are estimated based on the contractual flows of those assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank deems it necessary, historical information is updated based on observable current data, so that it reflects the effects of current conditions. Due to the upcoming implementation of IFRS 9 - Financial instruments for annual periods beginning on or after 1 January 2018, the Bank initiated during 2017 a detailed plan for the implementation of this new standard, bearing in mind that the new rules have retrospective application as from that date, although the respective comparative balances are not restated. The implementation of IFRS 9 introduces a set of new requirements, being expected that most of its impacts result from the measurement and recognition of credit impairment on financial assets to be determine through a model of expected losses in detriment of incurred underlying losses model subjacent to the IAS 39.	impairment losses were timely identified, measured and recognised by Management. With regards to the customers individually analysed by the Bank, for a representative sample of the loans and advances to customers portfolio as at 31 December 2017, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analysing the contractual support and the main relevant collaterals and confirming the registration of referred collaterals in favour of the Bank; (iii) questioning the valuations of the available collaterals; (iv) analysing the evolution of the exposures; and (v) challenging the view of those responsible for the Bank regarding the economic and financial situation of the customers, as to the predictability of the cash flows expected from their respective businesses, as well as the perspective regarding the collectability of the loans and advances. Whenever we concluded as to the need to revise some input or assumptions used by Management, we recalculated the estimated amount of the impairment and compared the results obtained with those determined by the Bank in order to assess the existence of possible divergences. For the portfolio which impairment is calculated using the collective analysis model, we have developed a set of specific procedures to evaluate how the assumptions considered by Management for the purposes of the impairment model included the macroeconomic conditions to which each client is exposed, based on our knowledge on the current practices in the sector. The procedures developed consisted of: (i) reviewing the information contained in the loan portfolio as at 31December 2017; (ii) review and test the classification of the loans as regards the existence of impairment triggers or default; (iii) reviewing the adequacy of the risk parameters used in the impairment

Key Audit Matter	*Summary of the Audit Approach*
	calculation; and (iv) verify the subsequent settlement of invoices purchased through electronic credit acquisition platforms. With regard to the implementation of IFRS 9 "Financial Instruments", we monitored and challenged the action plan that the Bank has ongoing, with main focus on measurement and recognition of credit impairment. Accordingly, we developed among others, the following procedures: • Regular meetings with Management and with the main responsible for implementation plan in order to understand and follow the calendar, the scope and the depth of the planned work and the progress already achieved; • Understanding of the areas where it is expected as at 1 January 2018 the greater impact of the implementation, bearing in mind the accumulated knowledge we have on the Bank's activities and practices; • Reading and analyzing the relevant documentation already prepared by the Bank, including the preliminary assessment of expected impacts. In addition, our auditing procedures also included a review of the disclosures on the customer loan portfolio and respective impairment losses in the accompanying notes, taking into account the applicable accounting standards.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) 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;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) 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;

e) 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;

f) communicate with those charged with governance, including the supervisory board, 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;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

h) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements, and verifying that the non-financial information was presented.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors in the Shareholders' General Meeting of 10 August 2015 for 2015. Our last appointment was in the Shareholders' General Meeting dated 21 March 2016 for a mandate covering 2016 to 2019.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Bank's supervisory board as of 15 March 2018.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

15 March 2018

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

(The original in Portuguese is signed)
Carlos José Figueiredo Rodrigues, R.O.C.

Report and opinion of the Supervisory Board

Report and Opinion of the Supervisory Board

(Free translation from the original in Portuguese)

Dear Stakeholders,

In accordance with the law and the mandate that was conferred to us, we herewith present the report on the supervisory activity carried out and give an opinion on the management report and the financial statements presented by the Board of Directors of BNI – Banco de Negocios Internacional (Europa) according to the year ended on 31st December 2017.

We monitored, as frequently and extensively as we deemed appropriate, the activity of Banco BNI Europa. We verified the regularity of the accounting records and the respective documentation, carried out to the extent deemed necessary to the physical inspections of assets and their valuation, we monitored for compliance with the law and the articles of association and we became aware of the acts of the administration.

We also followed the work developed by PricewaterhouseCoopes & Associados - Sociedade de Revisores Oficiais de Contas, Lda and appreciated the Legal Certification of the Accounts, dated of the 15th March 2018, with which we agreed.

We also received from PricewaterhouseCoopers the Additional report to the Supervisory Board, complying with the provisions of paragraphs 1, 2 and 6 of article 24 of Law Decree no. 148/2015 of September 9 and the paragraph 1 of article 63 of the statute of the Certified accountants, approved by Law no. 140/2015, of 7 September, transposing into national legal law the provisions of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, of 16 April 2014, which seems to us complete and enlightening.

Within the scope of our functions we verified that:

i) the Balance sheet, the income statement, the comprehensive income statement, the statement of changes in equity, the cash flows statement and the corresponding notes allow an adequate understanding of Banco BNI Europa financial situation, its results, the changes in equity and the cash flows;

ii) the accounting policies and valuation criteria adopted are adequate;

iii) the management report clarifies sufficiently the business evolution and the Banco BNI Europa situation, highlighting the most significant aspects;

iv) the proposal for the application of results is not contrary to applicable legal and statutory provisions.

Accordingly, considering the information received from the Board of Directors and Services and the conclusions contained in the Legal Certification of Accounts, the Supervisory Board is of the opinion that the General Meeting:

i) Approve the Management Report for the year ended December 31, 2017;

ii) Approve the accounts for that financial year;

iii) Approve the proposal for the application of results included in the Management Report of the Board of Directors, which is in accordance with the applicable legal regulations; and

Finally, we wish to express our appreciation to the Board of Directors and all the staff of the bank with whom we have contacted for their valuable collaboration.

Lisbon, 15th March 2018

President of the Supervisory Board
(Telmo Francisco Salvador Vieira)

Member
(Isabel Paiva)

Member
(João Espanha)

Disclosure of information under Article 431 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council

Disclosure of information under Article 431 of Regulation (EU) No 575/2013 of the European Parliament and of the Council

This annex contains more detailed information on the solvency and risk management of BNI – Banco de Negócios Internacional (Europa), S.A. (referred to below as Banco BNI Europa or Bank), complementing that contained in the 2017 Management Report, financial statements and respective notes. (hereinafter referred to as Banco BNI Europa or Bank).

The information relating to calculation of equity, risk-weighted assets and respective solvency levels, disclosed in this report, complies with the rules established in Regulation No. 575/2013, of the European Parliament and of the Council, on prudential requirements for credit institutions and investment firms.

Unless otherwise indicated, the information disclosed is stated in Euros.

Responsibility statement

The Board of Directors of BNI – Banco de Negócios Internacional (Europa), S.A. hereby declares that:

- In preparing this document, drawn up with reference to 31 December 2017, all the procedures deemed necessary for public disclosure of the information were duly carried out;
- To the best of its knowledge, all the information disclosed herein is truthful and reliable;
- It guarantees that all the information disclosed is of appropriate quality;
- It undertakes to disclose, in due time, any significant changes that may occur in the course of the period subsequent to the issue of this document; and
- It is not aware of any other relevant facts or developments worthy of disclosure occurring since 31 December 2017, except the following:
  - Approval, at the meeting of the Board of Directors of 26 February 2018, of the 2017 financial statements; and
  - Approval, at the General Meeting of 26 March 2018, of the 2017 financial statements.

Lisbon, 15 March 2018

The Board of Directors

BNI – Banco de Negócios Internacional (Europa), S.A.

A – SCOPE OF APPLICATION (Article 436)

A.1 – Name of institution and scope

BNI – Banco de Negócios Internacional (Europa), S.A. is a public limited company (sociedade anónima), with registered office in Portugal at Av. Eng. Duarte Pacheco, CC das Amoreiras Torre 1 - Piso 7 1070-101 Lisboa, incorporated by public deed of 2 June 2009. The Bank is the entity resulting from the change of name and corporate objects of the company BIT – TITANIUM, Consultoria de Banca e Seguros, S.A., and was transformed into a bank by public deed of 9 April 2012. When initially incorporated, the Company's main business consisted of (i) provision of strategic and business consultancy services for the banking and insurance sector, (ii) provision of accounting services, (iii) business consultancy and management, (iv) technical consultancy support for the creation, development, expansion and modernisation of financial and non-financial companies and (v) promotional, marketing and prospecting activities in financial markets, the Company also being able to take part in incorporating or acquiring holdings in companies with corporate objects different from those indicated above, in companies governed by special laws and in complementary company groupings.

At this time, the Bank's corporate objects are limited to the banking business, including all supplementary, related and similar transactions compatible with this business and permitted by law. The Bank entered into the banking business on 16 July 2014.

As a result, the financial year of 2014 was given over essentially to work on preparing and adapting its organisational and functional structure to start up its new business, in particular by making changes to its governance structure, expanding its personnel and improving the level of qualifications, internal organisation of processes and procedures, testing of business support IT systems and start-up of commercial activities to attract and develop business.

