REPORT AND ACCOUNTS 2018

BANCO MONTEPIO GROUP

This report is the English version of the document "Relatório e Contas 2018" published by Banco Montepio in the Portuguese Securities and Market Commission (CMVM) website in accordance with Portuguese Law. Should there be any doubt or contradiction between documents, the aforementioned Portuguese version prevails.

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Management Report

Message from the President

MESSAGE FROM THE PRESIDENT

2018 was a year of adjustment and profound change for Banco Montepio. The General Meeting held on 16 March endorsed decisions that largely determined the paths of this change. From the onset with the modification of the governance model, switching from a one-tier to a two-tier model, in which the Board of Directors is the governing body of the Bank, including the supervisory function. Consequently, the people who perform the management and supervisory duties also changed.

The same General Meeting approved a Mission Statement for the Bank, which clearly outlined the fundamental options for its development. This also led to a significant change of the options relative to the business model with: (i) special focus on corporate banking and a lesser incidence in the real estate sector; (ii) the redefinition of the offer of products and services for individuals, as well as the form of their production and distribution; (iii) a more ambitious model of retail distribution, combining the strengthening of proximity with the greater efficiency of alternative channels.

Likewise, priorities changed regarding the quality of customer service, based on enhanced efficiency and simplicity of processes and in digitalisation, all underpinned by increased investment in systems.

The Bank's internal organisation changed, making it simpler and linear.

A change was made to the logic of the instruments supporting management, with the development of models of profitability by branch, product and customer.

The credit policy changed, with strengthening of selectivity and the risk analysis instruments.

The brand and image were changed and an ambitious programme was adopted of institutional distinction, clearly separating the nature and mission of Banco Montepio from that of Montepio Geral Associação Mutualista; nevertheless, without jeopardising the relations between the two institutions, founded at the very beginning of the long history of 175 years of Caixa Económica Montepio Geral.

Planning methods were also changed following the approval of a Transformation Plan with an ambitious medium term vision, which seeks to establish new ways of working that lead to the achievement of results compatible with an adequate remuneration of the capital invested by Associação Mutualista, on behalf of the more than six hundred thousand associates that invested their savings therein.

The scenario of the international holdings has also begun to change, with the sale of the holding in Banco Terra Moçambique and with the first steps taken towards sale of the control of Finibanco Angola.

True to the lines of the Mission Statement, we started to prepare the launch of a Corporates Bank, following an original perspective of offering full service to companies requiring banking support that goes far beyond the traditional forms of financing.

The creation of Banco de Empresas Montepio (BEM) seeks to tackle one of the flaws that has long been detected in the Portuguese financial system, by providing companies with access to integrated commercial banking and investment banking services able to support their capitalisation and strengthen their competitiveness.

At the end of the year, Banco Montepio's shareholder structure also changed. It no longer has a sole shareholder but around thirty institutions of the Social Economy as small shareholders.

However, the financial results, that are positive and an improvement on the previous year, still reflect both the current operating conditions of the banking system and the costs derived from situations of the past, particularly with respect to the cost of credit risk. Nonetheless, it should be said that Banco Montepio's accounts are clearer and healthier, and also show comfortable levels of liquidity and capital.

Hence, it could be said that 2018 constitutes a solid basis for the development of Banco Montepio, according to the projections of the Transformation Plan, for the next three to four years.

Because it is well due, I would like to express my gratitude to all the members of the governing bodies, whose dedication and sense of mission contribute to the achievement of Banco Montepio's goals.

The same gratitude is felt for the shareholder Montepio Geral Associação Mutualista, which was always present in the necessary decisions, showing respect for the autonomy and independence of the Bank's management body.

I would also like to thank our Customers, for their enduring trust in this almost bicentenary institution.

And, last not least, a special word of thanks to the employees of Banco Montepio. This institution has valuable human capital, surprising in its way of experiencing the institution, with motivation, dedication and an emotional connection difficult to encounter in other companies. This is undoubtedly one of the essential strengths of the institution, which makes us believe that our ambition for Banco Montepio will become a reality.

Governing Bodies

GOVERNING BODIES

The Extraordinary General Meeting of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter referred to as "CEMG" or "Banco Montepio"), held on 16 March 2018, altered the nature of Banco Montepio's governance model, changing it from a one-tier model (Anglo-Saxon) with a Board of Directors that includes the Audit Committee (chosen from among its non-executive members) and a Statutory Auditor. This same General Meeting elected new members of governing bodies for the term of office 2018-2021.

The Board of the General Meeting took office on 16 March 2018 and the rest of the governing bodies took office on 21 March 2018.

The Extraordinary General Meeting held on 30 October 2018 deliberated the election of the following for integration in the Board of Directors: Leandro Rodrigues da Graça Silva as executive member, and Carlos Francisco Ferreira Alves as non-executive member and member of the Audit Committee.

By unanimous resolution of the shareholder Montepio Geral – Associação Mutualista, on 23 November 2018, Dulce Maria Pereira Cardoso Mota Jorge Jacinto was elected to perform duties as executive member of the Board of Directors of CEMG, with her appointment having been recommended as the Vice-Chairman of the Executive Committee.

Thus, on 31 December 2018, the composition of CEMG's governing bodies was as follows:

BOARD OF THE GENERAL MEETING

Chairman	António Manuel Lopes Tavares
Secretary	Cassiano da Cunha Calvão

BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva[1]
Non-Executive Members	Luís Eduardo Henriques Guimarães
	Amadeu Ferreira de Paiva
	Manuel Ferreira Teixeira
	Vítor Manuel do Carmo Martins
	Rui Pedro Brás de Matos Heitor
	Pedro Jorge Gouveia Alves[2]
	Carlos Francisco Ferreira Alves[3]

[1] Carlos Manuel Tavares da Silva held the position of Chairman of the Board of Directors and Chairman of the Executive Committee, under the terms authorised by Banco de Portugal, and henceforth performs duties of Chairman of the Board of Directors from 11 February 2019.
[2] Pedro Jorge Gouveia Alves, authorised by Banco de Portugal on 9 July 2018, took office on 23 August 2018.
[3] Carlos Francisco Ferreira Alves, elected at the Universal General Meeting of 30 October 2018, was authorised by Banco de Portugal on 27 December 2018, having taken office on 15 January 2019.

Executive Vice-Chairman	Dulce Maria Pereira Cardoso Mota Jorge Jacinto[4]
Executive Members	Nuno Cardoso Correia da Mota Pinto José Carlos Sequeira Mateus Pedro Miguel Nunes Ventaneira Carlos Miguel López Leiria Pinto Helena Catarina Gomes Soares de Moura Costa Pina Leandro Rodrigues da Graça Silva[5]

AUDIT COMMITTEE

Chairman	Luís Eduardo Henriques Guimarães
Members	Amadeu Ferreira de Paiva Manuel Ferreira Teixeira Vítor Manuel do Carmo Martins Carlos Francisco Ferreira Alves

STATUTORY AUDITOR

KPMG, represented by:	
	Hugo Jorge Gonçalves Cláudio[6] Inscrito na ordem dos Revisores Oficiais de Contas sob o n.º 1597
Substitute	Fernando Gustavo Duarte Antunes Inscrito na ordem dos Revisores Oficiais de Contas sob o n.º 1233

[4] Dulce Maria Pereira Cardoso Mota Jorge Jacinto, elected by written unanimous resolution on 23 November 2018, was authorised by Banco de Portugal on 8 January 2019, took office on 9 January 2019 and has been performing, since 11 February 2019, in the capacity of executive Vice-Chairman, the duties of Chairman of the Executive Committee.

[5] Leandro Rodrigues da Graça Silva, elected at the Universal General Meeting of 30 October 2018, was authorised by Banco de Portugal on 9 November 2018, having taken office on that same day.

[6] Up to 31 December 2018. The election of a new Statutory Auditor for the term of office 2019-2022 will take place at the General Meeting of Caixa Económica Montepio Geral, caixa económica bancária, S.A., to be held up to 31 May 2019.

Key Indicators

KEY INDICATORS

	2016	2017	2018	change 18/17
ACTIVITY AND RESULTS (million euros)				
Total assets	21 346	20 200	18 351	(9.2%)
Loans to customers (gross)	15 041	14 063	13 068	(7.1%)
Customers' deposits	12 468	12 561	12 575	0.1%
Net income	(86)	6	13	94.4%
SOLVENCY (a)				
Common Equity Tier 1 ratio	10.4%	13.2%	13.5%	0.3 p.p.
Tier 1 ratio	10.4%	13.2%	13.5%	0.3 p.p.
Total Capital ratio	10.9%	13.3%	14.1%	0.8 p.p.
Leverage ratio	6.1%	7.6%	7.8%	0.2 p.p.
Risk weighted assets (EUR million)	12 830	11 875	10 759	(9.4%)
LIQUIDITY RATIOS				
Loans to customers (net) / Customers' deposits (b)	111.2%	107.3%	96.6%	(10.7 p.p.)
Loans to customers (net) / On-balance sheet customers' resource	96.3%	92.4%	88.7%	(3.7 p.p.)
CREDIT QUALITY				
Cost of credit risk	1.2%	1.1%	0.5%	(0.6 p.p.)
Ratio of loans and interest overdue by more than 90 days	9.1%	8.2%	7.0%	(1.2 p.p.)
Coverage of loans and interest overdue by more than 90 days	86.0%	90.2%	103.4%	13.2 p.p.
Non-performing exposures (NPE) (d) / Gross customer loans	18.7%	16.4%	14.4%	(2.0 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	42.1%	44.9%	50.3%	5.4 p.p.
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	87.8%	87.0%	86.2%	(0.8 p.p.)
Forborne exposures (d) / Gross customer loans	8.9%	8.2%	7.2%	(1.0 p.p.)
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets (b)	1.7%	2.5%	2.0%	(0.5 p.p.)
Net income before income tax / Average total assets (b)	(0.9%)	0.2%	0.3%	0.1 p.p.
Net income before income tax / Average total equity (b)	(12.3%)	3.0%	3.5%	0.5 p.p.
Cost-to-income (Operating costs / Total operating income) (b)	76.4%	53.0%	68.8%	15.8 p.p.
Cost-to-Income, excluding specific impacts (e)	77.5%	67.2%	69.3%	2.1 p.p.
Staff costs / Total operating income (b)	44.6%	30.9%	41.3%	10.4 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group Banco Montepio total	4 155	4 189	3 944	(245)
Banco Montepio	3 588	3 630	3 566	(64)
Branches				
Domestic network - Banco Montepio	327	324	324	0
International Network	33	34	24	(10)
Finibanco Angola (f)	23	24	24	0
Banco Terra (g)	10	10	0	(10)
Representation Offices - Banco Montepio	6	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios reflect adhesion to the special regime of deferred tax assets.

(b) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.

(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements annexed to this report.

(d) EBA definition.

(e) Excludes results from financial operations and other operating results. (net gains arising from the sale of other financial assets and other operating income).

(f) Includes corporate centres.

(g) As of 31December 2018 Banco Terra does not include the consolidation perimeter of the Banco Montepio Group.

2018 Landmarks

2018 LANDMARKS

- **Change of the governance model and election of new members of governing bodies**
  The Extraordinary General Meeting of Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("CEMG" or "Banco Montepio"), held on 16 March 2018, altered the nature of Banco Montepio's governance model, changing it from a one-tier model (Anglo-Saxon) with a Board of Directors that includes the Audit Committee (chosen from among its non-executive members) and a Statutory Auditor. This same General Meeting elected new members of governing bodies for the term of office 2018-2021.

- **Transformation Plan**
  The Board of Directors assumed as a priority goal the efficacy, profitability and suitability of the business model of Banco Montepio to the most modern and demanding forms of customer relations. In this context, the Transformation Plan was prepared in order to make a detailed and precise diagnosis and enable ascertainment of the potential development of each business area with a view to defining goals and targets for the next few years.

  Transformation Plan is based on 4 strategic pillars - value and business proposition, strengthening of the balance sheet, organisation and support, which are underpinned by 12 strategic initiatives, primarily driven towards making Banco Montepio more competitive, efficient and digital, focused on the quality of customer service.

- **Sale of the stake in Banco Terra, S.A.**
  The 45.78% stake that Montepio Holding, SGPS, S.A. held in the share capital of Banco Terra S.A. was sold in December 2018, implying that it is no longer part of the Group's consolidation perimeter. The stake was sold to Arise, a holding held by the Norwegian sovereign fund Norfund, by the Dutch development bank FMO and by Rabobank, directed at supporting development in Africa through investments in African financial institutions.

- **Sale of portfolio of non-performing credit**
  Under the strategy of continuous reduction of non-performing credit, the sale of a portfolio of non-performing credit took place on 27 December 2018 for the gross amount of 239 million euros, involving approximately 10 thousand contracts and giving rise to a favourable impact on the non-performing loans (NPL) ratio of 1.6 p.p.

- **Issuance of subordinated debt**
  In December 2018 Banco Montepio issued 50 million euros of subordinated debt, eligible for Tier 2 capital.

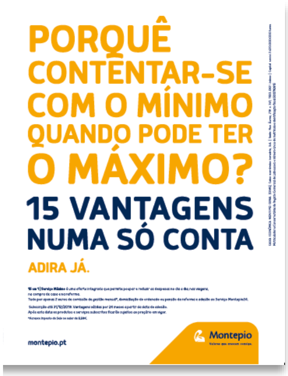
- **Approval of the change of the trade name and image of Banco Montepio**
  A new image and brand of the institution was approved, evolving to “Banco Montepio” and reflecting the internal transformation that the Bank is developing based on a new vision: a Portuguese and independent bank, increasingly closer to the Portuguese.

- **Decision to create Banco de Empresas Montepio (BEM)**
  The Board of Directors decided to create a Corporates Bank, based on the license of Montepio Investimento, with a broad range of specialised products and services integrating commercial banking and investment banking (Banco de Empresas Montepio).

- **Decision to open a new type of branches in more deprived regions**
  Affirming local banking, “banking of relations and proximity” as a strategic pillar, Banco Montepio decided to open branches dedicated to proximity and convenience, with a small number of employees and shared management, in locations with a low offer of financial services.

- **Institutional communication and commercial campaigns**

15 em 1 | Serviço Máximo (15 in 1 | Maximum Service): The first up selling campaign with a strategy based on branded content



The positioning campaign, in June 2018 was followed by the launch of the “15 em 1 | Serviço Máximo” (15 in 1 | Maximum Service) offer, which incorporates the best benefits of the daily routine solutions available at Banco Montepio. This campaign, whose motto was “Why be content with the minimum when you can have the maximum?” was directed at customers with various types of lifestyle profiles, through an above-the-line strategy essentially based in branded content given the multifaceted coverage and specificity of the advertised product.

The piggy bank has returned and it's for everyone: The saving icon returns, reinvented and now also in digital version

The multimedia campaign “Mealheiro Montepio” (Montepio Piggy Bank) was launched in December 2018, combining the historic piggy bank icon, making its comeback in a new iron version, with the new digital piggy bank, a saving management tool available to everyone to help all Customers with access to the remote channels to manage their saving goals. The key message imprints the brand's values as the savings bank for families.

The Banco Montepio Group

THE BANCO MONTEPIO GROUP

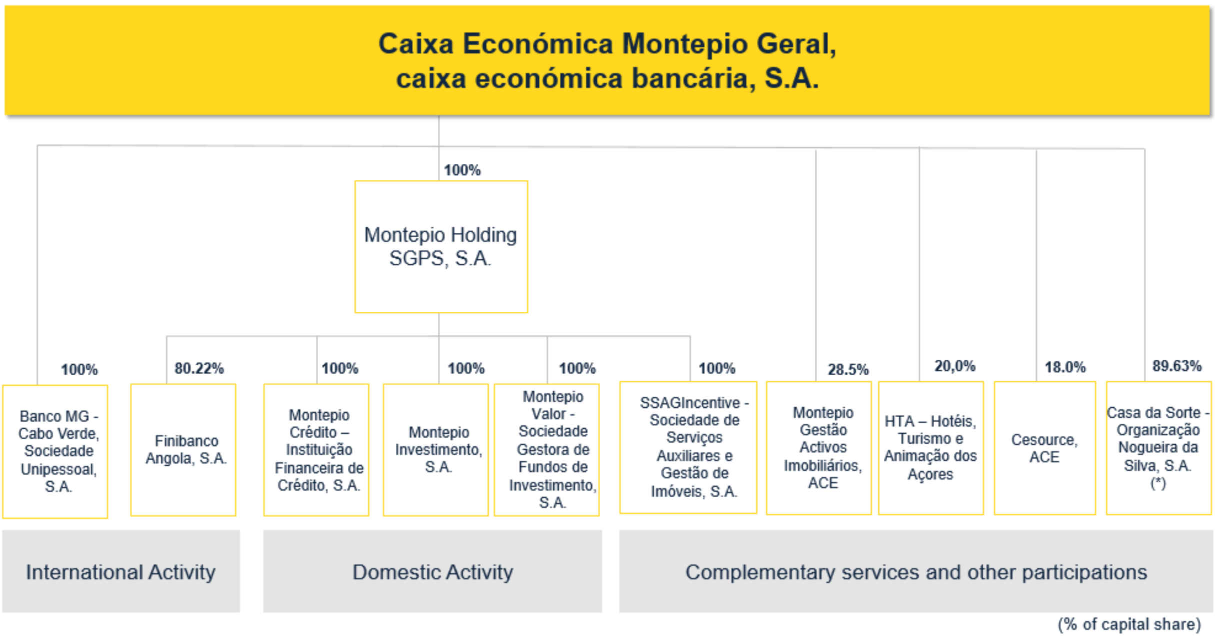
GROUP STRUCTURE

Pursuant to Decree-Law 190/2015, which approved the legal system of Savings Banks, Caixa Económica Montepio Geral is henceforth considered a savings bank, with its transformation into a public limited company arising from the same legal provision. Following this process, its current corporate name is Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter referred to as "CEMG" or "Banco Montepio").