In 2015, in addition to pressing ahead with the work initiated in 2014, the Bank stepped up its commercial activities, seeking to expand its customer and business base, in particular by exploiting the combined Portugal/Angola commercial platform. However, the sharp drop in oil prices that year forced Angola into a situation where it had to impose currency trading restrictions, and this placed constraints on the business of Banco BNI Europa, causing it to alter its business strategy which it then centred on innovative products/services in online/digital markets, as well as in new markets and geographical regions.

Over the course of 2017, the Bank followed up the new business strategy and consequently achieved growth in deposits from resident and non-resident customers, and reduced its dependence on funding from its shareholder Banco de Negócios Internacional, S.A. (referred to below as "Banco BNI"), an Angola-based credit institution. With access to these funds, new revenue sources were introduced, such as the creation of the Bank's own diversified trading book, acquisition of financial instruments representing loans to customers and creation of new business areas with its own distinctive products in the Portuguese market.

2017 was Banco BNI Europa's third full year of operation, and the year in which it consolidated its business and the strategy designed in 2015. This was a very positive year, in which the Bank turned around its results in relation to previous years and recorded a profit for the first time. As well as achieving a net profit, the Bank's achievements in 2017 included launching new customer lending products, such as Puzzle and Cereja, with features that make them distinctive in the Portuguese market.

This report is drawn up on an individual basis.

The Bank has no subsidiaries or affiliates and is not part of any financial conglomerate in Portugal.

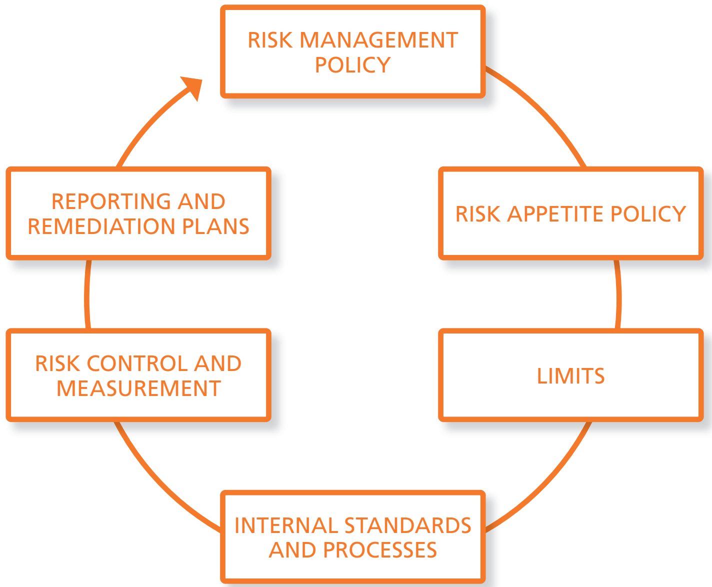
At 31 December 2017, it had share capital of €34,250,000, identical to that recorded at year-end 2016. The Bank's share capital is majority owned by Banco BNI, with a total of 6,369,700 shares corresponding to 92.988%. The remaining capital is held by José Jaime Agostinho de Sousa Freitas and Elizabeth da Graça Isidoro, each with 240,000 shares and 3.504% of the capital and Nuno Fernando Teixeira Ferreira da Silva with 300 shares, representing 0.004%.

B – RISK MANAGEMENT AIMS AND POLICIES (Article 435)

B1. Risk management strategies and processes

The Board of Directors of Banco BNI Europa is responsible for approving, implementing and periodically reviewing the strategy, policies and limits that underpin and characterise the Bank's risk management and control system, ensuring that it is appropriate to the nature, scale and complexity of its activities, and properly understood by the whole organisation.

Risk management and control at Banco BNI Europa is characterised by a series of activities designed to assess accurately the Bank's business risks and to adjust its strategy, processes and technical and human resources so as to ensure that losses are minimised, the risk-return trade-off is optimised and capital is appropriately allocated. This management function is entrusted to the Risk and Internal Control Department ("DICR") which, in the exercise of its responsibilities, proposes to adopt the Risk Management framework, which is approved by the senior management of Banco BNI Europa. The structure of this framework incorporates the following components:



Below we provide a summary of how the Bank understands each of the components within the Risk Management framework:

- **Risk Management Policy:** Defines the main principles of Risk Management.
- **Risk Appetite Policy:** Defines the Bank's intended positioning, with reference to each of the types of risk to which it is subject.
- **Limits:** Closely connected to the Risk Appetite Policy, the limits define the intervals which are proposed and which reflect the positioning the Bank intends to adopt.
- **Internal Standards and Processes:** Structure of internal documents that support the application of limits to the Bank's activities, both in terms of policies, guidelines and rules, and in terms of processes.
- **Risk control and measurement:** Procedures implemented at the Bank that make it possible to control risks through methods for measuring them.

- **Reporting and Remediation Plans:** Set of reports that disclose the results obtain from risk control and measurement, which may include remediation plans for resolving deviations from the limits established.

This framework must be structured in strict alignment with the Bank's business strategy and in collaboration with the competent bodies, which design and review specific processes and procedures for the correct application of approved risk strategy/policies.

B2. Structure and organisation of the risk management function

As stated above, the DCIR represents Banco BNI Europa's risk management function, and is in charge of identifying, evaluating, monitoring, controlling and reporting the various types of risks relevant to the business to obtain a well-founded understanding of their nature and magnitude. This department reports directly to the directors, and operates independently from the areas that assume risks. Its scope includes proactive involvement in proposing and managing limits and decisions significantly changing the Bank's risk profile. The department is given full access to all activities, documents, information and controls considered relevant to the performance of its duties. Despite this department's specific powers and responsibilities, risk management is part of the responsibilities of each sector in the Bank, and is reflected in a culture of control, knowledge of risks and the actual management model.

The Bank's organizational structure also includes a number of committees which serve as regular forums for presenting and debating issues with particular impact on the Bank's business, and for reporting of the various risks to which the Bank is subject. Those committees include the Risk Committee, the Capital Planning & Allocation Committee, the Asset & Liability Management Committee (ALCO), the Internal Control Committee and the Compliance Committee. These committees are regulated by the Executive Board, whose members also sit on them, alongside managers from the sectors involved.

As of the reporting date, the Risk, Internal Control, Compliance and ALCO Committees have all started their activities. In addition to the committees mentioned above, Banco BNI Europa also has Security, New Products and Services and Lending committees, which meet as and when the need arises.

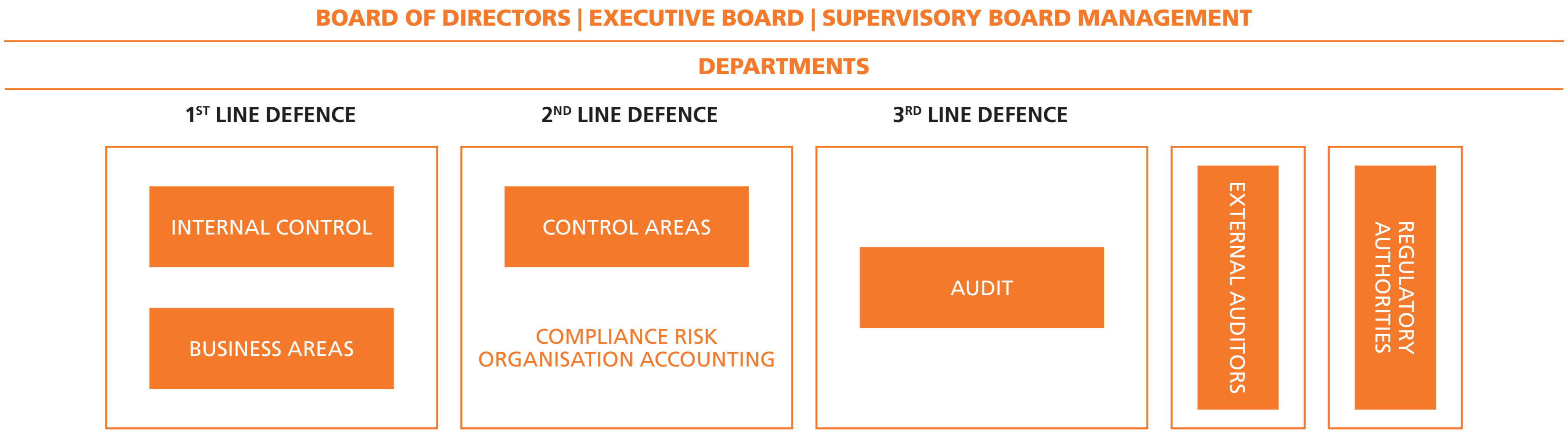
There is also a Monitoring and Control Committee, which is active in monitoring the Bank's business and risks, in particular the findings produced by the Internal Audit function, responsibility for which is assigned to the non-executive Director and a member of the Supervisory Board.

In terms of the roles taken by different sectors in the Bank, risk management is conducted along three lines of defence within the organisational structure:

1st line of defence: Business Areas – these have an obligation of prudent management and are required to manage the risk of their operations in an appropriate manner, in compliance with the limits and rules established in the internal policies and standards described above;

2nd line of defence: Support and Control Functions – these are the bodies responsible for back office activities that involve controlling risk and the quality of data in the information systems, monitoring overall risk and measuring performance;

3rd line of defence: Internal Audit – this is the area responsible for independent audits, monitoring and testing compliance with risk policies and procedures, ensuring regular assessment of the risk management system. Considering its current state of development, in certain respects, Banco BNI Europa backs up this line of defence through recourse to External Auditors (in processes where review by external auditors is not required by the articles of association or regulations).



Approaches adopted to risk management

2017 was the third full year of banking operations. The information set out above is intended to explain the approach and methodologies defined by the Bank for managing the different types of risk to which it is subject.

Credit Risk

Credit risk stems from all of the transactions resulting in actual or potential rights over a given counterparty. Generally speaking, this is the most common risk for commercial banks, and involves the likelihood of negative impacts to the results or to capital due to a counterparty's inability to meet its financial commitments to the institution, including potential restrictions to the transfer of payments from abroad. Credit risk exists, mainly, on credit exposures (including securitised), credit facilities, guarantees and derivatives.

The purpose of credit risk management is to maximise the income of a Financial Institution per risk unit accepted, keeping exposure to this risk at acceptable levels, in view of the business development aims and in keeping at all times with the regulatory requirements to which the institution is subject.

The credit risk management strategy and policy for the Customer Loans Portfolio are proposed by the DCIR and approved by the Board of Directors, on the basis of a proposal from the Executive Board.

The credit risk management strategy and policy for the Trading Book are proposed by the Markets and Trading Department (DMI), with a recommendation from the DCIR, and approved by the Board of Directors, on the basis of a proposal from the Executive Board.

The Credit Risk Strategy consists of:

- Creating an appropriate credit risk management environment;
- Ensuring adequate controls over credit risk management;
- Operating through clear credit granting or risk acceptance processes;
- Creating and maintaining an appropriate system of credit risk monitoring;
- Recovering overdue credit effectively and swiftly; and
- Ensuring that operations comply with Portuguese law and regulations issued by Banco de Portugal.

In view of the recent start to its lending activity, the Bank has still not reached a position where it can construct internal scoring and/or rating models, for either private or business customers, in view of the lack of historical data allowing it to do this internally. For this reason, the Bank uses models constructed on the basis of historical data provided by Partners which support it in acquiring credit business, and these are subject to an initial due diligence exercise, involving all control areas, as well as monitoring to assess the quality of decisions taken on the basis of the performance of the portfolios generated.

Even so, especially for credit operations that the Bank initiates directly with its own customers or new applicants, credit operations are analysed on the basis of all the information needed to ensure that the decision taken is supported, whenever possible, by external ratings issued by a recognised external credit assessment institution (ECAI).

The loans portfolio is monitored systematically by the DCIR, by monitoring the financial capacity of customers to service their debt, their deposits with the Bank and by checking that their obligations are promptly discharged, with regular reporting (at least monthly) to the management body.

Counterparty Risk

This risk is normally associated with the probability of default by the counterparties involved in transactions that involve credit risk, in derivatives contracts or other financial instruments.

The counterparty risk management strategy and policy are proposed by the DMI, reviewed by the DCIR and approved by the Board of Directors, on the basis of a proposal from the Executive Board. The Counterparty Risk Strategy consists of diversifying counterparties to a reasonable extent and a degree of hedging and protection for market risk variables, such as interest, exchange rate and banking portfolio rates, in line with the policies underlying these risks.

In terms of counterparty risk management policy, bearing in mind that this type of risk derives, above all, from operations carried out in treasury activity, the Bank has based this policy on the following:

- Adequate scrutiny of Treasury counterparties and adequate dispersal, within the limits set for each counterparty or group of counterparties;
- Obtaining internal risk reports on the counterparty in question and the technical characteristics of the intended transactions, prior to taking decisions;
- Compliance with the internal limits approved by the Board of Directors, in particular the internal limit for financial counterparties, corresponding to 75% of available own funds or 25% of own funds, if the first benchmark is lower;
- Counterparties based in offshore jurisdictions are not accepted;
- Regular and periodic review of limits, and also in response to significant changes in market variables, and always with the prior involvement of the DCIR and DMI; and
- Use of credit risk hedges, or collateral in the form of deposits.

Market Risk

Market risk is characterised by the likelihood of negative impacts on the results or on capital due to unfavourable changes in the market price of trading portfolio instruments caused by changes in stock prices, the price of merchandise, interest rates or exchange rates. This risk is primarily associated with short-term positions in debt and capital instruments, currencies, merchandise and derivatives.

In accordance with its risk profile and its current business framework, the Bank considers that it should not expose itself to material market risk in its investment strategy . The following types of operations/exposures are therefore not accepted:

- Trading Book, insofar as investments in financial markets are maintained in order to generate Banking Income; and
- Trading Derivatives.

Accordingly, in its market risk and structural risk management function, the DMI may consider exposures to the following types of operations:

- Investment Portfolio;
- Derivatives to hedge Balance Sheet Interest Rate Risk; and
- Derivatives to hedge Exchange Rate Risk.

The financial market risk management policy is therefore focused above all on managing the structural Interest Rate risk, on Foreign Exchange Risk and assessment of the market variables and listed prices for its Own Portfolio.

For the purposes of valuing its own portfolio, the Bank monitors developments on a daily basis, quantifying risk by using the Value at Risk (VaR) methodology, using the historical simulation method for a time horizon of 2 years and a confidence interval of 99%. In addition, stress tests are also carried out, simulating the effect of several adverse scenarios, of differing magnitudes, on the portfolios referred to above.

Interest Rate Risk

Interest rate risk in the banking portfolio is characterised by the likelihood of negative impacts on the results or on capital due to unfavourable changes in interest rates, staggered maturities or dates for adjusting interest rates, the lack of a perfect correlation between interest rates received and accrued for various instruments, or the existence of embedded options in financial instruments on or off the balance sheet.

The negative impacts referred to result from the volatility of interest rates (lending and borrowing) in the market which, considering the different repricing periods for interest rate sensitive assets and liabilities will lead to the occurrence of gains and losses, reflected in the financial margin and in the market value of the respective assets and liabilities.

Excessive risk exposure, in this specific case to interest rate risk, could undermine a significant part of the future financial margin and the value of the Bank's Own Funds. This means that a process of interest rate risk management that keeps that risk at prudent levels is fundamental for maintaining the financial stability of Banco BNI Europa.

The interest rate risk management strategy and policy are proposed by the DMI, reviewed by the DCIR and approved by the Board of Directors, on the basis of a proposal from the Executive Board.

The Bank's strategy uses a balance sheet approach with a balanced mismatch between assets and liabilities and the most representative currencies, so that any assets sensitive to interest rate risk are offset against equivalent liabilities. In executing the strategy, the Bank seeks to:

- Establish limits on exposures to adverse variations in interest rates, including limits on its Financial Margin and on the value of its Own Funds;
- Monitor the banking portfolio daily; and
- Give priority to maturities and interest rate types (fixed or variable, in the latter case pegged to similar indexes) when investing funds, so as to minimise balance sheet mismatches;

The Bank sets and monitors the limits for its interest rate risk exposure by issuing recommendations and taking corrective action whenever deviations from the limits established occur.

Interest rate risk is monitored regularly on the basis of repricing periods for assets and liabilities; stress tests are carried out in order to assess the Bank's ability to absorb adverse variations in the rates to which it is exposed. These analyses are carried out in accordance with the methodologies recommended by the supervisory authority, considering standard positive or negative shocks of 200 base points, and also using other magnitudes defined internally, in line with the characteristics of exposures, assessing their impact on the financial margin and net worth.

Liquidity Risk

Liquidity risk arises from the Bank's potential inability to finance its assets or meet its liabilities on their due dates, potential difficulties in settling portfolio positions and from the lack of access to funding on market terms (spreads). Liquidity risk is therefore defined as the insufficiency of short term assets to meet liabilities with the same maturity and unexpected outflows of funds, factors which, in an extreme situation of mass withdrawals by customers and constraints on access to other sources of funding, might hinder the ability of Banco BNI Europa to fund itself at an acceptable cost.

Illiquidity or the occurrence of a liquidity shortfall tends to occur as a result of mismatches between the maturities of assets and liabilities. Prevention of illiquidity therefore entails not only diversifying sources of funding, but also structuring the maturity of assets, ensuring that highly liquid assets make up a given proportion of total assets.

The liquidity risk management strategy and policy are proposed by the DMI in coordination with the DCIR and approved by the Board of Directors, on the basis of a proposal from the Executive Board.

In accordance with the provisions of the General Framework for Credit Institutions and Financial Companies (Article 94), these institutions "must invest the funds at their disposal so as to ensure adequate levels of liquidity at all times". In keeping with this, Banco BNI Europa invests its surplus resources, as a matter of preference, in assets with ratings compatible with a conservative liquidity management stance, in accordance with the risk appetite policy and limits established.