Banco Montepio holds a number of equity stakes in entities which offer a broad and diversified range of banking and financial products and services, but contribute with their earnings to the mutualist goals. The Banco Montepio Group thus presents itself as one of the most differentiated banking and financial groups, aligned with its mutualist nature, which lend it unique features and an unmatched position in its activity sector and in Portuguese society.

As at 31 December 2018, the Banco Montepio Group was composed of the entities presented below:

- Full consolidation method: Caixa Económica Montepio Geral, caixa económica bancária, S.A.; Montepio Holding, Sociedade Gestora de Participações Sociais, S.A.; Banco Montepio Geral Cabo Verde, Sociedade Unipessoal S.A.; Finibanco Angola, S.A.; Montepio Crédito - Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A.; Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A., SSAGINCENTIVE – Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A. and Casa da Sorte – Organização Nogueira da Silva, S.A.
- Consolidation by the equity method: Montepio Gestão de Ativos Imobiliários, ACE, HTA – Hotéis, Turismo e Animação dos Açores, S.A. and Cesource, ACE.



(*) Group Casa da Sorte includes the companies Herdeiros de Manuel Martins Travassos, Lda. (100%), Augusto da Silva Carvalho, Lda. (100%), Binganimus - Bingos e Animação, S.A. (100%), Carlos Augusto Lança & Filhos, Lda. (100%), Torre da Sorte, Lda. (100%) and Pataca da Sorte - Bingos e Animação Unipessoal, Lda. (100%). This stake was sold on 24 April 2019.

Under the strategic redefinition of its international holdings, and with a view to refocusing the approach to the African market, a contract was established in 2015 to sell shares representing 30.57% of the share capital of Finibanco Angola S.A. Following the appraisal of the contract in question on the date of its undertaking, it was concluded that this sale should only be recognised upon its actual financial settlement. Financial settlements were made under this contract during 2017 and 2018 representing, respectively, 0.20% and 1.5% of the share capital of this subsidiary. Thus, as at 31 December 2018, the Banco Montepio Group still had control of Finibanco Angola and an effective stake of 80.22%, with a series of procedures being underway for the deconsolidation of this subsidiary.

Considering the decisions taken by the Board of Directors, as well as the provisions in International Financial Reporting Standard (IFRS) 5, the activities developed by this subsidiary have been deemed discontinuing operations since the end of 2016. Accordingly, in the income statement, the earnings of Finibanco Angola are henceforth stated in an operating account heading named “Income of discontinued operations” and, in the balance sheet under the headings named “Non-current assets held for sale – Discontinuing operations” and “Non-current liabilities held for sale – Discontinuing operations”.

As at 31 December 2018, the Banco Montepio Group's consolidation perimeter includes other entities which are consolidated by the full consolidation method, namely: Montepio Arrendamento I, II e III – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (FIIAH); Polaris – Fundo de Investimento Imobiliário Fechado; PEF – Portugal Estates Fund and Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (FEIIA).

THE BANK MONTEPIO BRAND

PROTECTION AND REINFORCEMENT OF BRAND REPUTATION

Public Relations

Concerning communication, Banco Montepio's action in 2018 involved management practises aimed at strengthening and defending the brand's reputation, focused on publicising topics of major institutional importance in the main national media channels, like the quarterly presentations of results and the changes to the governing bodies, but also business and innovation topics, such as app M24 Empresas (M24 Companies app), digital signature and the launch of competitive products like 15 em 1 | Serviço Máximo (15 in 1 | Maximum Service). Also as a result of this work, throughout 2018 around 9,000 news items were published about Banco Montepio, with an average appraisal of 3.14 (where 1 is poor and 5 is excellent), and correspondingly favourable media feedback.

New trade name and brand logo

Banco Montepio's image and brand were presented in early 2019. The new brand logo is the most visible side of the internal transformation that Banco Montepio is carrying out, in line with the objective of protecting and strengthening its reputation as a specific brand.

The evolution to its current identity reflects Montepio's new vision: a Portuguese and independent bank, increasingly closer to the Portuguese. The new image respects the institution's historical and chromatic heritage, but makes it evolve: The pelican, ancestral symbol of the brand, which represents the strength and confidence of a bank prepared for the challenges of the future. Blue, inherited from Montepio's history, is the legacy that conveys trust, security and determination. And the arrival of a new yellow, more optimistic and energic, symbolises proximity, innovation and renovation.

The promise of a future is revealed in the brand signature, which is kept: Values that grow with you.

AWARDS AND DISTINCTIONS

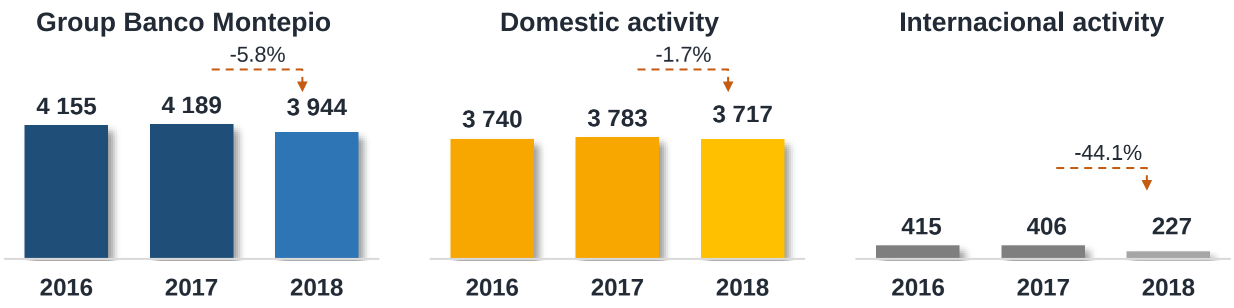
In 2018, a Caixa Económica Montepio Geral was awarded the Superbrands stamp for the 9th time, once again being considered by the consumers as a significant brand in the market. Superbrands® is an independent international organisation dedicated to identifying and promoting Brand of Excellence in eighty-nine countries, with similar selection criteria, based on studies conducted among consumers and the opinion of the Superbrands Council. The cover page for this distinction was Mealheiro Montepio (Montepio Piggy Bank), an iconic symbol of saving that marked the history of Banco Montepio and that of many generations of families, infusing the brand with the values of tradition, familiarity and proximity.

In addition to the brand, customer care also received a distinction of excellence: Banco Montepio was once again a leader in satisfaction with service provided at the branch in the study ‘Consumer Satisfaction Index’ Banking (CSI-Banking) of Marktest - one of the most highly reputed studies on the satisfaction and loyalty of bank customers. Customer satisfaction in the branch channel fundamentally depends on the institution's image and the quality of the products and services presented, which, in the current context of Banco Montepio's transformation is particularly important.

PEOPLE

As at 31 December 2018, the Banco Montepio Group had a total of 3,944 employees, 90.4% of whom belonged to Banco Montepio. Banco Montepio's staff decreased by 1.8% between December 2017 and December 2018, corresponding to a reduction of 64 employees. At the end of 2018, the Banco Montepio Group had a total of 3,944 employees, having fallen by 5.8% in relation to the same period of the previous year, due to the reduction referred to above and the deconsolidation of Banco Terra as at 31 December 2018.

EMPLOYEES EVOLUTION



In the subsidiaries in Portugal, at the end of 2018 the records point to a reduction of two employees at Montepio Crédito, three additional employees at Montepio Valor, with the number of employees at Montepio Investimento remaining stable.

In the international activity, Banco Terra left the consolidation perimeter of the Banco Montepio Group, and Finibanco Angola recorded an increase of two employees.

	2016		2017		2018		change 18/17	
	No.	%	No.	%	No.	%	No.	%
Domestic Activity	**3 740**	**90.0**	**3 783**	**90.3**	**3 717**	**94.2**	**(66)**	**(1.7)**
Banco Montepio [1]	3 588	86.4	3 630	86.7	3 566	90.4	(64)	(1.8)
Internacional Activity	**415**	**10.0**	**406**	**9.7**	**227**	**5.8**	**(179)**	**(44.1)**
Banco MG Cabo Verde	3	0.1	2	0.0	2	0.1	0	0.0
Finibanco Angola	216	5.2	223	5.3	225	5.7	2	0.9
Banco Terra [2]	196	4.7	181	4.3	0	0.0	(181)	-
Total	**4 155**	**100.0**	**4 189**	**100.0**	**3 944**	**100.0**	**(245)**	**(5.8)**

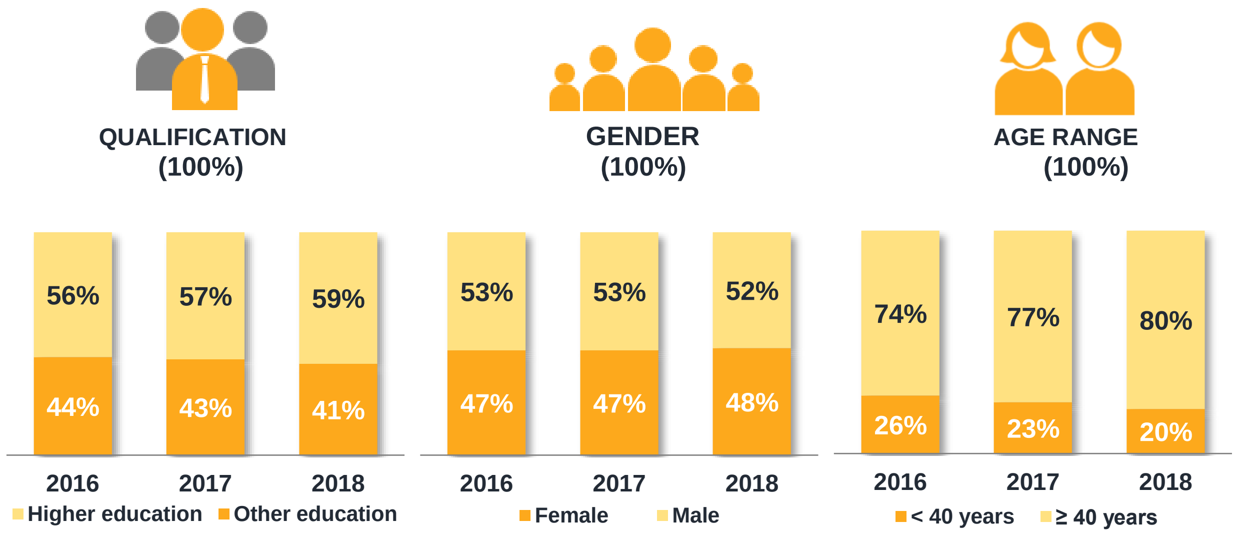
(1) Includes employees from Representation Offices. (2) On 31 December 2018 Banco Terra ceased to be part of the consolidation perimeter of the Banco Montepio Group.

	2016	2107	2018	change 18/17	
				No.	%
Other Group entities [1]					
Montepio Crédito	129	128	126	(2)	(1.6)
Montepio Valor	37	38	41	3	7.9
Montepio Investimento	5	5	5	0	0.0

(1) Includes assignments from Banco Montepio employees.

Concerning the distribution by type of qualification, there was an increase of the proportion of employees with higher education, comprising bachelor, licentiate and master's degrees, post--graduation and doctorates, which stood at 59% at the end of 2018 (57% in 2017). Gender distribution evolved towards greater balance, with 52% being male employees and 48% female. With respect to age structure, there was an increase of the proportion of employees aged over 40 years old, from 77% in 2017 to 80% at the end of 2018.

DISTRIBUTION OF BANCO MONTEPIO EMPLOYEES



EMPLOYEE TRAINING

During 2018, Academia Montepio (Montepio Academy) continued to provide evidence of its role as a pillar for the valorisation of the employees of Banco Montepio, through the identification and organisation of a series of initiatives aimed at boosting their development.

Nevertheless, in comparison to 2017, there was a reduction in the overall hours of training due to the training and certification on the “Markets in Financial Instruments Directive - MiFID II” started in 2017, with a very significant workload and which involved over 2,000 employees of the organisation, commercial and business support areas.

The total initiatives developed in 2018 involved 684 actions and covered around 94.6% of Banco Montepio's employees, with 26,619 participations and a total of 74,034 attended hours of training having been recorded.

Training indicators

	2016	2017	2018	change 18/17 (%)
Number of actions	699	1 174	684	(41.7)
Training hours	51 769	230 624	74 034	(67.9)
Number of participants	3 250	3 613	3 373	(6.6)
Number of participations	19 282	49 529	26 619	(46.3)
Investment in training (thousand euros)	417	518	564	8.9
Employees covered by training	**90.6%**	**99.5%**	**94.6%**	**(4.9 p.p.)**

In line with the activity of the sector in which it operates, Banco Montepio maintained its tendency of developing and building contents in-house, using internal trainers and specialists of the different subject matters, but also investing in external providers, recognised in their areas of speciality. The methods most used have involved a combination of e-learning and face-to-face training, with stepwise dissemination of knowledge within the organisation.

In 2018, in addition to topics of legal and regulatory nature ministered by the "Escola de Conformidade" (Compliance School), namely the New General Data Protection Regulation, the Prevention of Money Laundering and Terrorist Financing – Effective Beneficiaries, Borrowing Modalities and Continuous Training on the Markets in Financial Instruments Directive - MiFID II, note should be made of the initiative "Micro-batalha de Crédito à Habitação" (Mortgage Loan Micro-Battle) developed by the Functional School, already aligned with the Transformation Plan underway and aimed at ensuring the modernisation of the fundamental pillars, thus endowing Banco Montepio with appropriate skills for future challenges.

The "Escola de Liderança" (Leadership School) promoted the development of all the employees with team management responsibilities, emphasising the new system for counselling and management of performance, the 3D Model – Dialogue, Development and Dedicated Performance. These actions aim to endow team leaders with the necessary coaching and feedback skills.

The academy also developed other significant initiatives in 2018, in particular the Induction Programme directed at the Board of Directors ("Escola de Gestão e Inovação" - Management and Innovation School) and the e-learning course on the Montepio Group's Sustainability Report ("Escola de Auto-Desenvolvimento" - Self-Development School).

BENEFITS FOR EMPLOYEES

Banco Montepio offers its employees a diversified range of benefits in the financial and development areas, aimed at facilitating better articulation between professional and personal life, and in support of maternity/parenthood. The benefits granted in the last two aspects are referred to in detail in the chapter "Non-Financial Statement" of this Report.

Among the benefits offered, we highlight those in which the employee is the direct beneficiary, namely supplementary health insurance (extensive to the household) and an education allowance for student workers.

Furthermore, the employees can take advantage of the initiatives organised by the actual Social Service structure, which annually promotes a series of actions that benefit employees and their families, from financial support in the areas of Health and Education to the promotion of sports, cultural, recreational and social activities.

RELEVANT PROJECTS

During 2018 the main projects developed in the area of human resources are presented below:

- Following the 1st edition of the Trainees Programme which selected 45 young university students, from more than 1,500 applicants, the integration of 35 trainees (77.8%) in Banco Montepio's staff by the end of the Programme that finished in September 2018;
- Development of the activities of diagnosis and preparation of the entire Human Resources Division for the enforcement of the General Data Protection Regulation on 25 May 2018, concerning the personal data of Banco Montepio employees;
- Provision of a new Intranet to all the employees, in which a new solution was developed to elucidate work-related issues, providing the information in a more structured form and enabling greater proximity to the employees that need this;
- Effective participation of Banco Montepio in the annual wage study of the Banking sector.