The Liquidity Risk Strategy consists of diversifying the different sources of funding and controlling the respective spreads, seeking to ensure that cash surpluses are invested in the best and most efficient way at all times, as well as ensuring that highly liquid assets allow it to maintain financial stability and meet its commitments in the event of extraordinary market occurrences.

The Liquidity Risk Policy consists of maintaining a prudent level of exposure to liquidity risk, in the short, medium and long term, achieved by appropriate monitoring that allows it to identify any negative impacts and through control of liquidity ratios, from a prudential point of view, calculated using the rules established by Banco de Portugal.

In addition, the Bank has a Liquidity Contingency Plan, providing a series of alternative means of funding, from a diverse range of sources. This Plan is proposed and reviewed by the DMI, in coordination with the DCIR, and is approved by the Board of Directors on the basis of a proposal from the Executive Board.

Foreign Exchange Risk

Foreign exchange risk involves the likelihood of negative impacts on the results or on capital due to unfavourable changes in exchange rates, caused by changes to the prices of instruments with open positions in foreign currency, or due to a change in the institution's competitive position because of major fluctuations in exchange rates.

The negative impacts of short term exchange rate fluctuations (transaction risk) normally arise from trading activity and acceptance of exposures in foreign currency; these are assessed in connection with market risk.

The foreign exchange risk management strategy and policy are proposed by the DMI in coordination with the DCIR and approved by the Board of Directors, on the basis of a proposal from the Executive Board.

The foreign exchange risk management strategy consists of ensuring at all times that there are no open positions and that exposures are duly hedged. In the Bank's current business model, the foreign exchange risk derives essential from currency conversion risk, as it has no subsidiaries operating abroad and no capital holdings in currencies other than the euro, meaning that the economic foreign exchange risk is not relevant.

Even so, in connection with its foreign exchange risk management policy, the Bank sets out to establish limits to exposures in currencies other than the Euro, for assets and liabilities, ensures that all operations are carried out in the currencies accepted by the Bank and determines the risk resulting from variation in the book value of its banking portfolio exposures, arranging for the necessary exchange rate hedges.

Operational and Information Systems Risk

Operational risk refers to the probability that earnings or equity will be negatively impacted by failures in the analysis, processing or settlement of operations, by internal or external fraud, that activities will be affected by the use of resources on an outsourcing basis, that human resources will be insufficient or inadequate or that infrastructures will not be operational.

Controlling operational risk consists of facilitating the identification, assessment, follow-up, reduction and quantification of operational risks, and quantitative and qualitative tools of different kinds should be used for this purpose.

Information systems risk is the probability that earnings or capital will be negatively impacted as a result of the failure of information systems to adapt to new needs or their inability to prevent unauthorised access, to ensure the integrity of data or to ensure business continuity in the event of failures. This risk also derives from the pursuit of an inappropriate or inadequate strategy in this area.

The Basel Accord and, more recently, EU Regulation No. 575/2013 define seven major types of Operational Risk events (level one), establishing the structure needed for each of the Bank's units to report the following to the supervisory authorities:

- Internal fraud;
- External fraud;
- Human resources and workplace safety policies;
- Customer, product and business practices;
- Damage to physical assets;
- Business interruptions and system failures; and
- Execution, delivery and management of processes.

Operational and information systems risk strategy and policy are proposed by the DCIR, in close collaboration with the Organisational Department (DOR) and the Information Technology Department (DTI), and are then approved by the Board of Directors on the basis of a proposal from the Executive Board.

Operational risk management strategy is designed to ensure that periodic assessments are conducted of the Bank's main activities in order to identify the new risks entailed by processes and products and to assess the effectiveness of the existing control procedures. On the basis of periodic assessments, action plans are drawn up to mitigate the risks identified, in response to the need to implement controls or review and improve existing controls.

Operational risk management policy is governed by the guiding principles that all employees are involved in operational risk management and should therefore help to identify operational risk events, in order to discover weak points and operational and information systems risk hotspots, so that they can be prevented or mitigated more easily and promptly.

At the same time, formal procedures and controls for detection and prevention are in place for all the Bank's activities, ensuring that tasks are performed effectively, that the integrity of information is maintained and that regulatory requirements are complied with.

In addition, the Bank keeps its Contingency and Business Continuity Plans up to date, addressing issues relating to human, technological and logistical resources, so that the essential processes for the Bank's business activities can be safeguarded, within an appropriate timeframe, in the event of extreme situations.

Strategy and Business Risk

This is the probability of the occurrence of negative impacts on earnings or capital from misjudged strategy decisions, deficient implementation of decisions or the inability to respond to changes in the environment, and also changes in the Bank's business environment. This risk may also be the result of an adverse variation in revenues or costs in relation to the budget.

In order to manage business and strategy risk, the Board of Directors has established and approved a medium- and long-term business plan, assessing the availability of capital, the business model, the relevant lending and deposit products, the target for returns, and also the human, material and technological resources that will allow it to achieve its business aims.

Management of this risk is based on a periodic review of the business plan, in particular with regard to the detailed budget, and takes into account the risk appetite policy, prudential limits, the resources available and the business environment for the pursuit of these aims.

Concentration Risk

Concentration risk arises from the possibility that a given exposure or group of exposures may give rise to significant losses ultimately compromising the Bank's solvency. This risk may be linked to credit, liquidity, market or operational risk. It may arise from inadequate diversification policies and practices.

The concentration risk management strategy is based on application of a high level of diversification in the choices made, in investing the funds at the Bank's disposal, in its lending business, and in the distribution of mitigation measures used for risks with a structural impact, such as liquidity, interest rate and foreign exchange risks, accompanied by alternatives for sources of funding.

All these mechanisms provide a high level of diversification and incorporate limits which are approved by the Board of Directors, on the basis of proposals assessed by the Executive Board, constructed and suggested in coordination with the risk and investment sectors.

Compliance and Reputational Risk

Compliance risk consists of the probability of the occurrence of negative impacts on earnings of capital as a result of breach or non-compliance with laws, regulations, contracts, codes of conduct, instituted practices or ethical principles. It may result in the application of legal or regulatory penalties, limitations on business opportunities, curtailment of the potential for expansion or the impossibility of enforcing contractual obligations.

Reputational risk is a risk that occurs due to a negative perception of the institution's public image, with or without good reason, on the part of customers, suppliers, financial analysts, employees, investors, the press and media, or public opinion in general.

The compliance risk management strategy and policy are proposed by the Compliance Department and approved by the Board of Directors on the basis of a proposal from the Executive Board. The compliance risk strategy aims to ensure that processes and procedures are sound and supported by information systems that allow the Bank to ensure at all times that it complies with the rules and regulations applicable to its business, in order to ensure alignment with the established level of risk appetite.

In line with this aim, the Bank's compliance risk management policy sets out to ensure that all the Bank's employees act and execute the procedures involved in its business in accordance with the law and the regulations in force. To this end, the Bank's Compliance Department arranges internal and external training initiatives in Anti-Money Laundering (AML) and Anti-Terrorist Financing issues for its eligible employees, and adopts measures to detect these critical phenomena in its business, ensuring that the business carried on complies with the code of conduct, ethical principles and transparency in relations with customers.

B3. Scope and Nature of the Risk Management Information and Measurement Systems

Banco BNI Europa's information system is based on a core banking system consisting of three native applications, one for the management of banking business, products, services, prices, customers and third parties, another for trading operations on financial markets and a third which consists of accounting management software. This system has been consolidated by implementing new modules, as the business carried on by the Bank has grown in terms of complexity.

Management of information system risks is the responsibility of the DTI, working in coordination with the DCIR. The Bank has gradually implemented improvements to its information systems by automating routines which were previously carried out manually, in particular in order to ensure that information is systematically organised, for the purposes of preparing and reporting prudential information.

The Bank uses the services provided by Bloomberg to complete its internal reporting, in relation to the risks of investments held in its securities portfolio. Licenses have also been acquired to provide an appropriate tool to support developments in the field of data analytics, in particular with regard to developing internal rating models.

B4. Hedging Policies and Risk Reduction Factors

In relation to the risks associated with its securities portfolio, the Bank applies mitigation techniques represented by a series of limits that allow it to maintain the desired level of diversification, and to control its exposure to those risks, including credit risk. Although its lending business is still small, the Bank ensures in all cases that it obtains collateral, duly valued, accounted for and managed, as risk mitigation instruments.

B5. Strategies and processes for monitoring the sustained effectiveness of hedging operations and risk reduction factors

Albeit still only applied in practice to a modest extent in 2017, the Bank's internal policies on credit risk mitigation factors include obtaining guarantees and collateral that offer additional protection for lending operations.

The Bank seeks to adopt prudent and timely management measures in respect of the collateral received to secure lending operations, and is selective regarding its quality, regularly determining its value and state of conservation, whenever applicable, and adopts adequate accounting and monitoring practices.

B6. Information concerning the governance system

The information concerning the governance system required by Article 435(2) is disclosed in the management report, chapter "IX Corporate Governance".

C – CAPITAL ADEQUACY (Article 437)

C.1 – Qualitative Information

Summary of the terms and main Own Funds items and components

Banco BNI Europa's equity is determined in accordance with the applicable regulatory standards, in particular Directive 2013/36/ EU and Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRD IV/CRR).

The legislation provides for a transition period between the equity requirements determined in accordance with national legislation and those calculated in accordance with Community legislation, to phase out elements previously considered and to phase in new elements. The transition period will continue through to the end of 2017 for most elements, except for the deduction related to deferred taxes generated prior to 1 January 2014, for which the period extends through to the end of 2023.

Common Equity Tier 1 corresponds to the sum of the following items:

- Share Capital: €34,250,000;
- Profit/(Loss) Carried Forward: €-7,581,000;
- Net result for the year: €2,286,000;

In addition, deductions/exclusions are applicable in relation to intangible assets, deferred tax assets, deposits with rates above the threshold set by Banco de Portugal and unrealised gains/losses on assets measured at fair value. At 31 December 2017, these items totalled €5,651,000 and broke down as follows:

- Intangible assets: €4,513,000, deducted in full. Although the transitional rules envisage a deduction, in 2017, due to the fact that the Bank has no Additional Tier 1 items, the deduction is made in full from CET1.
- Deferred tax assets relating to tax losses: €1,336,000, of which €111,000 generated prior to 1 January 2014 and €1,628,000 after that date. The respective deductions were therefore 30% (€34,000) for assets prior to 2014 inclusive and 80% for assets after 2014 (€1,302,000);
- Unrealised losses/gains on assets measured at fair value: €-198,000, from which 80% is deducted, €158,000;

As a result, after application of the respective deductions, the value of Common Equity Tier 1 stood at €23,303,000, at 31 December 2017.

In view of the absence of any items in the category of Additional Tier 1, Tier 1 stood at the same value as Common Equity Tier 1, i.e. €23,303,000.

Lastly, due to the fact that Banco BNI Europa did not have any Tier 2 elements at the reference date, own funds also stood at €23,303,000, at the reference date.

For the purposes of internal capital, own funds were considered in full, deriving from their entirety from Common Equity Tier 1.

C.2 – Description of the main characteristics of capital instruments

Paid-up capital

At 31 December 2017 and 2016, the share capital was €34,250,000, represented by 6,850,000 shares with a nominal value of €5, fully subscribed and paid up in cash.

Reserves and retained earnings

At 31 December 2017, the account for Retained Earnings stood at €-7,581,000. This amount is explained by the negative results approved in prior periods, totalling €-11,650,000, less coverage of losses by Banco de Negócios Internacional S.A., in 2012 and 2014, totalling €6,058,000.

D – CAPITAL REQUIREMENTS (Article 438)

D.1. Summary of Internal Capital Self-Assessment Method

Risks are assessed taking into account the quantitative exposure that Banco BNI Europa had at the reference date, together with the qualitative assessment of controls implemented to mitigate exposures. The materiality level of each risk was assigned on the basis of the two factors described: (1) the proportional share in total exposure represented by a given risk on Banco BNI Europa's balance sheet and (2) the controls implemented to monitor and mitigate the risk exposure in question.

The method used for the annual internal capital assessment exercise therefore took into account growth in capital requirements under Pillar 1, both for credit risk and for operational risks, in order to incorporate the 2018 Budget. The rationale for this methodology takes into account that growth in budgeted business will only be possible by complying with the minimum regulatory ratios, as the Pillar 1 capital requirements are a basic element for that.

In order to support the 2018 Budget, despite the fact that Banco BNI Europa is at an initial phase of its business, the macroeconomic scenario that the Bank took as its basis entailed the following assumptions:

- A falling unemployment rate, which is the main macroeconomic driver for responsible management of a consumer credit portfolio, a product launched at the end of the first half of 2017;
- Economic growth in the country, albeit modest, able to lend security to the strategy of recourse to acquisition of public debt securities, and Portuguese treasuries in particular, while business lines focused on lending develop; and
- Demographic characteristics and the capacity to generate savings in Portugal, which provides a positive context for launching products geared to the older segment of the population.

Additional capital requirements have also been calculated for interest rate risk and concentration risk. For the former, a total shock of 100 base points in bond yields was considered. The rationale for this method relates to the impact that unrealised losses on securities measured at fair value have directly on Common Equity Tier 1. Accordingly, consideration of the capital amount resulting from this shock enables Banco BNI Europa to anticipate a serious shock in the bond market.

In relation to concentration risk, in order to calculate additional capital requirements, the values of the individual and sector concentration index were considered, which in turn enabled the Bank to arrive at the coefficient, which is applied to equity requirements under Pillar 1, for credit risk, at the reference date, referring to exposures used in calculating those indexes, penalising possible over-concentration.

D.2 – Quantitative Information

Capital Adequacy - Equity

CAPITAL ADEQUACY - PART 1	2017	2016
1. Total equity for solvency purposes (=Σ(1.1 a 1.5))	**23,303,417**	**20,829,660**
1.1. Original own funds (=Σ(1.1.1 to 1.1.5))	**23,303,417**	**20,829,660**
1.1.1 Eligible Capital (=Σ(1.1.1.1 to 1.1.1.4))	34,250,000	34,250,000
1.1.1.1. Paid-up capital	34,250,000	34,250,000
1.1.1.2. (-) Own Shares	-	-
1.1.1.3. Issue Premiums	-	-
1.1.1.4. Other quasi-equity instruments	-	-
1.1.2 Reserves and eligible Capital (=Σ(1.1.2.1 to 1.1.2.5))	(4,650,415)	(8,459,722)
1.1.2.1. Reserves	(6,936,601)	(5,592,328)
1.1.2.2. Eligible minority interests	-	-
1.1.2.3. Profit or loss of last period and provisional profit or loss of current period	2,286,186	(1,989,241)
1.1.2.4. (-) Net profits from capitalisation of future revenues from securitised assets	-	-
1.1.2.5. Revaluation differences eligible for original own funds	-	(878,153)
1.1.3 Fund for general banking risks	-	-
1.1.4 Other items eligible for original own funds (1.1.4.1+1.1.4.2)	-	-
1.1.4.1. Impact on transition to IAS/AAS (negative impact)	-	-
1.1.4.2. Other elements eligible for original own funds	-	-
1.1.5 (-) Other elements deductible from original own funds (=Σ(1.1.5.1 to 1.1.5.3))	(6,296,168)	(4,960,618)
1.1.5.1. (-) Intangible fixed assets/Intangible assets	(4,513,145)	(3,792,526)
1.1.5.2. (-) Surplus in relation to the eligibility limit of instruments included in original own funds	-	-
1.1.5.3. (-) Other elements deductible from original own funds	(1,783,023)	(1,168,093)
1.2. Ancillary own funds (1.2.1 to 1.2.3)	**-**	**-**
1.2.1. Ancillary own funds - Upper Tier 2	-	-
1.2.2. Ancillary own funds - Lower Tier 2	-	-
1.2.3. (-) Deductions from ancillary own funds	-	-
1.3. Deductions from original and ancillary Own Funds	**-**	**-**
1.3a. Of which: (-) from original own funds	-	-
1.3b. Of which: (-) from ancillary own funds	-	-
1.4. Deductions from total own funds	**-**	**-**
1.5. Total ancillary own funds available for hedging market risk	**-**	**-**
1.6 Pro memoria		
1.6.1. (+) Surplus / (-) Shortfall in provisions in risk-weighted exposures through the Internal Rating method	-	-
1.6.1.1. Value of provision of Internal Rating method	-	-
1.6.1.2. (-) Expected losses determined in Internal Ratings method	-	-
1.6.2. Nominal value of subordinated loans recognised as positive element in own funds	-	-
1.6.3. Minimum capital requirement	17,500,000	17,500,000
1.6.4. Reference own funds for purpose of limits relating to major risks	23,303,417	20,829,660