CHANNELS, NETWORKS AND CUSTOMER RELATIONSHIP

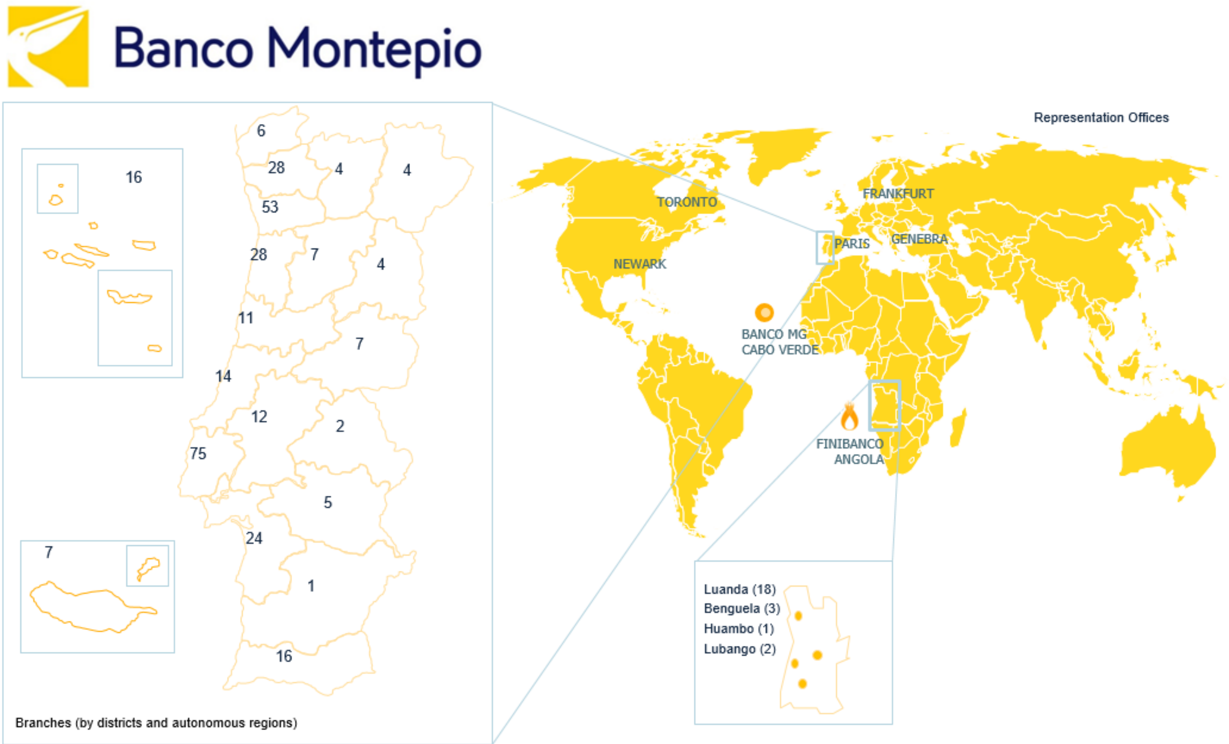
CHANNELS AND NETWORKS

At the end of 2018, Banco Montepio had a network of 324 branches in Portugal, remaining unchanged in relation to the number recorded as at 31 December 2017. In the international activity, we highlight the sale of Banco Terra, S.A., and in relation to Finibanco Angola the distribution network had a total number of 24 branches (including 5 business centres), in line with the number recorded in the same period of 2017. At the end of 2018, Banco Montepio maintained its 5 representation offices (Frankfurt, Geneva, Paris, Newark and Toronto), which ensure the presence of Banco Montepio among communities resident abroad.

No. of Branches and Representation Offices

	2016	2017	2018
Domestic network	327	324	324
International network	33	34	24
Finibanco Angola [a]	23	24	24
Banco Terra [b]	10	10	0
Representation Offices	6	5	5

(a) Includes Corporate Centers. (b) As of 31 December 2018 Banco Terra does not include the consolidation perimeter of the Banco Montepio Group.



Banco Montepio also offers individual and Business Customers a series of complementary channels such as NET24, APPM24, NETMÓVEL24, PHONE24 and SMS24, which operate as distribution channels for its financial products and services.

CUSTOMER MANAGERS

Banco Montepio's network of customer managers amounted to 504 managers at the end of 2018, showing a reduction of 7 in relation to the number at the end of 2017, of whom 201 are dedicated to the Individuals segment and 303 to the Corporate segment, which enables offering a personalised service and improving the relations of proximity with the customer that characterises Banco Montepio.

Regarding the Corporate segment, and pursuing the effort of specialising the service, as at 31 December 2018, Banco Montepio had 189 Small Business managers, 78 Small and Medium-Sized Enterprise managers, 31 Institutional and Social Economy managers and 9 Large Corporates managers.

No. of Managers per customer segment

	2016	2017	2018	change 18/17	
				Amount	%
Individuals	**204**	**205**	**201**	**(4)**	**(2.0)**
Companies	**299**	**306**	**303**	**(3)**	**(1.0)**
Small Businesses	186	189	185	(4)	(2.1)
Small and Medium-sized Enterprises	73	77	78	1	1.3
Institutionals and Social Economy (a)	31	31	31	0	0.0
Large Companies	9	9	9	0	0.0
Total managers	**503**	**511**	**504**	**(7)**	**(1.4)**

(a) Includes Microcredit managers.

Note: Does not include managers of preventive credit monitoring.

COMPLEMENTARY CHANNELS

As at 31 December 2018, Montepio's total number of automated teller machines (ATMs) amounted to 973 machines, of which 375 were installed in branches and 598 available at external locations. In net terms, at the end of 2018, the number of machines had fallen by 13 when compared to the number at the end of 2017 (986), essentially due to the network optimisation programme.

Banco Montepio's market share in terms of number of ATMs as at 31 December 2018 remained stable at 8.3%, compared to the number recorded at the end of 2017. Regarding the number of machines in the national market of the SIBS Global Network, as at 31 December 2018 there was a reduction of 212 machines in relation to the number at the end of 2017, standing at a total of 11,647.

The internal network Chave24 had a total number of 345 machines installed at the end of 2018, of which 285 are ATM, 8 are Selfcheques and 52 are Bank Book updating machines.

Banco Montepio's network of electronic funds transfer at point of sale (TPA) grew by 4.7% in 2018 compared to the number at the end of the previous year (+5.7% in 2017), leading to a market share of Banco Montepio of 6.8%.

Banco Montepio's card business, in 2018 recorded year-on-year growth of 5.8% in terms of quantity of cards, in line with the evolution observed in the market according to SIBS data. The value of transactions increased by 12.3% in the same period at Banco Montepio, compared to market growth of 12.7%.

CUSTOMER RELATIONSHIP

- **New Personal Credit and Mortgage Loan Simulators**

In 2018, as part of a set of projects aimed at expediting the process of granting credit to individual customers, Banco Montepio migrated its simulator platform to a new technological solution.

This solution entailed providing new connection devices between systems pursuant to best market practices, for the Personal Credit and Mortgage Loan simulators in their external and internal versions.

Accompanying the new configurations, new functionalities were also provided to enable users of the public website to make simulations in a more informed and intuitive way, while at the same time allowing the employees of the branch network to offer a better response to customers that, at the branch, seek a more precise notion of their capacity to take out credit. Simultaneously, efforts were made to ensure better integration of this tool with other internal applications, such as Customer Relationship Management (CRM) and the Workflow of Loans to Individuals, with a view to improving the efficacy of the commercial approach and the follow-up service provide to current and potential customers in the context of the credit granting process.

- **Launch of "App M24 Empresas" (M24 Companies App)**

In early 2018, the portfolio of Montepio24 apps was expanded with the launch of an app for companies, also enabling institutional customers and respective managers and/or representatives to manage their financial daily routines from the comfort and convenience of their smartphone or tablet. In addition to the features available on "app M24 Particulares" (M24 Individuals app), company customers can also benefit from a series of additional features aimed at providing a higher degree of security, such as the Signing of Transactions and authentication by Alphanumeric Key for Virtual Users.

- **"Mealheiro Digital" (Digital Piggy Bank): a new form of saving**

Ninety years after the launch of the iconic "Mealheiro Montepio" (Montepio Piggy Bank), Banco Montepio presented the "Mealheiro Digital" (Digital Piggy Bank) and, with it, a new form of saving.

This new area, available in the Montepio24 channels, enables creating one or more piggy banks and associating each one to various saving goals, which can be directed either towards purchases or personal achievements, like travelling or changing car, or even to pay for future financial commitments, namely paying "IMI" (municipal property tax) or an insurance annuity. Accordingly, in order to move towards these goals, customer can associate the Piggy Bank to a Term Deposit which has already been constituted or create a new saving from scratch with a plan of increases calculated automatically according to the initial amount available and its completion date. This feature became available in Net24 and app M24 (iOS e Android) in the last quarter of 2018.

- **Increased penetration of the Montepio24 remote channels, in particular the mobile app among Individual customers**

The Montepio24 service, corresponding to a multichannel platform that includes the Net24, Phone24, Netmóvel24, SMS24 and app M24 channels, recorded an increase of active customers in 2018 compared to the number recorded in the same period of 2017, ending the year with 286 thousand users of the Individuals segment (+9.4%) and 56 thousand in the Corporate segment (+6.6%).

Active users per channel and per customer segment

Channel / Segment	Phone24	Net24	SMS24	Netmóvel24	App M24
Individuals	17 666	219 425	323	57 992	128 395
Companies	4 753	55 440	11	8 919	7 364

COMPLAINTS MANAGEMENT

Banco Montepio views all the complaints received as an opportunity to continuously improve service quality and deepen relations with its customers.

The Customer Office is responsible for the management of complaints, with its mission being to propose and implement the Complaints Management Policy of the Banco Montepio Group, ensuring the reception and handling of complaints, as well as the respective response to the Complainant and/or Supervisory Entities.

During 2018 there was a reduction in the number of complaints received (new cases) of 19.2%, compared to the same period of 2017. Considering the insistences recorded, the total number of cases was 4,574 in 2018, representing a reduction of 17.1% in relation to the 5,517 recorded in 2017.

The complaints submitted directly to Banco de Portugal decreased in 2018, representing a decrease of 32% in relation to the number recorded in 2017, while complaints in the Complaints Book fell by 7.4%.

Indicators on Complaints

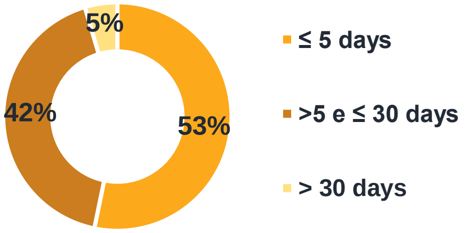
	2016	2017	2018	Change 18/17	
				Amount	%
Total Complaints	**4 308**	**4 988**	**4 029**	**(959)**	**(19.2)**
Of which:					
Banco de Portugal	346	465	316	(149)	(32.0)
Complaints Book	539	585	542	(43)	(7.4)

Note: Refers to complaints about Banco Montepio Group.

Regarding the response time recorded in 2018, 53% of new complaints were answered within 5 business days or less and 95% within 30 days. The average response time stood at 9 business days. With respect to complaints made via Banco de Portugal and the Complaints Book, the average response time stood at between 17 and 8 business days, respectively, below the legally required time limits (20 and 15 business days).

New Complaints in 2018

Average response time (working days)



Banco Montepio aims to ensure high levels of quality, transparency and rigour in the marketing of its products and services, so Banco Montepio's Customer Office continuously promotes recommendations and warnings, aimed at eliminating the causes of the submitted complaints at their point of origin.

INNOVATION AND QUALITY

Under the Transformation Plan, Banco Montepio's strategy for innovation was reviewed in 2018, henceforth enhancing operational efficiency while preserving personalised relations with its customers. Innovation is underpinned by the affirmation of the relations, proximity, personalisation and differentiation of the identity of the Montepio brand.

In 2018, the outcome of the Consumer Satisfaction Index (CSI), 2nd wave, by Marktest, placed Banco Montepio as leader in Satisfaction with the service provided at the branch, establishing customer care as one of the critical factors of Banco Montepio's competitive edge.

The origin of the Montepio brand, on the one hand, and the social values of the brand, on the other hand, enable positively differentiating Banco Montepio among the younger generations, motivated by causes and more socially conscientious. In order to attain the defined vision, technological innovation should be the transforming and facilitating axis that enables the delivery of more service to more customers, capturing their loyalty with levels of operational excellence, and having the Montepio culture and brand as pillars.

Different initiatives were started in 2018, aimed at integrating the strategy of innovation in the core of the business, in particular:

- Simplification and modernisation of the architecture and new governance model of the information technology systems under the Payment Services Directive 2 (PSD2), with new channels having been developed, like Connect24 Montepio, to enable access to payment services to other companies. Likewise, Application Programming Interfaces (API) were constructed for use via the SIBS platform "Open Banking API";
- Opening of account and credit online for individuals;
- New schemes for the younger generations on the app, to offer new experiences of use and interaction with the Bank;
- System of continuous assessment of customer relations, through the implementation of the Net Promoter Score (NPS) system in every customer interaction with the Bank.

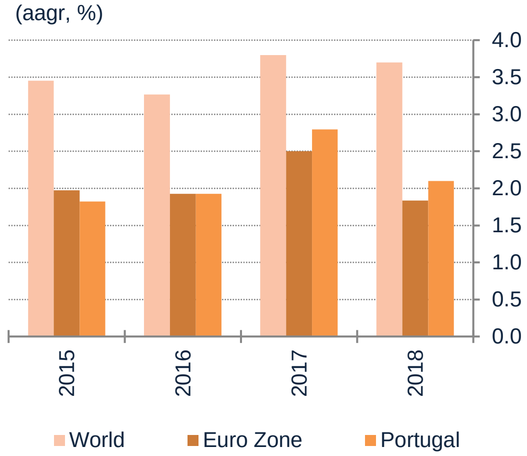
Activity Framework

BUSINESS ENVIRONMENT

ECONOMY

According to estimates of the International Monetary Fund (IMF) published in April 2019, the world economy grew by 3.7% in 2018. This figure is in line with the projections of January 2019, with the maintenance of the estimates occurring in the context of a weaker performance of some economies, especially in Europe and Asia. This estimated growth for 2018 represents a slowdown of 0.1 p.p. in relation to that observed in 2017. However, for 2019, the IMF made a downward revision of forecast growth in relation to that forecast in January of 0.2 p.p., to 3.3%, having maintained the forecast for 2020 at 3.6%. When compared to the forecasts issued six previously (October 2018), these IMF growth forecasts for 2019 and 2020 (+3.3% and +3.6%) represent higher downward revisions of 0.4 p.p. and 0.1 p.p. According to the IMF, this deceleration of growth forecast for 2019 reflects the slowdown of economic activity in the second half of 2018 and first half of 2019. The IMF shows concern with the growing trade tensions, especially between the USA and China, as well as with Brexit, and it is precisely these two problematic issues that led to the downward revision of forecast world growth for this year. The IMF even recommends that the drivers of growth, China and Germany, should adopt short term measures to sustain growth, and also notes that more than two-thirds of the foreseen slowdown is due to problems in the wealthier economies, especially European. The reduction of exports, the lower domestic consumption and new rules on vehicle pollutant emissions have negatively affect the forecast growth of the German economy, for example. A series of natural disasters has also led to a reduction of the growth forecasts of Japanese gross domestic product (GDP), while the economy of the USA, in spite of appearing to be counter-cycle with other developed economies, has undergone a deterioration in expected growth for 2019, due to an impact lower than expected of budgetary stimulation measures adopted, such as tax cuts. Only for China does the forecast growth for 2019 rise (in spite of falling for 2020), partly because the fears of an escalation in the trade war between China and the USA failed to materialise.

Gross Domestic Product (GDP)



Source: Thomson Reuters and IMF.

The economy of the Euro Zone continued its recovery throughout 2018, having, however (according to Eurostat data adjusted for seasonality and business days), recorded an annual average growth of GDP of 1.8%, lower than that observed in the previous year (+2.5%), in a year marked by sequential growth of GDP slightly lower than that observed in the recent past, of merely 0.1% and 0.2% in the last two quarters of the year, after having grown by 0.4% in the first two quarters. Throughout 2018 the European Central Bank (ECB) maintained its expansionary monetary policy, not having changed its reference rate: the interest rate of the main refinancing operations (refi rate) at 0.00% and the interest rates of the marginal lending facility and the deposit facility at 0.25% and -0.40% respectively. At the same time, the ECB announced, on 26 October 2017, the third extension of the asset purchase programme (APP) until at least December 2018, with the monthly rate of asset purchases kept at 30 billion euros until the end of September 2018 (previous enforcement period) but reduced to 15 billion euros between October and December 2018 (month when the programme shall end).