Capital Adequacy - Capital Requirements

CAPITAL ADEQUACY - PART 2	2017	2016
2. Capital requirements (=Σ(2.1 to 2.6))	**14,394,100**	**10,468,668**
2.1. For credit risk, counterparty credit risk, risk of reduction in value of receivables and delivery risk (2.1.1 + 2.1.2)	**14,147,176**	**10,378,090**
2.1.1. Standardised Approach (2.1.1.1 + 2.1.1.2)	14,147,176	10,378,090
2.1.1.1. Standardised Approach risk Classes, excluding securitisation exposures	-	-
2.1.1.1.1. Receivables or conditional receivables from central governments or central banks	608,117	653,520
2.1.1.1.2. Receivables or conditional receivables from regional governments or local authorities	65,676	80,362
2.1.1.1.3. Receivables or conditional receivables from administrative authorities or non-profit undertakings	35,897	80,018
2.1.1.1.4. Receivables or conditional receivables from multilateral development banks	-	-
2.1.1.1.5. Receivables or conditional receivables from international organisations	-	-
2.1.1.1.6. Receivables or conditional receivables from institutions	956,512	1,199,803
2.1.1.1.7. Receivables or conditional receivables from companies	3,184,696	5,585,824
2.1.1.1.8. Receivables or conditional receivables from retail portfolio	1,350,719	118,213
2.1.1.1.9. Receivables or conditional receivables secured by property	-	-
2.1.1.1.10. Overdue items	5,882	18,100
2.1.1.1.11. Items belonging to the high risk regulatory categories	-	-
2.1.1.1.12. Receivables in the form of mortgage obligations or public sector obligations	-	-
2.1.1.1.13. Receivables in the form of collective investment undertakings (CIU)	7,661,521	2,479,767
2.1.1.1.14. Other Items	278,156	162,483
2.1.1.2. Securitisation exposures in standardised approach	-	-
2.1.2. Internal Rating Method (=Σ(2.1.2.1 to 2.1.2.5))		
2.1.2.1. When own LGD estimates and/or conversion factors are not used		
2.1.2.1.1. Receivables or conditional receivables from central governments or central banks		
2.1.2.1.2. Receivables or conditional receivables from institutions		
2.1.2.1.3. Receivables or conditional receivables from companies		
2.1.2.2. When own LGD estimates and/or conversion factors are used		
2.1.2.2.1. Receivables or conditional receivables from central governments or central banks		
2.1.2.2.2. Receivables or conditional receivables from institutions		
2.1.2.2.3. Receivables or conditional receivables from companies		
2.1.2.2.4. Receivables or conditional receivables from retail portfolio		
2.1.2.3. Receivables relating to shares		
2.1.2.4. Securitisation exposures		
2.1.2.5. Assets other than credit obligations		
2.2. Settlement risk	**-**	**-**
2.3. Capital requirements for position risks, currency risks and risks relating to goods (2.3.1 + 2.3.2)		
2.3.1. Standardised Approach (2.3.1.1 to 2.3.1.4)		
2.3.1.1. Debt instruments		
2.3.1.2. Equity securities		
2.3.1.3. Foreign exchange risks		
2.3.1.4. Risks relating to goods		
2.3.2. Internal Models Method		
2.4. Capital requirements for operational risk (=Σ(2.4.1 to 2.4.3))	**246,924**	**90,578**
2.4.1. Basic Indicator Method	246,924	90,578
2.4.2. Standardised Approach		
2.4.3. Advanced Measurement Methods		
2.5. Capital requirements - Fixed overheads	**-**	**-**
2.6. Transitional capital requirements and other capital requirements	**-**	**-**

Capital Adequacy

figures in euros

CAPITAL ADEQUACY - PART 3	2017	2016
Own Funds Surplus (+) / Shortfall (-)	8,909,317	10,360,992
Solvency Ratio (%)	12.95%	15.92%
Capital adequacy at financial conglomerate level	-	-

E – COUNTERPARTY CREDIT RISK (Article 439)

E.1 – Qualitative Information

Counterparty Credit Risk or CCR is understood as the risk of default by a given counterparty on an operation prior to final settlement of the respective financial flows.

At 31 December 2017, the Bank had recorded no exposures on derivative instruments, repurchase agreements, securities or commodities lending or borrowing transactions, margin lending transactions or long settlement transactions, but its internal methodology lays down that, if they exist, they are to be valued at market value (mark-to-market method), in accordance with Art. 274 of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

F – CAPITAL BUFFERS (Article 440)

The countercyclical capital reserve is an additional reserve consisting of Tier 1 capital (CET1), for protecting the banking sector in periods where cyclical systemic risk is increasing, due to excessive credit growth. When risks are materialising or diminishing, this additional equity reserve ensures that the banking sector is better able to absorb losses and remain solvent, without interrupting its lending to the real economy.

The General Framework for Credit Institutions and Financial Companies (Title VII-A – section III) lays down the legal basis for implementing capital buffers in Portugal. Banco de Portugal is responsible in this regard for establishing and announcing, quarterly, the percentage of the countercyclical reserve applicable to all credit institutions and investment firms with credit risk exposures in the national non-financial private sector. The percentage will be set at between 0% and 2.5% (of the total value of exposures), except when exceptional circumstances justify setting a higher percentage.

The reserve percentage for each institution, i.e. the “specific countercyclical reserve percentage for the institution”, is a weighted average of the percentages of the countercyclical reserve applicable in the countries where that institution’s credit exposures are located. Countercyclical reserve percentages up to 2.5% must be mutually and automatically reciprocated, if defined by other EU/EEA Member States. If set by the authorities of third countries, reserve percentages of up to 2.5% must be recognised, provided the framework for the setting of the countercyclical reserve in the third countries is deemed equivalent by Banco de Portugal. If the countercyclical reserve percentages set by other EU/EEA Member States or third countries are greater than 2.5%, Banco de Portugal will decide on recognition on a case-by-case basis.

As announced by Banco de Portugal on 21 December 2017, in the light of the decision taken by its Board of Directors, the countercyclical reserve percentage applicable to credit exposures in the national non-financial private sector continues to stand at 0% of total exposures, as from 1 January 2017 (https://www.bportugal.pt/page/reserva-contraciclica).

Due to exposure to positions in Norway (countercyclical reserve of 1.5%), the countercyclical reserve percentage applicable to Banco BNI Europa is 0.0479%.

G – INDICATORS OF GLOBAL SYSTEMIC IMPORTANCE (Article 441)

Not applicable insofar as the Bank is not an institution identified as an Global Systemically Important Institution (G-SII) pursuant to Article131 of Directive 2013/36/EU.

H – CREDIT RISK (Article 442)

H.1– Qualitative Information

General Concepts and Definitions

Loans to customers include loans originated by the Bank, where the intention is not to sell the loans in the short term. These loans are recorded at the date on which the loan amount is made available to the customer, at its nominal value. At the reference date, this practice complies with the requirements of Notice No. 1/2005 of Banco de Portugal. Transaction costs are added, and it is subsequently valued at amortised cost, using the effective interest method, less impairment losses.

Loans to customers are recognised on the balance sheet unless: (i) the Bank's contractual rights related to their cash flows have expired, (ii) the Bank has substantially transferred all of the risks and benefits associated with their ownership, or (iii) the control of the assets has been transferred, even when the Bank retains part, but not substantially all, of the risks and benefits associated with their ownership.

The existence of objective evidence of impairment in the loan portfolio must be evaluated on a regular basis. Any impairment losses found are recorded against the results, then subsequently reversed if the amount of the estimated loss decreases at a later time. After initial recognition, a loan or portfolio of customer loans with similar risk characteristics may be classified with impairment when there exists objective evidence of impairment resulting from one or more events impacting the estimated value of the future cash flows of the loan or customer loan portfolio, whose measurement may be reasonably estimated.

Under IAS 39, a customer loan which is individually assessed as being impaired must not be included in a loans portfolio which is assessed collectively for impairment. A customer loan which is individually assessed as not being impaired should be included in a collective impairment assessment.

When collectively assessing impairment, loans are grouped together based on similar credit risk characteristics, as per the risk assessment defined by the Bank. Future cash flows for a loan portfolio whose impairment is assessed collectively are estimated based on contractual cash flows and historical experience with regard to losses. The methodology and assumptions used to estimate future cash flows are reviewed regularly by the Bank to monitor the difference between estimated and actual losses.

At the reference date, all loans granted by the Bank were analysed on the basis of the above assumptions. In particular, with regard to loans granted through offline channels, the Bank calculated impairment on an individual basis, given the small number of loans in question; this means it is not possible to set parameters calculated on the basis of historical data. In relation to loans which are acquired through Partnerships established by the Bank, internal rating models are used, constructed on the basis of historical data from the entity which originated the loans; these are subject to an initial assessment and subsequent follow-up, as part of a due diligence process that Banco BNI Europa carries out prior to establishing the contractual arrangements.

When the Bank considers that a given credit is irrecoverable and an impairment loss of 100% has been recorded, the credit is written off from assets.

In accounting terms, the Bank considers as:

Overdue Credit: operations or a part thereof which have not been settled by the debtor 30 days after the contractual due date, or after the date on which a demand for payment has been formally served on the debtor, irrespective of the associated guarantees or collateral.

Credit subject to Impairment: as defined by IAS 39, a financial asset is deemed impaired when there is evidence that one or more events have occurred, since initial recognition of the asset, with a negative impact on the estimate of cash flows receivable.

Credit in default: as defined in Instruction No. 16/2004 of Banco de Portugal, of 1 October, as amended by Instructions nos. 23/2011 and 23/2012, this is the sum of credit more than 90 days past due and doubtful debts reclassified as overdue credit for the purposes of provisions.

At the reference date, the Bank's accounts recorded €735,000 in overdue credit, and €447,000 in specific impairment for credit risk. Loans to customers (in on- and off-balance sheet accounts) stood at the reference date at €42,226,000 (8.25% of gross assets), and the impairment rate is therefore 1.06%.

At the reference date, the value of the available-for-sale assets portfolio stood at €355,457,000 (revaluation value), of which public debt accounted for 68.51%. This portfolio of financial assets represents 69.44% of the value of gross assets, and there is no associated provision for country risk.

H.2 – Quantitative Information

Exposures

EXPOSURE CLASSES	ORIGINAL EXPOSURE 2017	ORIGINAL EXPOSURE 2016	ORIGINAL EXPOSURE (MEAN OVER PERIOD) 2017	ORIGINAL EXPOSURE (MEAN OVER PERIOD) 2016
Central administrations or central banks	7,601,467	8,169,001	7,018,061	4,055,775
Regional administrations or local authorities	820,948	1,004,527	967,727	251,132
Public sector entities	448,706	1,000,229	467,511	250,057
Institutions	11,956,398	14,997,534	18,571,575	16,297,572
Corporate	39,808,701	69,822,804	46,269,214	64,013,567
Retail portfolio	16,883,993	1,477,661	17,548,908	946,321
Exposures secured by property	-	-	-	-
Overdue items	73,521	226,248	43,370	56,562
Shares	-	-	-	-
Exposures to collective investment undertakings (CIU)	95,769,015	30,997,092	83,609,561	7,749,273
Other Items	3,476,950	2,031,036	2,604,171	1,887,163
Total	**176,839,700**	**129,726,132**	**177,100,099**	**95,507,422**

Geographical Distribution of Exposures

EXPOSURE CLASSES	PORTUGAL 2017	PORTUGAL 2016	EUROPEAN UNION 2017	EUROPEAN UNION 2016	REST OF EUROPE 2017	REST OF EUROPE 2016	NORTH AMERICA 2017	NORTH AMERICA 2016	SOUTH AMERICA 2017	SOUTH AMERICA 2016	REST OF THE WORLD 2017	REST OF THE WORLD 2016
Central administrations or central banks	1.15%	0.83%	0.12%	0.19%	-	0.38%	0.32%	-	1.18%	4.89%	1.53%	-
Regional administrations or local authorities	0.46%	0.77%	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	0.25%	0.77%	-	-
Institutions	5.08%	6.26%	0.80%	1.13%	-	0.20%	0.76%	-	-	3.78%	0.12%	0.19%
Corporate	13.83%	15.24%	5.89%	32.67%	0.62%	0.07%	1.24%	0.41%	0.91%	4.24%	0.01%	1.18%
Retail portfolio	1.40%	1.14%	6.19%	-	-	-	-	-	-	-	1.96%	-
Overdue items	0.04%	-	0.00%	0.17%	-	-	-	-	-	-	-	-
Shares	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to collective investment undertakings (CIU)	2.36%	-	49.35%	21.24%	1.36%	0.35%	1.09%	2.33%	-	-	-	-
Other Items	1.96%	1.37%	-	-	-	0.20%	0.01%	-	-	-	-	-
Total (as % of original exposure)	**26.28%**	**25.61%**	**62.35%**	**55.40%**	**1.98%**	**1.20%**	**3.42%**	**2.74%**	**2.34%**	**13.68%**	**3.63%**	**1.37%**

Residual Maturity

EXPOSURE CLASSES	1 YEAR AND UNDER		1 - 5 YEARS		5 - 10 YEARS		MORE THAN 10 YEARS	
	2017	2016	2017	2016	2017	2016	2017	2016
Central administrations or central banks	0.64%	0.83%	1.62%	4.18%	2.05%	1.28%	0.02%	
Regional administrations or local authorities	-	-	0.46%	0.77%	-		-	
Public sector entities	-	-	0.25%	0.77%	-		-	
Institutions	5.89%	8.80%	0.12%	0.79%	0.76%	1.11%	-	0.85%
Corporate	9.14%	11.06%	8.14%	18.13%	5.21%	6.63%	-	18.00%
Retail portfolio	1.22%	1.11%	8.20%	0.03%	0.15%		-	
Exposures secured by property		-						
Overdue items	0.02%	0.17%	0.02%		-		-	
Exposures to collective investment undertakings (CIU)	0.06%	6.19%	17.87%	8.83%	-	6.87%	36.25%	2.03%
Other Items	1.49%	1.57%	0.42%		-		-	
Total (as % of original exposure)	**18.46%**	**29.73%**	**37.11%**	**33.50%**	**8.16%**	**15.89%**	**36.27%**	**20.88%**

H.3 – Credit Risk – Standardised Approach

H.3.1 – Qualitative Information

The methodology used by the Bank to determine its capital requirements is the Standardised Approach, as established in Regulation (EU) No. 575/2013 of the European Parliament and of the Council. Risk weights are therefore applied to all exposures, unless deducted from own funds. Application of these risk weights is based on the class of exposure and the respective credit quality.

For exposures to Central Governments and Central Banks and to Institutions and Corporate, Banco BNI Europa uses external ratings attributed by ECAIs recognised under Articles 135 and 136 of the said Regulations, and specific provisions apply for each class of risk.

H.3.2 – Quantitative Information

Credit Risk - Standardised Approach

figures in euros

	RISK WEIGHTS									
EXPOSURE CLASSES	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**OTHER WEIGHTS**	**TOTAL**
1. Original Exposure:										
Central administrations or central banks	267,909,883	-	1,081,501	-	7,445,744	-	2,537,054	-	450,096	279,424,278
Regional administrations or local authorities	-	-	4,104,738	-	-	-	-	-	-	4,104,738
Public sector entities	-	-	-	-	-	-	448,706	-	-	448,706
International organisations	208,260	-	-	-	-	-	-	-	-	208,260
Institutions	-	-	11,658,842	-	10,550,494	-	4,349,383	-	-	26,558,719
Corporate	17,266,416	-	417,939	-	1,910,916	1,103,092	37,689,111	168,817	-	58,556,290
Retail portfolio	126,211	-	-	-	176,668	17,770,558	3,467,740	-	-	21,541,178
Exposures secured by property	-	-	-	-	-	-	-	-	-	-
Overdue items	-	-	-	-	-	-	36,338	24,789	-	61,127
Other Items	6,100,880	1,066,340	-	-	-	-	2,992,733	251,722	-	10,411,675
Exposures to collective investment undertakings (CIU)	4,389,873	2,325,645	2,325,645	332,096	7,523,195	63,704,654	40,502,863	1,941,425	-	123,045,397
Total original exposures:	296,001,524	3,391,985	19,588,665	332,096	27,607,017	82,578,305	92,023,929	2,386,753	450,096	524,360,368
2. Risk position (to which weights are applied):										
Central administrations or central banks	267,909,883	-	1,081,501	-	7,445,744	-	2,537,054	-	450,096	279,424,278
Regional administrations or local authorities	-	-	4,104,738	-	-	-	-	-	-	4,104,738
Public sector entities	-	-	-	-	-	-	448,706	-	-	448,706
International organisations	208,260	-	-	-	-	-	-	-	-	208,260
Institutions	-	-	11,658,842	-	10,550,494	-	4,349,383	-	-	26,558,719
Corporate	17,266,416	-	417,939	-	1,910,916	1,103,092	37,689,111	168,817	-	58,556,290
Retail portfolio	126,211	-	-	-	176,668	17,770,558	3,467,740	-	-	21,541,178
Exposures secured by property	-	-	-	-	-	-	-	-	-	-
Overdue items	-	-	-	-	-	-	36,338	24,789	-	61,127
Other Items	6,100,880	1,066,340	-	-	-	-	2,992,733	251,722	-	10,411,675
Exposures to collective investment undertakings (CIU)	4,389,873	2,325,645	2,325,645	332,096	7,523,195	63,704,654	40,502,863	1,941,425	-	123,045,397
Total original exposures:	296,001,524	3,391,985	19,588,665	332,096	27,607,017	82,578,305	92,023,929	2,386,753	450,096	524,360,368
3. Total risk-weighted exposures (=Σ("2. X risk weights):	**-**	**339,199**	**3,917,733**	**116,233**	**13,803,508**	**61,933,729**	**92,023,929**	**3,580,129**	**1,125,240**	**176,839,700**

I – UNENCUMBERED ASSETS (Article 443)

The Bank does not have a policy of encumbering its assets, although it may do so on a case-by-case basis, when approved by the Board of Directors.

The following information is provided in accordance with Instruction No. 28/2014 of Banco de Portugal, of 23 December, and in compliance with the guidelines published by EBA on 27 June 2014, entitled "Guidelines on recognition of encumbered and unencumbered assets":

	ENCUMBERED ASSETS	
BANK'S ASSETS	CARRYING AMOUNT	FAIR VALUE
Equity instruments	-	-
Debt securities	138,927,910	138,927,910
Other assets	3,872,565	3,872,565
Total assets	**142,800,475**	**142,800,475**

Debt securities are pledged as collateral in connection with settlements as a member of Target II.