At a national level, after three years of recession, the Portuguese economy returned to growth in 2014 (+0.9%), having continued the process of gradual recovery during the following years, with 1.8% growth in 2015 and 1.9% in 2016, and accelerated strongly in 2017 to 2.8%. However, the economy slowed down in 2018, with GDP growing by 2.1%, lowering from the strongest growth rate since 2000 (+3.8%). The growth of the economy in 2018 only reflected the positive contribution of domestic demand of 2.8 p.p., with the reduction of this contribution (+3.2 p.p. in 2017) only reflecting the strong slowdown of gross fixed capital formation (GFCF) as private consumption and public consumption accelerated and the contribution of investment in inventories increased. In turn, net exports showed a slightly negative contribution of 0.7 p.p., penalising growth for the fifth consecutive year (-0.3 p.p. in 2017), with this negative contribution of net exports reflecting growth of exports below that of imports. Renewed growth of economic activity is expected for 2019, but slowing down again to 1.9%, a figure below the 2.2% forecast in the State Budget for 2019. The process of budgetary adjustment continued throughout 2018, after the deterioration observed in 2017, essentially derived from the impact of the recapitalisation of Caixa Geral de Depósitos (CGD), with the deficit falling to 0.5% of GDP (-3.0% in 2017). This value was an improvement on the 0.7% of GDP forecast by the Government in the State Budget for 2019, and represented the lowest deficit of the entire democratic history of Portugal, as the previous lowest deficit was recorded, according to the longest annual series, in 1974 (-1.0% of GDP). In the labour market, the unemployment rate fell from 8.9% in 2017 to 7.0% in 2018, thus continuing the downward trend since the historic maximum peak reached in early 2013 (17.5%). Inflation, measured by the annual average rate of change in the consumer price index (IPC), stood at 1.0% in 2018, 0.4 p.p. less than that recorded for 2017 (+1.4%, after +0.6% in 2016), while core inflation fell to 0.7% in 2018 (+1.1% in 2017 and +0.7% in 2016).

In relation to other economies, it should be noted that in Angola, GDP recorded an annual average contraction of 1.7% in 2018 (-0.1% in 2017). In Mozambique, GDP recorded annual growth of 3.3% in 2018, slowing down in relation to the 3.7% growth in 2017. Cape Verde showed growth of 5.5% in 2018, accelerating in relation to the 4.0% of 2017.

The year of 2018 experienced a negative evolution in financial market sentiment due to the very negative performance recorded in the fourth quarter, namely in terms of the equity market, with primarily negative movements in the main share indices for the year as a whole. In the USA, there were devaluations in the Nasdaq, Dow Jones and S&P 500 indices (-3.9%, -5.6% and -6.2%, respectively). In Europe, the British FTSE 100 fell by 12.5% and Eurostoxx 50 declined by 14.3%, with the Portuguese PSI-20 also recording a considerable setback (-12.2%). Asia was also affected, with decreases in the Japanese Nikkei 225 (-12.1%) and in the Chinese Shanghai Composite (-24,6%). The MSCI index for emerging markets declined (-16.6%). The yield rates of German debt increased slightly in the short term (two years), but declined in the long term (10 years), while in the USA they increased in both cases. The spreads at 10 years of the debt of the peripheral countries of the Euro Zone in relation to German debt increased (Portugal was the exception) and the spreads of the corporate credit market (credit default swaps) revealed similarly unfavourable performances. The yield rates of Portuguese debt at 10 years decreased from 1.943% at the end of 2017 to 1.722% at the end of 2018, having recorded, on 30 March (1.609%) peak levels since March 2015. Euribor rates increased slightly in 2018, but kept close to historic low points, reflecting the expansionary monetary policy followed by the ECB up to the end of the year, and having presented negative values throughout the year at three months (increased only 2 b.p. to -0.309%), at six months (increased only 3 b.p. to -0.237%) and at twelve months (increased 7 b.p. to -0.117%). Dollar Libor rates also increased for all time periods, as a consequence of the increases made to the target for fed funds (four in 2018) and which, at the end of the year the markets expected the Fed also to carry out in 2019. In commodities, there were heavy declines in composite indies, essentially reflecting the scenario of falling oil prices. Market sentiment was underpinned by the maintenance of the favourable climate in relations between the USA and North Korea. Nonetheless, it was strongly dampened by the materialisation of the risks of slowdown previously signalled for the second half of 2018, in relation to some of the main world economies, as a corollary: *i*) of the global trade war installed; *ii*) of the penalisation of the actions of major technological and distribution companies which, due to the trade war, came to expect lower profits than those forecast at the beginning of the year, dragging down with them most other sectors and the main worldwide indices; *iii*) of the turbulence in the emerging markets, in particular the crises in Turkey and Argentina; *iv*) of the budgetary prospects for Italy, which had a fierce dispute with the European Commission, with the agreement only being reached at the end of the year, based on a new version of the budget submitted by Rome after various months in which the country was being carefully watched by investors.

FINANCIAL SYSTEM

Following the strengthening of the Portuguese banking system in 2017, in particular through the (i) undertaking of an operation to increase the share capital by BCP (1.3 billion euros); (ii) accomplishment of the 1st and 2nd stages of CGD's recapitalisation plan, involving the accumulated amount of 4.444 billion euros; (iii) completion of the public offer of CaixaBank over BPI; (iv) operation to increase the share capital of Caixa Económica Montepio Geral (250 million euros): (v) acquisition of Banco Popular by Banco Santander S.A. in the context of a resolution measure applied to the first; and (vi) the near closing of the sale of Novo Banco to Lone Star, the year of 2018 was marked by the beginning of the consolidation of the Portuguese banking system, in which only the last stage of CGD's recapitalisation plan was finalised, through the issuance of 500 million euros of securities representing tier 2 own funds.

According to Banco de Portugal, in 2018, the total assets of the banking system increased by 0.8% in relation to 2017, with an increase of 11.5% of the debt securities portfolio and a 2.5% decline of loans to customers.

The ratio of non-performing loans (NPL) continued on its downward trend, standing at 9.4% at the end of 2018, well below the 13.3% observed at the end of 2017. This improvement was due to a strong reduction of the stock of non-performing loans of non-financial companies (SNF) and individuals, enabling the attainment of an NPL ratio net of impairments of 4.5% at the end of 2018 (6.7% at the end of 2017). Since the historic peak, observed in June 2016, the non-performing loan ratio has fallen by 8.5 p.p. (Non-financial companies: -11.9 p.p.; individuals: -4.1 p.p.). These dynamics represent a reduction of almost 50.0% of the total stock of NPL (non-financial companies: -49.0%; individuals: -46.0%), which reflected a series of measures adopted by the banking system, such as the sale of credit at a discount and its cleaning from the balance sheet, as well as recoveries via calling in debt and insolvencies of debtors. The ratio of NPL coverage by impairment increased in 2018, from 49.4% observed at the end of 2017 to 51.9%, reflecting the rise of the NPL coverage ratio of non-financial companies and individuals.

The liquidity position of the banking system continued to show comfortable levels, with a loan-to-deposit ratio of 88.9% and the liquidity coverage ratio at 196.5%. Central bank financing continued to represent 5.3% of the assets in the fourth quarter of 2018, corresponding to the lowest figure since the first quarter of 2010.

In 2018, banking profitability ascertained through return on equity (ROE) and return on assets (ROA) increased in relation to the previous year by 3.7 p.p. and 0.3 p.p., respectively, standing at 7.1% and 0.7%. The increased ROA was essentially determined by the impressive reduction of provisions and impairments (0.6 p.p. of assets), in particular for credit, which led to a decrease of the cost of risk by 0.6 p.p., to 0.4%. Total operating income contributed negatively to the evolution of ROA (-0.4 p.p.), due to the reduction of the results from financial operations, associated to losses in credit sales and the dissipation of the base effect related to the recording in other operating results in 2017 of the instalments related to the sale of Novo Banco. The less expressive reduction of operating costs (1.9%), in a context of decreased total operating income was reflected in a reduction of the efficiency of the banking system, when measured by the cost-to-income ratio, of 52.8% in 2017 to 60.3% in 2018.

The solvency of Portuguese banks has recorded significant improvements since 2011. In the fourth quarter of 2018, solvency ratios fell slightly, with the ratio of total own funds and the ratio of common equity tier 1 (CET1) standing at 15.1% and 13.2%, respectively. Part of this evolution was due to the change of parent company, for purposes of prudential supervision, of the Group to which Novo Banco belongs (thereafter being LSF Nani Investments S.a.r.l.). The reduction of risk-weighted assets led to a 0.7 p.p. decrease of the average risk weighting factor, which stood at 54.4% at the end of 2018. The leverage ratio [ratio between the measurement of capital (Tier 1) and the measurement of exposure] fell slightly to 7.3%, continuing to stand significantly above the reference minimum defined by the Basel Committee on Banking Supervision (3.0%).

MAIN RISKS AND UNCERTAINTIES FOR 2019

In April 2019, the IMF, in addition to making a new downward revision of the growth of the global economy, identified a series of (six) risks that, should they materialise, would place the world economy at a lower rate of growth than that currently forecast: *i*) the trade tensions continue to be a reason for concern. Progress has been made in relations between the USA and China, but some results still depend on the negotiation process. Apart from the direct impacts, the IMF considers that the uncertainty and fear of an escalation in protectionism undermine investment by companies; *ii*) the IMF's projections assume a recovery in the Euro Zone, underpinned by a scenario that prevents a disorderly withdrawal of the United Kingdom from the European Union (Brexit), that the measures of stimulation adopted by the Chines government cause effects, and that the impact of the fiscal package in the USA will begin to vanish. Any evolution different from that assumed could place in question the current forecast of world growth; *iii*) cyber-attacks also constitute a source of risk for financial markets, as they can have a severely disruptive effect in payment systems and in the circulation of goods and services; *iv*) the political risks related to the agenda of new governments fresh after elections, the conflict in the Middle East or the tensions in East Asia could, when combined, also have a harmful effect on growth; *v*) the medium term risks that the IMF sees are the impact that climate change could have on the global economy, the lack of confidence in institutions and political parties, that lead to a polarisation less able to facilitate reforms; and *vi*) the evolution of commodity prices is another uncertainty, with the IMF assuming that the risks to global growth are now greater.

For the Portuguese economy, domestically, the main challenges are linked to: i) the persistently weak situation of the banking system; ii) the continuation of some political risks, in a context in which the country continues committed to objectives of consolidation of public finance in the medium term, and the consequent need for structural reforms. On the positive side, the recovery of the labour market could continue to surpass expectations, supporting greater growth of domestic demand.

At the same time, in spite of the continued deleveraging process of the non-financial private sector over the last few years, this sector is still highly indebted, implying that the effort to reduce debt will have to be further pursued in order for the main economic agents, households and non-financial companies to be able to continue to meet debt servicing requirements. If the deleveraging process does not continue, the risk of credit default might increase, with negative impacts on the asset quality of banks, especially in a scenario of a future rise in interest rates.

Externally, the economy is still vulnerable to the evolution of global demand which, as a central scenario, should continue to rise, but which is also surrounded by risks. The upward risks are above all derived from: *i)* the low price of oil [the average price of oil of 2019 should be lower than that of 2018], which should continue to favour the terms of trade; *ii)* the possibility of the global economy growing at a rate higher than that expected. On the negative side, we highlight: *i*) the political uncertainty in the Euro Zone (namely, parliamentary support to the governments of Spain and Germany, and the recent instability experienced in France and Italy); *ii*) the possibility of a recrudescence of tensions in financial markets, making the international panorama less favourable than that considered in the projections (the recent events in Italy and the signs of contagion observed), negatively affecting the financing conditions of the Portuguese economy; *iii*) an overly rapid appreciation of the euro could constrain the competitiveness of the economy (a risk less pressing than at the beginning of 2018); *iv*) the effects of the reduction of the expansionary nature of the ECB's monetary policy on the yield rates of Portuguese debt; *v*) increased protectionism at a global level; *vi*) the high geopolitical risk: *a*) uncertainty about the situation of Catalonia; *b)* uncertainty about the Brexit process; *c)* uncertainty relative to the economic and trade policy that has been conducted by the USA; *d)* geopolitical uncertainty in the Middle East (e.g. Syria), in the Far East (e.g. North Korea), mitigated by the holding of the Singapore summit between North Korea and the USA) and in Eastern Europe (Russia/Ukraine) and in USA/Russia, USA/Turkey and USA/Saudi Arabia relations.

Transformation Plan

TRANSFORMATION PLAN

The Board of Directors, which took office on 21 March 2018, is committed to the priority goal of ensuring efficiency, operational profitability and suitability of the business model of Banco Montepio to the most modern and demanding forms of customer relations. The Board of Directors intends to continue to position Banco Montepio as a Portuguese reference bank, due to being close to families, companies and institutions of the social economy.

The aim is for Banco Montepio to stand out as a result of its efficiency and service quality and, at the same time, due to its values, social responsibility and respect for the most demanding ethical standards in its relations with customers. Accordingly, Banco Montepio provides products and services suited to each segment, aimed at offering the best experience in all channels, without every losing the brand's pillars of strength that confer it a unique positioning in its sector and in Portuguese society.

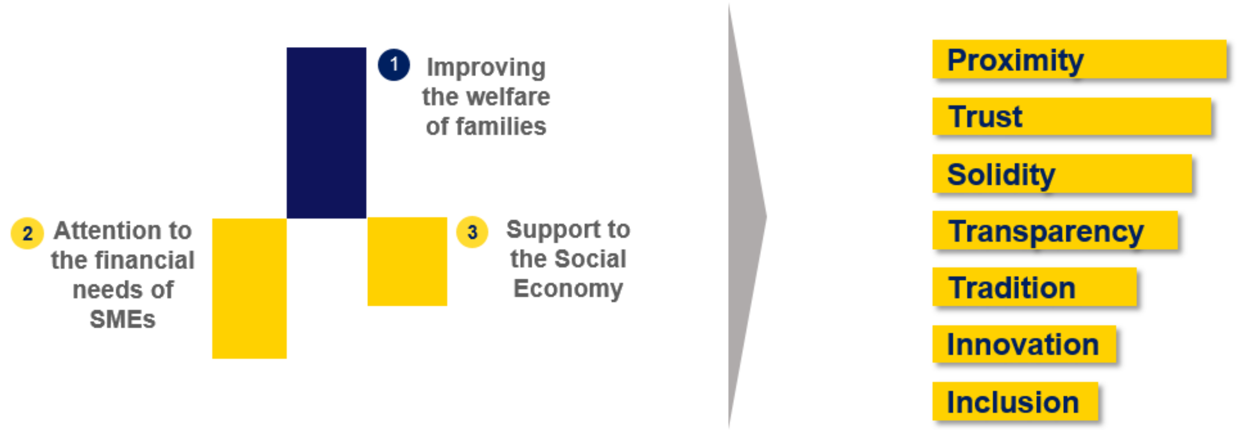
The process of modernisation and digital transformation started in 2018, focused on a multiplatform concept with a view to reaching the customer more easily, faster and more effectively, without placing in question the relations of proximity, combining modernity and tradition.

Banco Montepio's Transformation Plan will define the Bank's vision and business goals for the medium and long term, aiming to achieve six critical goals:

1. Make Banco Montepio's business model evolve so that it is economically viable in the long term and gives rise to clear dynamics of creation of value for the shareholder, always maintaining the appropriate safety margins on internal and regulatory prudential limits, a solid short-term liquidity position and a suitable balance sheet structure in the medium and long term;
2. Strengthen Banco Montepio's position as a reference financial institution, by supporting the social economy, working among segments of the population that are least benefited by banking services;
3. Develop new value propositions and service models, affirming itself as a reference bank for small and medium-sized enterprises (SMEs) and for the different segments of individual customers;
4. Simultaneously, increase the efficiency and efficacy of the commercial, service and group support structures, using recent technologies and new ways of working;
5. Strengthen Banco Montepio's strategic pillar as a “banking system of relations and proximity” both for individuals and companies, enabling it to affirm itself as a modern institution based on traditional values, adjusting its product and service offer and the channels used to the different customer segments;
6. Improve the quality of the assets, focusing on the sustained improvement of credit quality ratios and the continuous reduction of concentration of risk in the activity sectors of construction and real estate development.

With a view to achieving a position of leadership in the financial market, the Bank aims to improve its Net Promoter Score indicators (Degree of Satisfaction and Loyalty) both regarding Customers and Employees. Under this assumption, the focus on partnerships, brand strengthening, relations and experience with the Customer are fundamental to attain the 6 goals presented above.

Bank of reference, customer-focused | **based on the values of always**



Banco Montepio's strategy to accomplish the defined goals will be conducted through four pillars, supported on their vectors of action, as indicated below:

- **Value and business proposition:**
  - Develop a new model of binding for individuals and companies with goals and offers differentiated by segments;
  - Develop a management model based on the Net Promoter Score to improve the customers' experience;
  - Increase the production of mortgage loans, enhancing the anchor effect, with competitive service and pricing aligned with the market;
  - Strengthen the consumer and specialised credit business;
  - Reinforce and maintain the strategy of support and follow-up to Entrepreneurship and Social Innovation;
  - Strengthen its qualities as a Social Economy Bank, by providing an Offer built on partnerships with value propositions for Social economy Entities;
  - Create a Company Bank (Banco de Empresas Montepio) with a broad range of specialised products and services integrating commercial banking and investment banking;
  - Reduce the cost of financing through an active portfolio repricing policy and reduction of trading rates.

- **Strengthening of the balance sheet:**
  - Review the credit risk management processes, scoring/rating models and definition of risk appetite;
  - Make the credit analysis and decision more efficient and customer driven, with a single credit decider per bracket and with entirely independent determination of impairment;
  - Restructure and strengthen the internal model of credit recovery (Non-Performing Loans);
  - Reinforce the link between credit recovery and real estate management.
- **Organisation:**
  - Simplify the organisational structure focused on the efficiency and efficacy of the operative model;
  - Adapt the branch models to support the digital experience and expand remote customer management;
  - Open local banks dedicated to proximity and convenience, with a small number of employees and shared management, in locations with a low offer of financial services;
  - Develop a talent management model and strengthen people skills;
  - Develop and implement a compensation and incentive model.
- **Support:**
  - Implement a new centralised and comprehensive model of cost management governance;
  - Pursue the gradual expansion of the solution to dematerialise documentation and other business processes;
  - Create a 5 to 10-year information technology system plan, with appropriate levels of investment (CAPEX) and operating costs (OPEX).

Business Segments

BUSINESS SEGMENTS

The Banco Montepio Group is one of the main Portuguese financial groups that develops a series of banking and financial service activities, with special focus on retail banking in Portugal, but also abroad.

The Group's business segments include: in domestic activity, Commercial Banking, comprised of Retail Banking, Corporate Banking, the Social Economy, Specialised Credit, developed by Montepio Crédito, and Asset Management, developed by the subsidiary Montepio Valor; Investment Banking, developed by Montepio Investimento; as well as complementary services, developed through SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A., and; aboard, the activity developed by the subsidiaries Finibanco Angola and Banco Montepio Geral Cabo Verde.

The Group's target customer segments consist of Individuals, Companies, concentrating on small and medium-sized enterprises, the middle market and Social Economy. Banco Montepio's business model is customer driven, focused on the well-being of families, on supporting the social economy and on attention to the needs of small and medium-sized enterprises, and based on values of proximity, trust, solidity, transparency, tradition, innovation and inclusion.

Banco Montepio provides a series of banking products and financial services that include the entire offer inherent to the universal banking activity, namely the attraction of deposits, credit concession and financial services for companies and individuals, custody and, furthermore, the marketing of investment funds and life and non-life insurance.

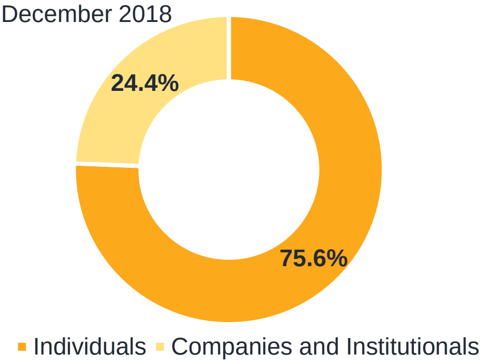
Its international activity has been developed through the stakes held in Finibanco Angola, Banco Terra, sold in December 2018, and Banco MG Cabo Verde and through its representation offices. Finibanco Angola is currently being sold, pursuant to the strategic redefinition of the international holdings with a view to refocusing the approach to the African market.

As at 31 December 2018, the operations in Portugal accounted for 97.5% of total assets, 100% of total loans to Customers (gross) and 98.7% of total Customer deposits. As at 31 December 2018, Banco Montepio had a network of 324 branches in Portugal, serving 1,512 thousand Customers, involving 151 thousand Companies and 1,361 thousand Individuals, with market shares of 6.0% in customer deposits and 6.1% in loans to customers.

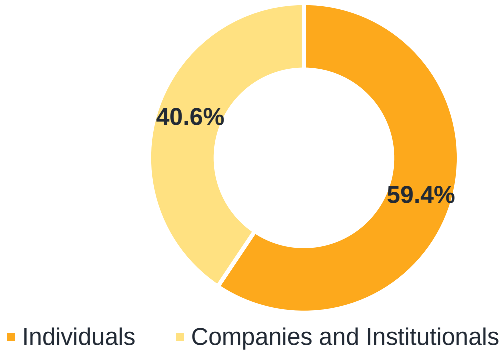
BUSINESS SEGMENTS OF THE BANCO MONTEPIO GROUP

As at 31 December 2018, Banco Montepio customer deposits stood at 12.6 billion euros, with individual customers accounting for 75.6% of this amount, and gross loans to customers reaching 13.1 billion euros, of which, in the outstanding credit component, 59.4% was with individual customers and 40.6% with company and institutional customers.

Structure of Customers' Deposits
31 December 2018



Structure of Loans to Customers (performing loans)
31 December 2018



RETAIL BANKING

The Retail Banking segment corresponds to the entire activity developed by the Group with individual customers, sole proprietorships, small and medium-sized enterprises allocated to this segment and microenterprises, commercially referred to as the segment of Individuals and Small Businesses, essentially originated through the branch network, electronic channels and network of promotors. The financial information of this segment covers, among other aspects, related products and services, such as mortgage loans, personal or consumer credit, demand and term deposits, and other savings instruments, retirement solution products, like "PPR" (retirement saving plans), debit and credit cards, account management services and means of payment and investment fund placement services and the purchase and sale of securities and custody, as well as the placement of insurance and non-financial services.

A list of key indicators of the Retail Banking segment is given below, in accordance with the segmental reporting of IFRS 8 and presented in the notes to the financial statements of this report.

Summary of indicators - Retail Banking (million euros)

	2017	2018	Change 18/17	
			Amount	%
Income Statement				
Net interest income	143.3	159.3	16.0	11.2
Other operating income (net)	110.5	106.6	-3.9	(3.5)
Total operating income	253.8	266.0	12.1	4.8
Operating costs	150.4	170.9	20.5	13.6
Impairment	26.0	-6.7	-32.7	-
Net Income	53.9	70.7	16.9	31.3
Balance Sheet				
Loans to customers (gross)	8 785	8 324	-461	(5.3)
Customers' deposits	10 088	10 572	484	4.8

CORPORATE BANKING

The Corporate Banking segment aggregates the Group's activity with Small, Medium-Sized and Large Companies, through the commercial structure dedicated to this segment. It also includes the business with institutional customers, namely of the financial sector. The products and services offered include, in particular, those related to credit for treasury and investment purposes, commercial discount, guarantees provided, leasing, factoring, renting, operations abroad, such as documentary credit, cheques and remittances, payment and receipt services, cards and custody services.

The Corporate Banking business includes the Corporate segment in Portugal, which operates under the Group's cross-selling strategy as a distribution channel for products and services of other companies of the Group.

A list of key indicators of the Corporate Banking segment is given below, in accordance with the segmental reporting of IFRS 8 and presented in the notes to the financial statements of this report.

Summary of indicators - Corporate Banking (million euros)

	2017	2018	Change 18/17	
			Amount	%
Income Statement				
Net interest income	90.3	73.6	-16.8	(18.6)
Other operating income (net)	24.9	20.3	-4.6	(18.4)
Total operating income	115.2	93.8	-21.3	(18.5)
Operating costs	24.2	19.3	-4.9	(20.3)
Impairment	14.2	1.3	-12.9	(90.8)
Net Income	53.4	50.9	-2.5	(4.6)
Balance Sheet				
Loans to customers (gross)	2 664	2 385	-278	(10.5)
Customers' deposits	1 835	1 190	-645	(35.1)

All other segments, namely comprising specialised credit, asset management and investment banking, are analysed individually herein, by the respective subsidiary in the section “Subsidiary companies” of this report.

In Angola and Cape Verde, the Group is represented by locally based financial institutions offering an extensive range of financial products and services to individuals and companies. The international activity is specifically analysed in the section “International activity” of this report.

SOCIAL ECONOMY

The Social Economy segment reinforces Banco Montepio's role as a reference agent of the Social Economy, in the market and with the different stakeholders, incorporating the activity related to the Social Economy and Public Sector business areas.

Summary of indicators - Social Economy (million euros)

	2017	2018	Change 18/17	
			Amount	%
Income Statement				
Net interest income	4.3	3.2	-1.1	(24.7)
Other operating income (net)	1.4	1.6	0.2	13.5
Total operating income	5.7	4.8	-0.9	(15.0)
Operating costs	5.4	4.4	-1.0	(18.1)
Impairment	0.3	0.2	-0.1	(32.4)
Net Income	0.0	0.2	0.1	652.0
Balance Sheet				
Loans to customers (gross)	127	130	3	2.0
Customers' deposits	457	655	198	43.3

The main highlights of 2018 are presented below for domestic activity with respect to the Banco Montepio Group's offer of financial products and services, by segment of target customers - Individuals, Companies and Social Economy.

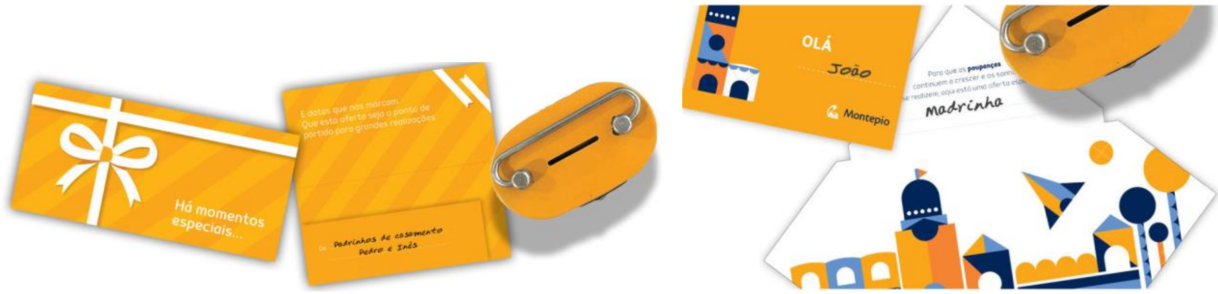
INDIVIDUALS

DEPOSITS

Banco Montepio's offer for the Individuals segment has focused on encouraging household saving, in particular through the attraction and retention of funds, making available deposits with different characteristics and maturities.

In 2018, Banco Montepio revived the Piggy Bank, a Portuguese savings icon, to encourage household saving, facilitating and improving the conditions of access through a lower value of collateral. The renovated classic piggy bank, with history, tradition and emotionality, was enhanced with a digital version.

Aimed at diversifying the deposit portfolio, levered by the offer for households and underage individuals, Banco Montepio launched Poupança por Objetivos (Goal Driven Saving), a Term Deposit with the minimum value of €5 for opening and movement that enables building savings, with top-up plans made to measure for each project. Furthermore, the Bank materialised the concept of "offering saving" by launching the "vouchers-poupança" (saving vouchers), a unique product in the market that enables offering any person the first step to strengthening or starting a saving.



The new deposits "Poupança Trimestral" (Quarterly Saving) and "Poupança Super" (Super Saving) were provided throughout 2018, with attractive rates and the possibility of capitalisation of interest, promoting the attraction and retention of savings in the medium term as well as the deposits "Aforro 2018-2021" (Saving 2018-2021) and "Poupança Top" (Top Saving).

The offer of Retirement Saving Plans features in particular the provision of products of Futuro – Sociedade Gestora de Fundos de Pensões, S.A., and the campaigns "Poupança FUTURO 30 anos" (30 years FUTURE Saving) and "Um FUTURO a Preservar" (A FUTURE to Preserve), which boosted and encouraged savings from an investment perspective for retirement through free or periodic deliveries.

INVESTMENT FUNDS

In the first half of 2018, the Fundo PPR 5 Estrelas (5 Star Retirement Saving Plan Fund) was distinguished with the Melhor Fundo PPR (Best PPR Fund) award, attributed by APFIPP - Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (Portuguese Association of Investment Funds, Pensions and Assets) in partnership with Jornal de Negócios, under the Melhores Fundos 2018 (Best Funds 2018) awards.

At the end of 2018, Banco Montepio promoted a new FUTURO (FUTURE) campaign, named "O Futuro é o Presente!" (The Future is the Present!) aimed at encouraging saving for retirement, promoting free and periodic subscriptions of Fundos de Pensões PPR/PPA (PPR/PPA Pension Funds).

Banco Montepio continued to promote the offer of Real Estate Investment Funds managed by Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A., and two Real Estate Investment Funds – Fundo Valor Prime (Valor Prime Fund) and "Fundo VIP" (VIP Fund), managed respectively by the Managment companies Montepio Valor and Silvip.

Montepio Gestão de Activos received the award for Melhor Fundo de Obrigações de Taxa Indexada (Best Indexed Rate Bond Fund), attributed to the Fundo Montepio Obrigações (Montepio Obrigações Fund), a distinction attributed by "APFIPP - Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios" (Portuguese Association of Investment Funds, Pensions and Assets) in partnership with Jornal de Negócios.

PAYMENT MEANS

Concerning means of payment, Banco Montepio redesigned and optimised its entire offer of credit cards for Individuals, having developed three new cards – Classic, Gold and World, with various associated benefits, in particular the charging of monthly instalments instead of the usual Issuance Rates and Annuities, enabling the Customer to pay this type of fee in a phased manner.

The Classic Card is directed at Customers that are only interested in the credit functionality, although they may decide to acquire a series of associated services. The card will always be free of charge provided that the Customer accumulates a minimum of €150 of use in the previous month. The Gold Card is a prestige card with a full insurance package associated to it, which can be free of charge provided that the Customer uses a minimum of €250 in the previous month. The World Card is a high prestige card directed at Customers interested in leisure activities, namely travel, containing a specific set of insurance and benefits, such as the offer of access to over 1,000 lounges in hundreds of airports all over the world.

An innovative and differentiating service was launched in the third quarter of the year - immediate transfers, with immediate credit for the receiver in up to 10 seconds, broadening the offer in the area of management of payments. Banco Montepio was one of the founders of this service, promoted by SIBS among the national community.

INSURANCE

In the area of Bancassurance, continuity was given, in partnership with the Montepio Group's insurers, to the policy of simplification of services and processes. This aims to increase efficiency and improve the customers' experience, with business support campaigns having been conducted, especially incident in the motor vehicle and work accident segments which contributed to greater customer loyalty.

COMMERCIAL SOLUTIONS

In July 2018, Banco Montepio launched the “15 em 1 | Serviço Máximo” (15 in 1 | Maximum Service) solution, aimed exclusively at individual customers, which combines 15 benefits in a single account. These benefits include the offer of the demand account maintenance fee, the offer of unlimited transfers, provided that they are made in automatic channels, the offer of the issuance fee and annuities of 2 debit cards, and the priority and discount in Residências Montepio, Serviço de Teleassistência e Apoio ao Domicílio (Montepio Residences, Helpline and Home Support Service).

CREDIT

In credit to individuals, aimed at repositioning Banco Montepio as a bank specialised in the Mortgage Loan product, improvements were made to the product distribution strategy that shall be continued in 2019. The customer service level was improved by the introduction of conditional approval based on the data declared by the customer, which enables at immediate appraisal of the customer's financial capacity to honour a given future liability.

The statement of data usually collected for a simulation, which enables the assignment of a risk category to the simulated credit operation, has been enhanced by new features to enable more flexible simulations of scenarios, in the context of the new credit contracts concluded with consumers, which entered into force in 2018. The features of the online simulator have been improved with a view to the promotion of responsible and sustainable credit, now presenting the calculated indexed monthly instalment with 3 percentage points added to the Nominal Annual Rate (NAR) shown in the simulation.

The initiatives started to improve the stimulation of mortgage loan solutions include, in particular-, the launch of a new period for fixing the rate at 25 years.

Also with respect to financing to individuals, in the first quarter of 2018, aimed at improving the customer service level, a new Model of Limits of Credit to Individuals was made available, which enables identifying the universe of customers with monthly maximum disposable capacity to acquire goods and services. Based on this method, by identifying the universe of eligible customers and the respective maximum ceiling for consumer credit financing, the time of response to customers has improved.

COMPANIES

In order to put into practice a new value proposition centred on simplification, consistency and easy use as critical factors of success for differentiation in the segment, a new model was created for commercial monitoring, based on specialisation and size of the customers, and improvements were made in the offer of online features.

Throughout 2018, Banco Montepio strengthened its participation in public sector initiatives directed at stimulating the financing of companies in different aspects, in particular:

Linha de Crédito Capitalizar 2018 (Capitalise 2018 Credit Line)

The new credit line seeks to ensure the continuity of the Linha de Crédito Capitalizar (Capitalise Credit Line), whose ceiling was exceeded in 2018. This line, whose total value amounts to 1,600 million euros, creates more advantageous financing conditions for SMEs, enabling them to sustain a strategy of growth and support increased exports.