The other encumbered assets relate to three deposits, one of them given as a counter-guarantee to the guarantee received by Banco Millennium BCP, S.A., and the others pledged to secure performance of liabilities accepted by the Bank to Millennium BCP, S.A., associated with the means of payment service, and to VISA and MasterCard.

J – USE OF ECAIs (Article 444)

As stated above, for exposures to Central Governments and Central Banks and to Institutions and Corporate, Banco BNI Europa uses external ratings attributed by ECAIs recognised under Articles 135 and 136 of the said Regulations, and specific provisions apply for each class of risk.

K – EXPOSURE TO MARKET RISK (Article 445)

The concept of market risk reflects the potential loss which may be regarded on a given portfolio as a result of changes in interest and exchange rates, and/or the prices of the different financial instruments making up the portfolio. For the purpose of yields analysis and risk quantification and control, the trading book is characterised by positions held by the Bank with the aim of obtaining short term gains, through sale or revaluation.

L – OPERATIONAL RISK (Article 446)

L.1 – Qualitative Information

The Bank uses the Basic Indicator Approach to calculate own funds requirements for Operational risk. The funds to hedge against the Bank's Operational risk are estimated on the basis of the items making up adjusted Annual Banking Income, yielding the Relevant Indicator in each period, in accordance with Article 316 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council. The Relevant Indicator is therefore based on the net sum of the Bank's interest and net revenues on an annual basis, reported at the end of each financial period.

The own funds requirements for Operational Risk are obtained from the average annual positive Relevant Indicator for the past three years, weighted by a risk factor of 15%, in accordance with Article 315(1) of Regulation (EU) No. 575/2013, of the European Parliament and of the Council.

The Bank determines the relevant indicator in accordance with the following accounting items:

	ACCOUNTING ITEMS (RELEVANT INDICATOR)
(+)	Interest Income and Equivalent Income
(+)	Revenues from shares and other variable/fixed income securities
(+)	Commission Income
(+)	Other Operating Income
(-)	Interest Expenses and Equivalent Costs
(-)	Commission Expenses
(-) / (+)	Results of Financial Operations

L.2 – Quantitative Information

Operational Risk - Relevant Indicator

	RELEVANT INDICATOR		
ACTIVITIES	2015	2016	2017
Basic Indicator Method	659,844	607,915	3,670,727

M – EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK (Article 447)

Not applicable to Bank at reference date.

N – EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK (Article 448)

Exposure to interest rate risk of the banking portfolio is calculated for all assets, liabilities and off-balance sheet items not belonging to the trading book (which at the reference date the Bank did not have) and which are sensitive to interest rate variations.

For money market instruments and bonds, interest rate risk exposure is assessed on a daily basis, by measuring the modified duration of each individual component and on aggregate for each portfolio of financial instruments, and monitoring the corresponding bpv (basis point value) and evolution of the credit rating and spread of the issuers from the date of acquisition of the securities to the revaluation date of the portfolio.

In the case of bonds, the VaR (value at risk) is also calculated using the Historical Simulation approach, considering a time horizon of 2 years and a confidence interval of 99%. A comparison is made periodically between the VaR obtained using the Historical Simulation approach and the VaR from alternative approaches such as the Parametric method or Monte Carlo simulations. In the course of its day-to-day management, the Bank has also configured a number of ad hoc stress test scenarios.

In the regular stress tests conducted for the Bank's most significant risks, interest rate risk is also a variable subject to analysis. This process reflects the vision and assessment of the existing and potential risks that might constitute a constraint on the pursuit of the Bank's activities, within a given time horizon, with solvency levels sufficiently adequate for the prudential and management rules, and capable of withstanding shocks of varying magnitude resulting from adverse but plausible occurrences. Quantification approaches are assessed on the basis of the risk characteristics and the reference macroeconomic information.

In addition, the overall Balance Sheet exposure and exposure by relevant currency to interest rate risk is assessed every six months, applying a standard impact over the curve of 200 b.p. For this purpose, the Bank uses the framework established in Instruction No. 19/2005 of Banco de Portugal, of 15 June, both for the total EUR denominated portfolio and for items denominated in foreign currency, subject to interest rate risk and representing more than 5% of the banking portfolio, applicable to USD; a separate analysis is conducted for USD denominated items. In both cases, assets, liabilities and off-balance sheet items are identified and aggregated in the time bands established for the residual periods up to maturity (in the case of fixed rate instruments) and for the residual period up to the rate reset (in the case of variable rate securities), including the proxy of modified duration, adjusted to the positive and negative variations in interest rates, for the relevant currencies.

Quantitative Information

Banking Portfolio Interest Rate Risk

O – SECURITISATION OPERATIONS (Article 449)

Not applicable to Bank at reference date.

P – REMUNERATION POLICY (Article 450)

The information concerning the governance system required by Article 435 can be found in the management report, chapter "X Remuneration Policies".

Q – LEVERAGE (Article 451)

Rules on calculation of the regulatory leverage ratio are established in Article 429 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, amended by Commission Delegated Regulation (EU) 2015/62, of 10 October 2014.

An observation period was introduced for this ratio running from 1 January 2014 to 31 December 2017, in order to monitor changes in its components and behaviour in relation to the requirements established on the basis of the risk of each exposure. This gives rise to a mandatory regulatory requirement that must be complied with as from 1 January 2018, in connection with Pillar I; a minimum reference rate of 3% has been set.

figures in euros

			2017			2016		
INTEREST RATE RISK (BANKING PORTFOLIO)			**EUR**	**USD**	**ALL**	**EUR**	**USD**	**ALL**
Effect on Net Worth of a shock of 200 b.p. in the interest rate:	Amount	+[1]	(10,216,711)	(1,188,293)	(11,405,004)	(8,236,709)	(614,444)	(8,851,153)
		-[2]	10,216,711	1,188,293	11,405,004	8,236,709	614,444	8,851,153
	% of Equity	+[1]	-43.84%	-5.10%	-48.94%	-39.54%	-2.95%	-42.49%
		-[2]	43.84%	5.10%	48.94%	39.54%	2.95%	42.49%

The leverage ratio is defined as the proportion of Tier 1 capital divided by the exposure measurement, comprising on- and off-balance sheet assets considered after adjustments, associated in particular with intra-group exposures, security financing transactions (SFTs), amounts deducted from the numerator of the total capital ratio and from off-balance sheet items. The purpose of the ratio is to ensure adequate treatment of the different risk profiles of these exposures (in SFTs and derivatives, add-ons for future risks are considered, whilst in other off-balance-sheet exposures different loans to deposit ratios apply, depending on the risk involved in each exposure).

	LEVERAGE RATIOS
Numerator	
Common equity tier 1	23,303
Tier 1 capital	
Tier 2 capital	
Own funds	**23,303**
Denominator	**Exposure**
Credit risk	509,474
Other	-5,849
	503,625
Leverage ratio	**4.63%**

R – USE OF THE IRB APPROACH TO CREDIT RISK (Article 452)

Not applicable. The Bank does not calculate risk-weighted exposure amounts using the IRB approach.

S – USE OF CREDIT RISK MITIGATION TECHNIQUES (Article 453)

"Credit risk reduction" is a technique used to reduce the credit risks associated with one or more risk positions held by the institution; the most common of these are "funded credit protection" and "unfunded credit protection".

"Funded credit protection" is a credit risk reduction technique in which reduction in the credit risk in a risk position held by an institution derives from that institution's right - in the event of default by the counterparty or the occurrence of other specified credit events related to the counterparty - to liquidate, obtain the transfer or possession of, withhold given assets or amounts, reduce the amount of the risk position by an amount corresponding to the difference between the value of the risk position and the value of a credit claim on the institution, or substitute it by such amount. "Unfunded credit protection" consists of a credit risk reduction technique where the reduction in credit risk on the risk position held by an institution arises from the obligation accepted by a third party to pay a given amount in the event of default by the borrower or the occurrence of other specified credit events.

The Group uses credit risk reduction techniques in order to mitigate its exposure to this risk, in particular in the form of collateral, such as cash deposits, eligible financial instruments and other assets, and also in the form of personal guarantees. Although some of the guarantees received may not be eligible as risk mitigators in accordance with the CRR, economically they effectively reduce the credit risk to which the Group is exposed.

The existence of guarantees is an element to be considered when analysing the credit risks of investments, and is considered as a risk mitigation element.

T – USE OF THE ADVANCED MEASUREMENT APPROACHES TO OPERATIONAL RISK (Article 454)

Not applicable. The Bank does not use the Advanced Measurement Approach established in Articles 321 to 324 of the CRR in calculating its own funds requirements for operational risk.

U – USE OF INTERNAL MARKET RISK MODELS (Article 455)

Not applicable. The Bank does not use internal market risk models when calculating its own funds requirements.

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Avenida Eng.º Duarte Pacheco, CC Amoreiras, Torre 1 - Piso 7 | 1070-101 Lisboa | Portugal | www.bnieuropa.pt