Programa FINCRESCE | PME Líder 2018 (FINCRESCE | SME Leader 2018 Programme)

Banco Montepio once again joined IAPMEI in renewing the Programa Fincresce (Fincresce Programme), thus contributing to distinguish companies which are positioned as drivers of the national economy in different activity sectors, by attributing Estatutos PME Líder e Excelência (SME Leader and Excellence Status).

Linha de Crédito – Capitalizar Turismo 2018/2019 (Capitalise Tourism 2018/2019 Credit Line)

The Programa Capitalizar Turismo (Capitalise Tourism Programme) announced by the Government includes this line, essentially aimed at supporting the creation or re-qualification of enterprises and establishments with tourist interest. Note should be made of the possibility of financing debt service, in situations when it appears to be overly demanding in view of the level of cash flow generated by the company.

Linha de Apoio ao Desenvolvimento de Negócio 2018 (ADN 2018) (Business Development Support Line 2018 (ADN 2018))

This line aims to support the activity of SMEs, with turnover up to 150 million euros and which are not part of corporate groups with consolidated turnover of more than 200 million euros.

Linha de Crédito para Limpeza da Floresta (Credit Line for Forest Cleaning)

Credit line with the objective of financing the operations for the active management of the forest, providing an overall amount of financing of up to 40 million euros.

Linhas de Crédito ao Parqueamento e à Comercialização da Madeira Queimada (Credit Line for Parking and Marketing of Burnt Wood)

Protocolled lines with Instituto de Financiamento da Agricultura e Pescas (Institute for Financing Agriculture and Fisheries), SPGM - Sociedade de Investimento, S. A. and Sociedade de Garantia Mútua Agrogarante, with total amounts of up to 5 and 3 million euros respectively.

Linha de Crédito para Eficiência Energética (Credit Line for Energy Efficiency)

With a total allocation of up to 100 million euros, this line is directed at SME that wish to finance investments aimed at improving the energy performance of their industrial and tourist facilities. Through this line, Banco Montepio will support and encourage the sustainable growth strategies of eligible companies, contributing to the targets defined in the Plano Nacional de Ação para a Eficiência Energética (National Action Plan for Energy Efficiency) and in the Plano Nacional de Ação para as Energias Renováveis (National Action Plan for Renewable Energy).

SOCIAL ECONOMY

During 2018, Banco Montepio continued to affirm the Social Economy as a differentiating pillar of the institution, through a business follow-up model based on a specific department, the Direção Comercial da Economia Social e do Setor Público (DCESSP) (Social Economy and Public Sector Commercial Department, with a team of experienced managers from the north to the south of the country, close to the customers, with specific knowledge of the sector and its varied areas of action.

DCESSP pursued the objective of transforming Banco Montepio a market leader in the Social Economy segment, seeking to strengthen its market share, increase turnover, sign partnerships, maintain dialogue and relations with the structures representing the sector and its different stakeholders, strengthen brand recall and the values of the brand, and contribute to an economy of social impact.

DCESSP is composed of employees with commercial and technical duties, with 25 commercial managers dedicated to customers of the Social Economy and Public Sector and 4 managers dedicated to Microcredit and Social Entrepreneurship, responsible for monitoring the customers, attracting new customers, commercial stimulation and attraction of business.

Bearing in mind that Banco Montepio's action includes support to entities of the Social Economy and their social projects, contributing to their viability, maintenance and continuity, as answers to social challenges able to boost development and social inclusion. In this regard, we highlight the main initiatives supported throughout 2018:

- **Commercial Protocol with Casa do Professor (Teacher's House) –** the oldest social solidarity association dedicated to teachers, created for the purpose of supporting teachers of all educational levels, by promoting initiatives of social, scientific, training, cultural and recreational nature. The commercial protocol concluded between Banco Montepio and Casa do Professor seeks to offer exclusive conditions for Casa do Professor employees, members and their families.

- **Commercial Protocol with the Associação dos Escoteiros de Portugal (Portuguese Scouts Association) –** a Social Economy entity whose mission is to educate and convey values to young people so that they can play an active role in society. The protocol concluded between CEMG and the Portuguese Scouts aims to provide products and services, under specific conditions, to around 70 member groups of this entity.

- **Commercial Protocol with Diocese do Porto (Porto Diocese) –** the second largest Portuguese diocese in terms of number of parishes. The protocol concluded between Banco Montepio and Porto Diocese is directed at the Parishes and the Social and Parish Centres within the territorial limits of Porto Diocese, giving over 600 entities access to a specific series of benefits in Banco Montepio products and services.

- **e-Social –** a 360º communication platform of Banco Montepio aimed at all stakeholders of the Social Economy. Present on Twitter, YouTube, Instagram and Facebook, e-Social operates as a meeting point of causes, initiatives, projects, challenges, exhibition and disclosure of what is best done in the Social Economy, in Entrepreneurship and Social Innovation in Portugal.

- **"Operação 10 Milhões de Estrelas - Um Gesto pela Paz" (Operation 10 Million Stars - A Gesture of Peace) –** Once again, Banco Montepio supported the annual initiative "Operação 10 Milhões de Estrelas – Um Gesto pela Paz" (Operation 10 Million Stars - A Gesture of Peace) of Cáritas of Setúbal, participating in the diocesan Cáritas mission of being on the side of those who are most vulnerable.

Support to Entrepreneurship and Social Innovation

During 2018, Banco Montepio continued to reveal strong dynamism in the context of Entrepreneurship and Social Innovation, by supporting social incubators, entrepreneurship competitions and social entrepreneurship projects.

Social Entrepreneurship gathers a series of initiatives whose ultimate goal is the generated social impact. Intrinsically linked to innovation, social entrepreneurship initiatives represent creative and disruptive solutions to resolve the most diverse social challenges, promoting equal opportunities and a more inclusive and closer society.

Banco Montepio has actively participated in various dynamics of development of technology-based and innovative ideas, projects and business ventures. The main initiatives and projects developed throughout 2018 are highlighted below:

- **Montepio Acredita Portugal (Montepio Believes Portugal) –** Acredita Portugal is a non-profit organisation which promotes, in partnership with Banco Montepio, the largest entrepreneurship competition of Portugal and the second largest worldwide, awarding more than 500 thousand euros to the best ideas and projects linked to this area. In its 8th edition, the Montepio Acredita Portugal (Montepio Believes Portugal) competition received 11,477 applications, where most of the projects submitted were related to the category of Social Entrepreneurship (2,050 projects) - which is specifically supported by Banco Montepio-, followed by the categories of Technology (1,073), Trade (898), Restaurants (645) and Industry (635). By supporting this competition, Banco Montepio is actively contributing to creating value for society, joining forces with an organisation that shares the same principles concerning support to Entrepreneurship and Social Innovation, as a driver of economic development, generator of ideas and solutions for social challenges and a model of human, social and sustainable development.

- **Acorde Maior (Major Chord) –** the focus of Village Underground Lisboa on the area of inclusion and social impact aims to involve young people of different backgrounds who live in less favourable situations, in the world of music, through activities led by experienced Portuguese musicians. The three editions of 2018, which counted on the support of Banco Montepio, were held during school holiday periods, namely in April, June and December. In each edition, the young participants explored processes of creation of collaborative music, creative thinking, composition and interpretation, which culminated in the presentation of a final performance.

- **Impact Hub Lisbon –** an incubation space of social nature aimed at supporting the best entrepreneurship projects of social and environmental impact, which was supported by Banco Montepio. In May 2018, Impact Hub Lisbon commemorated one year of activity and presence in Portugal and Lisbon, with indicators that reveal the importance of the topic of social entrepreneurship: the space has an average of more than 100 resident members of 14 different nationalities; more than

50 startups were created, incubated, accelerated and/or supported during this period; 6 programmes of acceleration, incubation and capacity-building with participation of more than 80 startups; and more than 4,000 visitors. Banco Montepio's strategic partnership with this incubator aims to associate the institution's image with that of a recognised international incubator of social impact.

- **Título de Impacto Social (Social Impact Bond) –** Banco Montepio was the first Bank in Portugal to invest in Social Impact Bonds, financing instruments provided by Portugal Inovação Social (Social Innovation Portugal) which aim to support innovative projects with social impact. The Projeto Família (Family Project), co-financed by Banco Montepio, is a social innovation project which promotes a methodology that is internationally recognised for its efficacy in preventing the institutionalisation of children and young people at risk.

Microcredit and Social Entrepreneurship

Banco Montepio's Microcredit area, which combines the financial component to the solidarity component, promotes inclusion and self-employment, with a team of specialised managers, who follow up the business ideas from their very beginning, cooperate and guide the entrepreneurs and, together, find the best solutions for each case. Through partnerships with national organisations which are distinguished by their experience in the field of social entrepreneurship and protocolled financing lines, Montepio Bank has contributed to making people and ideas grow, creating business, generating employment and producing wealth for entrepreneurs and society.

In this regard, during 2018, Banco Montepio maintained the Programa de Apoio ao Empreendedorismo e à Criação do Próprio Emprego (Programme to Support Entrepreneurship and Own Job Creation), a protocol established with Instituto do Emprego e Formação Profissional, I.P. (IEFP) and the four Mutual Guarantee Companies (Norgarante, Garval, Lisgarante and Agrogarante) embodied in the credit lines Microinvest and Invest+.

Concerning the investment in Microcredit and support for Social Entrepreneurship, in 2018 Banco Montepio supported over 100 projects, through more than 1.5 million euros of financing, which led to the creation of more than 150 jobs.

Microcredit Indicators (thousand euros)

	2016	2017	2018	Chance 18/17	
				Amount	%
Business portfolios (number)	5	5	4	(1)	(20,0)
Customers (number)	203	171	241	70	40,9
Business volumes (resources and credit)	1.421	2.019	2.593	574	28,4

The training on microcredit and social entrepreneurship given to partner entities, like Fundação Girl Move (Girl Move Foundation), illustrates Banco Montepio's initiatives of support, aimed at placing the participants, through a team of specialised managers, in contact with various topics and players linked to the areas of microcredit and social entrepreneurship in Portugal.

SUBSIDIARIES

Montepio Investimento, S.A.

Montepio Investimento, S.A., a bank 100% controlled by the Banco Montepio Group, pursued, in 2018, an intervention directed towards Investment Banking, in particular in the sphere of providing advisory services to companies, namely SMEs, in the areas of “Corporate Finance” and “Financial Advisory”, aimed at supplementing the Group's offer of products and services.

As at 31 December 2018, the Net assets of Montepio Investimento, S.A. stood at 200.1 million euros, compared to 225.3 million euros recorded at the end of December 2017.

The heading of Loans and advances to credit institutions repayable on demand, which records the amounts invested in Caixa Económica Montepio Geral, caixa económica bancária S.A., stood at 1.7 million euros as at 31 December 2018, decreasing by 11.5 million euros in relation to the value recorded at the end of 2017 (13.2 million euros).

Net loans to customers amounted to 27.6 million euros at the end of 2018, compared to 38.4 million euros recorded at the end of 2017, corresponding to a reduction of 10.8 million euros and reflecting the amortisation of the equipment leasing and real estate leasing portfolios.

As at 31 December 2018, the heading of Financial assets not held for trading mandatorily at fair value through profit or loss amounted to 91.6 million euros, related to the accounting reclassification of investment units which, up to 31 December 2017, had been classified in the portfolio of Financial assets at fair value through other comprehensive income. As a consequence of this reclassification, the heading of Financial assets at fair value through other comprehensive income stood at 51.5 million euros as at 31 December 2018, compared to 145.5 million euros recorded at the end of 2017.

Non-current assets held for sale amounted to 19.8 million euros as at 31 December 2018, compared to 22.4 million euros recorded at the end of 2017, essentially corresponding to real estate properties derived from the dissolution of customer credit contracts.

As at 31 December 2018, Resources from other credit institutions and Equity continued to be the main sources of Asset funding, representing 97.8% of Total assets (99.1% in 2017).

The heading of Resources from other credit institutions refers to loans from Caixa Económica Montepio Geral, standing at 10.0 million euros as at 31 December 2018, having evolved from 35.1 million euros recorded at the end of 2017.

Equity reached 185.6 million euros as at 31 December 2018, showing a decrease of 1.4% in relation to the value recorded at the end of 2017 of 188.2 million euros, revealing the adverse evolution of Revaluation reserves and Net income for the year.

The Net income recorded in 2018 was -0.6 million euros, compared to 1.8 million euros recorded in 2017, revealing the adverse impact recorded in terms of Total operating income determined by the lower gains stated in Results from financial operations and by the reduction in Results from sale of other assets, despite the reductions observed in Operating costs and the lower level of Impairments and provisions recorded in the period.

Net interest income in 2018 reached 2.7 million euros, compared to 2.9 million euros recorded in 2017 (-0.2 million euros), reflecting, on the one hand, the reduction observed in Interest of loans to customers and in Interest of demand deposits, of a total of 0.5 million euros, and on the other hand, the decrease of Interest of loans of 0.3 million euros.

Net fees and commissions stood at 1.2 million euros in 2018, reflecting an increase of 0.5 million euros compared to the value recorded in 2017, primarily derived from fees and commissions on the structuring of operations.

The Results from financial operations amounted to -1.1 million euros in 2018, compared to 0.4 million euros recorded in 2017, reflecting the accounting reclassification carried out in June 2018 related to the adoption of IFRS 9 relative to the Investment Units of the Securities portfolio. The funds of the Securities portfolio, formerly classified under Assets at fair value through other comprehensive income, were reclassified under Other financial assets at fair value through profit or loss, and, as a consequence of this reclassification, the fair value reserves associated to these funds were reclassified through profit or loss.

The heading of Results from sale of other assets, which records the result of the sale of real estate properties derived from the award of properties under financial leasing at Montepio Investimento S.A. and properties classified as non-current assets held for sale, stood at 0.6 million euros in 2018, compared to 2.0 million euros in 2017.

Other operating income was negative by 0.4 million euros, nevertheless, compares favourably with the -0.5 million euros recorded in 2017, primarily reflecting the lower taxes (Imposto Único de Circulação (road tax) and Imposto Municipal sobre Imóveis (municipal property tax)) and lower expenses related to properties held for sale.

Operating costs stood at 1.2 million euros in 2018, having fallen by 29.4% in relation to the value stated in 2017, as a result of the reduction recorded in the headings of Staff costs and General and administrative expenses, in this case determined by the 26.7% decrease observed in the component of specialised services, with Amortisation and depreciation for the year having remained at the same level as the previous year.

The reduction observed in Total operating income, partially offset by the favourable evolution of Operating costs, led to the Cost-to-income ratio reaching 40.0% in 2018, compared to 30.4% recorded in 2017.

Impairments and provisions for 2018 reached -0.2 million euros, having evolved favourably in relation to the amount stated in 2017 of 1.1 million euros, essentially reflecting the reversal of Credit impairments and the lower allocations for Impairment of other financial assets in relation to 2017.

Income tax for the year includes the effect of current and deferred tax calculated in conformity with the taxation system in force. In 2018, Current and deferred taxes amounted to 2.6 million euros, compared to 1.0 million euros recorded in 2017.

Activity and Results (million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Total assets	276.8	225.3	200.1	(25.2)	(11.2)
Loans to customers (net)	54.9	38.4	27.6	(10.8)	(28.1)
Securities applications *	148.3	145.5	143.1	(2.4)	(1.6)
Non-current assets held for sale	19.6	22.4	19.8	(2.6)	(11.6)
Equity	184.6	188.2	185.6	(2.6)	(1.4)
Total operating income	(2.2)	5.6	3.0	(2.6)	(46.4)
Operating costs	1.9	1.7	1.2	(0.5)	(29.4)
Cost-to-Income	-	30.4%	40.0%	9.6 p.p.	
Net income	(12.9)	1.8	(0.6)	(2.4)	-

* Includes Financial assets not held for trading mandatorily at fair value through profit or loss and Financial assets at fair value through other comprehensive income.

Montepio Crédito – Instituição Financeira de Crédito, S.A.

Montepio Crédito – Instituição Financeira de Crédito, S.A. (Montepio Crédito), 100% controlled by the Banco Montepio Group, offers specialised credit in the motor vehicle, home and services, and equipment segments, supplemented by a series of solutions for individual customers, companies and institutions of the Social Economy sector.

As a result of the repositioning made in terms of the Banco Montepio Group and the strong and solid relations established with its partners, based on the experience acquired over the years, Montepio Crédito has developed a specialised offer of solutions and credit in the following areas: Motor Vehicle, Health, Motor Vehicle Repair, Telecommunications and Furniture for the segment of individuals; and Logistics, Water, Transport, Energy, Energy Efficiency and Industry for the segment of companies.

As at 31 December 2018, Net assets reached 489.7 million euros, showing growth of 10.6% in relation to the value recorded at the end of 2017.

Loans to customers amounted to 432.8 million euros as at 31 December 2018, compared to 406.3 million euros recorded at the end of 2017, showing an increase of 6.5%.

In 2018, Resources from other credit institutions and Debt securities issued continued to be the main sources of Asset funding, representing 86.4% of Total assets as at 31 December 2018 (86.6% at the end of 2017).

The heading of Resources from other credit institutions stood at 268.6 million euros as at 31 December 2018, having increased by 17.2% in relation to the value recorded at the end of 2017.

The heading of Debt securities issued, composed of “Pelican Finance No. 1” and “Aqua Finance 4” Bonds, stood at 154.3 million euros as at 31 December 2018, in line with the value recorded at the end of 2017 (154.1 million euros).

Equity reached 51.1 million euros as at 31 December 2018, showing an increase of 16.1% in relation to the value recorded at the end of 2017 of 44.1 million euros, revealing the favourable evolution of Net income for the year.

The Net income for 2018 amounted to 8.0 million euros, evolving favourably in relation to the 2.9 million euros recorded in 2017, presenting an increase of 5.1 million euros, primarily influenced by the reversal of impairment of loans to customers of the value of -5.1 million euros.

Total operating income came to 16.1 million euros in 2018, comparing favourably with the 15.5 million euros recorded in 2017, essentially due to the recovery of the Results from financial operations and the increase of Net fees and commissions in relation to the previous year.

Net interest income stood at 12.8 million euros in 2018, corresponding to a reduction of 8.2% in relation to the value of 13.9 million euros recorded in 2017, fundamentally determined by the decrease of the commercial net interest income, via interest of loans to customers and by the increase in securitisation operations.

Net fees and commissions reached 3.6 million euros in 2018, compared to 2.7 million euros recorded in 2017, representing an increase of 31.3%, primarily reflecting the favourable evolution of the income gained from payment services and fees received from cross-sale of insurance products in the life and non-life segments, combined with the decrease of other costs.

The Results from financial operations stood at 0.1 million euros in 2018, evolving favourably in relation to the -1.0 million euros recorded in 2017.

Other operating income was negative by 0.3 million euros in 2018, compared to the -0.2 million euros recorded in 2017, reflecting the evolution of other operating expenses, namely related to operational leasing services (equipment maintenance) and losses in financial leasing operations.

Operating costs amounted to 11.3 million euros in 2018, corresponding to an increase of 0.6 million euros (+6.0%) in relation to the end of 2017, caused by the increased Staff costs (+9.8%) and General and administrative expenses (+2.0%), not offset by the reduction of Depreciation and amortisation (-0.5%).

The evolution of Staff costs, which stood at 6.1 million euros in 2018, reflecting an increase of 0.6 million euros compared to the value recorded in 2017, was primarily caused by the increased expenses related to the Pension Fund and Remunerations. General and administrative expenses, which amounted to 4.9 million euros in 2018, revealing the increase recorded in Other expenses related to services, namely agreements and fees and court costs, notwithstanding the reduction observed in costs related to Marketing and Advertising.

The evolution of Total operating income, on the one hand, and operating costs, on the other hand, contributed to the Cost-to-Income ratio reaching 70.4% at the end of 2018, compared to 68.7% recorded in 2017.

Impairment and provisions stood at -6.3 million euros in 2018, compared to 0.9 million euros recorded in 2017. This evolution was influenced by the reversal of customer loan impairments associated to the POCI (Purchased or originated credit impaired Financial assets) operation in December 2018, and the reversal of impairments of the credit portfolio.

Income tax for the year includes the effect of current and deferred tax calculated in conformity with the taxation system in force. In 2018, Current and deferred taxes amounted to 3.1 million euros, compared to 1.1 million euros recorded in 2017.

Activity and Results					(million euros)
	2016	2017	2018	Change 18/17	
				Amount	%
Total assets	385.8	442.5	489.7	47.2	10.6
Loans to customers (net)	362.8	406.3	432.8	26.5	6.5
Resources from other credit institutions	312.1	229.1	268.6	39.5	17.2
Debt securities issued	0.0	154.1	154.3	0.2	0.1
Equity	37.3	44.1	51.1	7.0	16.1
Total operating income	17.1	15.5	16.1	0.6	3.5
Operating costs	10.6	10.7	11.3	0.6	6.0
Cost-to-Income	62.2%	68.7%	70.4%	1.7 p.p.	
Net income	4.3	2.9	8.0	5.1	179.8

Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.

Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. (Montepio Valor) is 100% controlled by Montepio Holding SGPS, S.A., with its corporate object being the management of real estate investment funds.

The Net assets of Montepio Valor reached 5.5 million euros as at 31 December 2018, showing a 4.6% reduction in relation to the value recorded at the end of 2017, where special note should be made of the deconsolidation of Fundo de Investimento Imobiliário Aberto Valor Prime (Valor Prime Open Real Estate Investment Fund) on 31 March 2018.

As at 31 December 2018, the aggregate value of Cash and deposits at central banks and loans and advances to credit institutions amounted to 4.8 million euros, revealing an increase of 0.2 million euros compared to the amount recorded at the end of 2017 (+3.0%).

Assets under management amounted to 509.8 million euros as at 31 December 2018, comparing favourably with the 486.3 million euros recorded as at 31 December 2017.

Equity reached 4.4 million euros as at 31 December 2018, showing a reduction in relation to the 4.9 million euros recorded at the end of 2017, reflecting the unfavourable evolution of Net income for the year.

The Net income recorded in 2018 was 0.3 million euros, compared to 0.7 million euros recorded in 2017, reflecting the impact of the constitution of Other provisions, despite the decrease in Operating costs and increase in Net fees and commissions.

Total operating income reached 4.3 million euros in 2018, comparing favourably to the 4.2 million euros recorded in 2017, showing an increase of 1.8%, underpinned by the performance of Net fees and commissions.

Net interest income for 2018 reached 17.1 thousand euros, compared to 20.8 thousand euros recorded in 2017 (-17.8%), reflecting the lower income from the investment of surplus liquidity.

Net fees and commissions stood at 4.1 million euros in 2018, evolving favourably in relation to the value recorded in 2017 of 4.0 million euros (+3.2%), reflecting the increased occurred in net market fees, which include fees for management, administration and custody of assets and for operations on securities.

Other operating income stood at 195.6 thousand euros, compared to 241.1 thousand euros recorded in 2017 (-18.9%), due to the lower revenue on the one side and higher costs on the other side.

Operating costs amounted to 3.4 million euros in 2018, compared to 3.3 million euros stated in 2017, reflecting a 0.7% increase as a result of the higher Staff costs (+19.8%) and Depreciation and amortisation (+53.2%), and despite the reduction recorded in General administrative expenses (-9.2%). The increase observed in Staff costs in relation to 2017, essentially reflects the increase of remunerations, namely those allocated to the management and supervisory bodies. The reduction in General administrative expenses reflects the decrease in expenses related to other services, especially via the absence of hiring of temporary employment services in 2018 relative to 2017, and the reduction of expenses related to consultants and external auditors.

The evolution of Total operating income, on the one hand, and Operating Costs, on the other hand, contributed to the Cost-to-Income ratio standing at 77.7% at the end of 2018, compared to 78.6% in 2017.

Impairments and provisions for 2018 reached 0.5 million euros, essentially reflecting the allocations to Other provisions constituted during the year.

Income tax for the year includes the effect of current and deferred tax calculated in conformity with the taxation system in force. In 2018, Current and deferred taxes amounted to 0.1 million euros, compared to 0.2 million euros recorded in 2017.

Activity and Results (million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Assets under management	488.7	486.3	509.8	23.5	4.8
Total assets	5.8	5.8	5.5	(0.3)	(4.6)
Equity	4.9	4.9	4.4	(0.5)	(10.2)
Total operating income	3.8	4.2	4.3	0.1	1.8
Operating costs	2.6	3.3	3.4	0.1	0.7
Cost-to-Income	67.9%	78.6%	77.7%	(0.9 p.p.)	
Net income	0.9	0.7	0.3	(0.4)	(50.2)

SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.

SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. (SSAGINCENTIVE), is 100% controlled by Banco Montepio through Montepio Holding, SGPS, S.A., with its corporate object being the trading and management of real estate properties required for the installation and operation of the credit institutions or financial companies that are its shareholders and/or of the companies in a group or controlling relationship with it. Furthermore, the corporate object also includes the management and purchase for resale of real estate properties acquired by its shareholders and/or companies in a group or controlling relationship with it as a result of the repayment of credit belonging to them.

As at 31 December 2018, the Assets of SSAGINCENTIVE amounted to 59.8 million euros, showing a 2.6% decline in relation to the value recorded at the end of 2017 (61.4 million euros).

The heading of Inventories evolved from 51.8 million euros at the end of December 2017 to 47.5 million euros as at 31 December 2018, of which 27.3 million euros refer to buildings and 20.2 million euros to plots of land, reflecting the acquisitions from Banco Montepio, namely related to real estate properties intended for sale, namely Property divisions stated at market value.

The heading of Cash and bank deposits amounted to 12.1 million euros as at 31 December 2018, showing an increase of 3.4 million euros in relation to the 8.7 million euros recorded at the end of 2017, revealing the deposits made in Banco Montepio.

As at 31 December 2018, Equity stood at 59.7 million euros, compared to 61.2 million euros at the end of 2017, reflecting the unfavourable impact of Net income for the year in 2018 which was negative by 1.5 million euros.

Sales and services rendered reached 3.9 million euros in 2018, representing a reduction of 0.9 million euros compared to the value stated in 2017, corresponding to the amounts derived from inventory sales, under the current business activity of SSAGINCENTIVE.

The heading of Cost of goods sold and materials consumed reached 3.6 million euros in 2018, representing the acquisition cost of the sold real estate properties, after deduction of the respective impairment.

The heading of Impairment of inventories recorded a favourable evolution in shifting from a cost of 2.9 million euros in 2017 to 0.8 million euros in 2018.

The heading of Other costs, which includes costs related to the maintenance, legalisation and promotion of the sale of real estate properties, amounted to 0.6 million euros in 2018, compared to 0.5 million euros in 2017.

The Net income for 2018 stood at -1.5 million euros, reflecting a favourable evolution in relation to the value of -3.1 million euros recorded in 2017, benefiting from the lower level of Impairments and provisions stated in 2018.

Activity and Results (million euros)

	2016	**2017**	**2018**	Change 18/17	
				Amount	%
Total assets	59.2	61.4	59.8	(1.6)	(2.6)
Inventories	55.8	51.8	47.5	(4.3)	(8.3)
Equity	59.2	61.2	59.7	(1.5)	(2.5)
Total operating income	(4.3)	(3.0)	(0.9)	2.1	71.6
Net income	(3.4)	(3.1)	(1.5)	1.6	51.1

INTERNATIONAL ACTIVITY

The international activity of the Banco Montepio Group has been developed by the subsidiaries Finibanco Angola, S.A., Banco MG Cabo Verde, Sociedade Unipessoal, S.A. and Banco Terra, S.A., which was sold in December 2018, and is no longer part of the Group's consolidation perimeter as at 31 December 2018. The sale of Banco Terra led to a reduction of 3.7 million euros in net income, caused by the recycling of the negative foreign exchange reserve, despite the fact that Banco Terra S.A. was sold at a value higher than its book value.

In the context of the strategic redefinition of its international holdings, Banco Montepio is currently undergoing negotiations with a series of investors aimed at re-focusing its approach to the African market, with a view to accentuating the domestic focus of the Group's activity.

Finibanco Angola, S.A., 80.22% held by Banco Montepio, is a universal bank supporting small and medium-sized enterprises, individuals and Angolan foreign trade which seeks to leverage its competitive advantage on the quality of its service. Under its strategy, Finibanco Angola seeks to advise and finance individual customers and micro-enterprises, promoting business initiatives that would otherwise not have access to credit.

Finibanco Angola completed 10 years of activity in 2018, having been created on 4 September 2007 and having started its activity in the city of Luanda on 9 June 2008. The expansion of the distribution network, levered on experience and the favourable evolution of its activity, has been accomplished through own funding, aimed at proximity to its customers, and had a total of 24 branches and business centres at the end of 2018.

Banco MG Cabo Verde, S.A., 100% held by Banco Montepio, provides a broad offer of specialised financial products and services for the segments of individuals, institutions or companies with international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions.

Activity and Results (million euros)

	2016 (1)	2017 (1)	2018 (1)	2017 (2)	2018 (2)	Change 18/17	
						Amount	%
Total assets	524.3	489.1	477.1	435.2	477.1	41.9	9.6
Loans to customers (net)	112.8	98.6	62.8	64.4	62.8	(1.6)	(2.5)
Customers' deposits	422.5	370.0	351.3	343.8	351.3	7.5	2.2
Total operating income	29.0	26.3	46.0	19.6	40.9	21.3	108.5
Operating costs	16.1	18.2	19.8	11.8	13.9	2.1	18.2
Cost-to-Income	55.4%	69.3%	43.0%	60.0%	34.0%	(0.3)	(26.0 p.p.)
Net income	5.7	3.7	12.4	3.7	12.9	9.2	244.9

Note: For comparative purposes the 2016, 2017 and 2018 financial statements of Finibanco Angola and of Banco Terra were restated using the same exchange rate: AOA/EUR 353,015; MZN/EUR 70,278.
(1) Includes Finibanco Angola, Banco MG Cabo Verde and Banco Terra. (2) Information on a comparable basis: Includes Finibanco Angola and Banco MG Cabo Verde.

The performance of the international activity of the Banco Montepio Group in 2018, revealed the macroeconomic context of the main geographic areas in which it operates. In Angola, GDP recorded an annual average contraction of 1.7% in 2018 (-0.1% in 2017). Cape Verde showed growth of 5.5% in 2018, accelerating in relation to the 4.0% of 2017.

The total Assets of the international activity of the Banco Montepio Group reached 477.1 million euros as at 31 December 2018, compared to 435.2 million euros recorded at the end of 2017, showing an increase of 9.6%. This evolution was largely driven by the 27.9% increase observed in Finibanco Angola in relation to the value achieved at the end of 2017, notwithstanding the 13.2% reduction recorded in the total Assets of Banco MG Cabo Verde in this period.

The Loans to customers of the international activity stated at the end of 2018 revealed a 2.5% decrease in relation to the value of the end of 2017, having evolved from 64.4 million euros as at 31 December 2017 to 62.8 million euros at the end of 2018. This evolution was exclusively caused by the decrease recorded in Loans to customers granted by Finibanco Angola, as Banco MG Cabo Verde has no values recorded under this heading.

Customer deposits collected by the subsidiaries forming the international activity of the Banco Montepio Group amounted to 351.3 million euros as at 31 December 2018, having increased by 2.2% in relation to the value stated as at 31 December 2017. This was underpinned by the favourable evolution of Customer deposits of Finibanco Angola, which reached 192.9 million euros as at 31 December 2018, representing an increase of 18.7% compared to the value as at 31 December 2017, and accounting for 54.9% of the total deposits of the international activity. Customer deposits at Banco MG Cabo Verde stood at 158.5 million euros as at 31 December 2018, reflecting a reduction of 12.6% in relation to the value recorded as at 31 December 2017.

Total operating income of the international activity reached 40.9 million euros for 2018, compared to 19.6 million euros recorded in 2017, showing an increase of 108.5%. The favourable evolution of Total operating income was underpinned by the growth of Net interest income, which reached 20.8 million euros (+22.2%), Net fees and commissions, which amounted to 9.1 million euros (+110.4%) and the Results from foreign exchange revaluation, which reached 12.5 million euros (+400.7%).

At Finibanco Angola, Total operating income for 2018 increased by 113.2% in relation to 2017, standing at 40.7 million euros. This outcome essentially reflects the positive evolution of Net interest income which increased by 4.0 million euros, Net fees and commissions which grew by 4.8 million euros, and the Results from foreign exchange revaluation which increased by 10.1 million euros.

At Banco MG Cabo Verde, Total operating income for 2018 stood at 0.2 million euros, representing a reduction of 0.3 million euros (-56.4%) compared to the value recorded in 2017. The progression of Total operating income at Banco MG Cabo Verde was influenced by the adverse evolution of Net interest income, by -0.2 million euros, and the Results from foreign exchange revaluation, by -0.1 million euros in relation to 2017.

Operating costs of the international activity stood at 13.9 million euros, revealing an increase of 18.2% in relation to the 11.8 million euros recorded in 2017, primarily caused by the 37.5% increase in Staff costs and 3.4% increase in General administrative expenses, in spite of the decrease observed in Depreciation and amortisation (-1.3%).

At Finibanco Angola and Banco MG Cabo Verde, Operating costs increased in 2018 compared to the value of the same period of 2017, by +18.1% and +20.1% respectively, reflecting the evolution of the activity developed and the characteristics of their markets. At Finibanco Angola the increase observed in Operating costs in 2018 was caused by the increases recorded in Staff costs (+36.5%) and General administrative expenses (+2.8%), while Depreciation and amortisation fell (-1.1%) in comparison to 2017. At Banco MG Cabo Verde the year-on-year growth of Operating costs in 2018 was caused by the increases recorded in Staff costs (+92.5%) and General administrative expenses (+8.2%), while Depreciation and amortisation fell (-24.0%).

As a result of this evolution, the cost-to-income ratio of the international activity stood at 34.0% in 2018, showing a reduction of 26.0 p.p. compared to the indicator recorded in 2017.

In 2018, the contribution of the international activity to the consolidated net income of the Banco Montepio Group reached 12.9 million euros (3.7 million euros in 2017), with positive net income in Angola (13.3 million euros) and negative in Cape Verde (-0.4 thousand euros).

Financial Analysis

FINANCIAL ANALYSIS

In view of the deliberations taken by the management body and the provisions in IFRS 5, the activities developed by Finibanco Angola and Banco Terra, S.A. were considered discontinuing operations since the end of 2016, in this case sold at the end of 2018, and, likewise, as at 31 December 2018, the Casa da Sorte Group (a stake sold on 24 April 2019).

In the income statement, and whenever applicable, the earnings of these subsidiaries were stated under an operating account heading named “Results from discontinuing operations” and, the assets and liabilities are recorded in the balance sheet, respectively, under the headings named “Non-current assets held for sale – Discontinuing operations” and “Non-current liabilities held for sale – Discontinuing operations”.

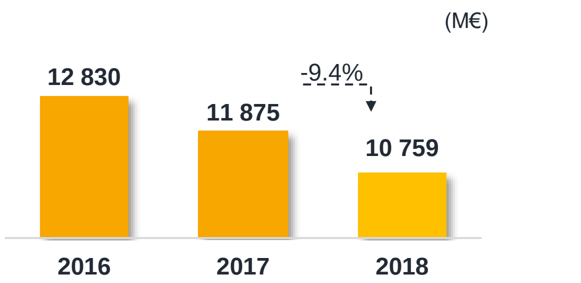
CAPITAL

In line with the Transformation Plan, Banco Montepio adopted a series of measures in 2018 aimed at strengthening the capital levels, in particular those related to balance sheet and to organic capital generators.

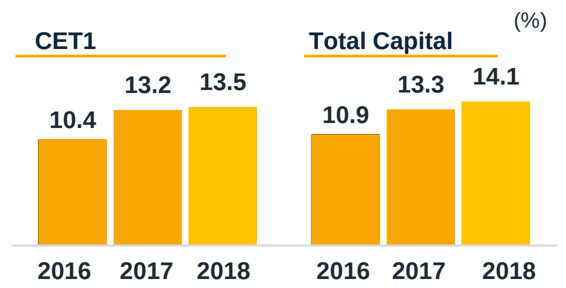
As at 31 December 2018, Banco Montepio showed a favourable evolution of the capital ratios in relation to the end of 2017, in accordance with the phasing-in rules, with the Common Equity Tier 1 (CET1) ratio having reached 13.5% and the Total Capital ratio standing at 14.1%, comparing, respectively, with 13.2% and 13.3% at the end of 2017. In both cases, these figures are above the required prudential levels.

The evolution of the CET1 ratio observed in 2018 reflected, on the one hand, the reduction of Risk-weighted assets by 1,116 million euros in relation to 31 December 2017 (-9.4%), derived from the process of deleveraging non-core assets and management of the allocation of risk in portfolios of loans and debt securities, and, on the other hand, the positive impact of having endorsed the Special Regime for Deferred Tax Assets and of the 2018 Net income. Furthermore, the Total Capital ratio also benefitted from the issuance of subordinated debt eligible for Tier 2 in December 2018 in the amount of 50 million euros.

Risk-weighted Assets (*phasing-in*)



Capital Ratios (*phasing-in*)



On a fully implemented basis, as at 31 December 2018, the CET1 ratio stood at 11.4% and the Total Capital ratio at 12.0%, with the Leverage ratio having reached 6.6%.

CAPITAL AND CAPITAL REQUIREMENTS

(million euros)

	2016	2017	2018	Change18/17 Amount	Change18/17 %
Total own funds					
Common Equity Tier 1	1 331	1 572	1 457	(115)	(7.4)
Tier 1	1 331	1 572	1 457	(115)	(7.3)
Total Capital	1 392	1 580	1 513	(67)	(4.2)
Risk-weighted assets	**12 830**	**11 875**	**10 759**	**(1 116)**	**(9.4)**
Phasing-in ratios					
Common Equity Tier 1	10.4%	13.2%	13.5%	30 bp	
Tier 1	10.4%	13.2%	13.5%	30 bp	
Total Capital	10.9%	13.3%	14.1%	80 bp	
Fully implemented ratios					
Common Equity Tier 1	7.6%	11.6%	11.4%	(20) bp	
Tier 1	7.6%	11.7%	11.4%	(30) bp	
Total Capital	8.2%	11.9%	12.0%	10 bp	
Leverage ratios					
Phasing-In	6.1%	7.6%	7.8%	20 bp	
Fully implemented	4.5%	6.8%	6.6%	(20) bp	

Note: Ratios reflect adherence to the special deferred tax assets regime.

LIQUIDITY

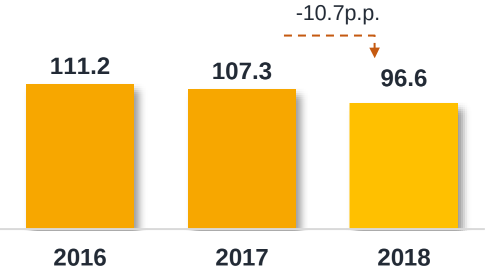
In 2018, Banco Montepio continued to develop a series of initiatives aimed at the continuous reinforcement of its liquidity position, in line with the regulatory objectives and as defined in the Transformation Plan, contributing to meet the regulatory levels in force in a comfortable manner.

Banco Montepio's balance-sheet management enabled the Liquidity Coverage Ratio (LCR) to stand at 160.5% as at 31 December 2018, having evolved favourably in relation to the ratio of 153.2% recorded in 2017, and above the minimum regulatory requirement of 100% applicable in 2018.

The performance of Customer deposits, on the one hand, and Loans to customers, on the other hand, led to a loan-to-deposit ratio, calculated in accordance with Banco de Portugal Instruction number 16/2004, of 96.6% as at 31 December 2018, compared to 107.3% as at 31 December 2017.

Liquidity ratio

Loans to customers / Customers´deposits [(a)]



(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.

LIQUIDITY RATIOS

	2016	2017	2018	Change 18/17
Loans to customers (net) / Customers' deposits [(a)]	111.2	107.3	96.6	(10.7 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources [(b)]	96.3	92.4	88.7	(3.7 p.p.)

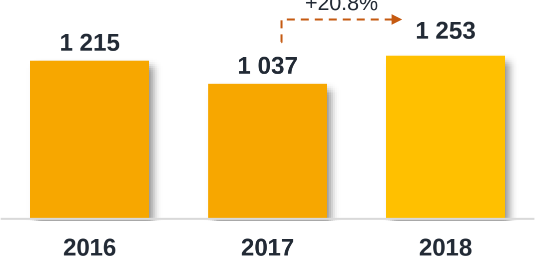
(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.
(b) Total On-Balance Sheet Customers' Resources = Customers' resources + debt securities issued. Computed in accordance w ith the Financial Statements annexed to this report.

The use of ECB resources at the end of 2018 recorded a 10.5% reduction, in relation to the value at the end of 2017, equivalent to 163 million euros. As at 31 December 2018, the use of the pool of collateral in Eurosystem operations stood at 1,395 million euros, compared to 1,558 million euros recorded at the end of 2017, considering the value of the associated interest. The total value of the pool of eligible assets at the end of 2018 showed an increase in relation to 31 December 2017 of 53 million euros.

The use of Eurosystem monetary policy operations falls under the support given to the economy, with a view to optimising the long-term funding, namely through participation in TLTRO-II (Targeted Longer-term Refinancing Operations), in the context of the non-conventional expansionary monetary policy measures implemented by the ECB. In terms of available collateral for obtaining liquidity, the value of the eligible assets increased by 20.8% by shifting from 1,037 million the end of 2017 to 1,253 million euros as at 31 December 2018.

Pool of Eligible Assets for Refinancing Operations with the ECB

(€Mn)



POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Pool of eligible assets [a]	3 538	2 595	2 648	53	2.0
Use of the pool	2 323	1 558	1 395	(163)	(10.5)
Pool of available assets	**1 215**	**1 037**	**1 253**	**216**	**20.8**

(a) Includes eligible assets, free of charge, for operations in the MIC (Collateralized Interbank Market).

Repurchase agreement operations (repos) showed a reduction of 402 million euros in 2018, having shifted from 1,275 million euros as at 31 December 2017 to 873 million euros at the end of 2018, reflecting the favourable evolution observed in terms of the liquidity indicators.

In the end of 2018, in the interbank money market and collaterised interbank market of euros (MIC), Banco Montepio did not record any amount provided or taken of funds.

BALANCE SHEET

In 2018, Banco Montepio accomplished initiatives aimed at the development and implementation of an economically sustainable business model, which ensures stable profitability and focus on reducing non-performing exposures and enables the organic growth of capital levels and liquidity buffers. Accordingly, the deleveraging of the balance sheet continued, materialised in reductions of non-performing loans and in the ongoing strengthening of its liquidity position, through the attraction and retention of customer deposits, and the active management of the securities portfolio, contributing to ensure the regulatory capital and liquidity levels in force in a comfortable form.

In this regard, note should be made of the deconsolidation of the Fundo de Investimento Imobiliário Aberto Valor Prime (Valor Prime Open Real Estate Investment Fund) on 31 March 2018, which, combined with other initiatives carried out, contributed to reduce exposure to real estate risk. Furthermore, a portfolio of non-performing loans was sold on 27 December 2018 for the gross amount of 239 million euros.

SYNTHETIC BALANCE SHEET

(million euros)

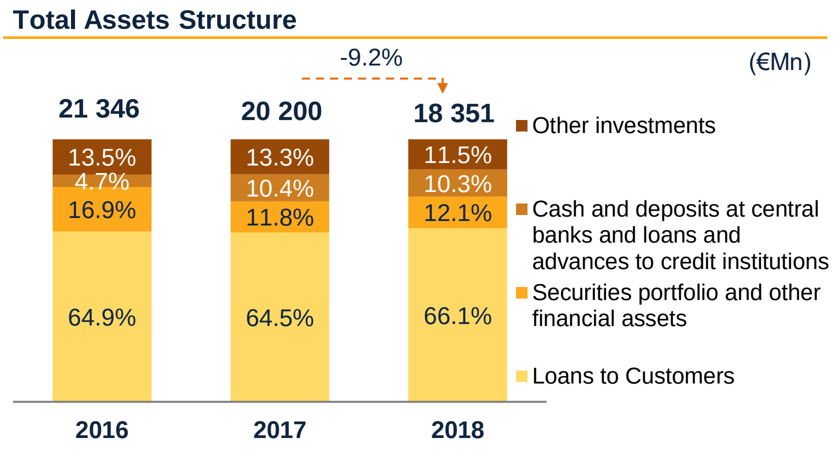
	2016	2017	2018	Change 18/17 Amount	Change 18/17 %
Cash and deposits at central banks and loans and advances to credit institutions	1 010	2 096	1 899	(197)	(9.4)
Loans to customers	13 861	13 029	12 123	(906)	(7.0)
Securities portfolio and other financial assets*	3 604	2 385	2 216	(169)	(7.1)
Non current assets held for sale and investment properties	1 368	1 281	991	(290)	(22.6)
Non current assets held for sale - Discontinuing operations	470	474	295	(179)	(37.9)
Current and deferred tax assets	534	473	471	(2)	(0.4)
Other	499	462	356	(106)	(22.8)
Total assets	**21 346**	**20 200**	**18 351**	**(1 849)**	**(9.2)**
Deposits from central banks and OCI	4 599	3 345	2 641	(704)	(21.0)
Customers' resources	12 468	12 561	12 575	14	0.1
Issued debt	2 171	1 780	1 144	(636)	(35.7)
Non current liabilities held for sale - Discontinuing operations	354	330	194	(136)	(41.3)
Other	297	421	260	(161)	(38.1)
Total liabilities	**19 889**	**18 437**	**16 814**	**(1 623)**	**(8.8)**
Share capital**	2 170	2 420	2 420	-	-
Reserves, retained earnings and other	(627)	(663)	(896)	(233)	(35.1)
Net income	(86)	6	13	6	94.4
Total equity	**1 457**	**1 763**	**1 537**	**(226)**	**(12.8)**
Total liabilities and equity	**21 346**	**20 200**	**18 351**	**(1 849)**	**(9.2)**

* In 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

** Includes in 2016 the Capital and the Banco Montepio Investment Fund.

ASSETS

Net assets stood at 18,351 million euros as at 31 December 2018, compared to 20,200 million euros as at 31 December 2017 (-9.2%). The evolution of Net assets showed a reduction of 1,849 million euros in relation to the value of the end of 2017, particularly influenced by the reductions observed in the headings of Cash and deposits at central banks and loans and advances to credit institutions of 197 million euros, in Loans to customers of 906 million euros, and in the aggregate Non-current assets held for sale and Investment properties of 290 million euros. In this last case, determined by the deconsolidation, on 31 March 2018, of Fundo de Investimento Imobiliário Aberto Valor Prime (Valor Prime Open Real Estate Investment Fund).



CASH AND DEPOSITS AT CENTRAL BANKS AND LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The aggregate heading of Cash and deposits at central banks and loans and advances to credit institutions includes the balances recorded under Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Other loans and advances to credit institutions.

As at 31 December 2018, the liquidity deposited at central banks and other credit institutions reached 1,899 million euros, compared to 2,096 million euros recorded in the same period of 2017. This corresponds to a reduction of 197 million euros (-9.4%), explained by the decrease in the heading of Cash and deposits at central banks and Other loans and advances to credit institutions, not offset by the increase recorded in the heading of Loans and advances to credit institutions repayable on demand.

LOANS TO CUSTOMERS

As at 31 December 2018, Loans to customers (gross) amounted to 13,068 million euros, reflecting a decrease of 7.1% in relation to the value of 14,063 million euros recorded at the end of 2017.

Throughout 2018, Banco Montepio continued to fine-tune the process of approval and granting of loans with a view to accomplishing the strategic objective of improving asset quality and, in this way, foster an improvement in credit quality indicators, based on a reduction of risk concentration, in particular in the construction and real estate development sectors.

The Loan portfolio as at 31 December 2018 recorded a year-on-year decrease of 995 million euros, reflecting the reduction in loans granted to companies, particularly the decrease in gross loans granted to the sectors of Trade (-18.8%) and of Construction and public works and real estate activities (-13.8%), and to individuals, namely in housing loans (-6.6%), which continues to show a higher level of amortisation in relation to the new operations raised, and on the other hand, the sale of a non-performing loan portfolio (NPL) in the gross amount of 239 million euros and the loans write-offs of the value of 150 million euros.

Under Banco Montepio's Transformation Plan the improvement of credit quality is also based on a more effective and integrated management of non-performing loans, by maximising recoveries and investment banking solutions, benefiting from the strategic focus on the segments of individuals and companies, and in particular small and medium-sized enterprises (SMEs) and Social Economy entities.

LOANS TO CUSTOMERS

(By sector of activity)

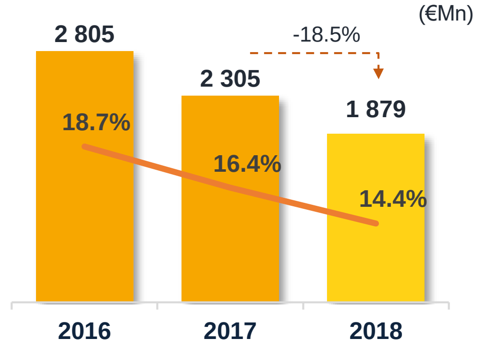
(million euros)

	2017	2018	change 18/17 Amount	change 18/17 %
Individuals	**7 871**	**7 384**	**(487)**	**(6.2)**
Housing loans	6 692	6 252	(440)	(6.6)
Others	1 179	1 132	(47)	(4.0)
Companies	**6 192**	**5 684**	**(508)**	**(8.2)**
Wholesale and retail trade	1 063	863	(200)	(18.8)
Construction and Public works, and Real estate activities	1 774	1 529	(245)	(13.8)
Financial Activities	641	582	(59)	(9.1)
Tourism	497	432	(65)	(13.1)
Transports	476	410	(66)	(13.7)
Manufacture of food products, beverages and tobacco, and Basis metallurgic industries and metallic products	401	366	(35)	(8.7)
Others	1 340	1 502	162	12.0
Gross loans	**14 063**	**13 068**	**(995)**	**(7.1)**
Balance sheet impairment	**1 034**	**945**	**(89)**	**(8.6)**
Net loans	**13 029**	**12 123**	**(906)**	**(7.0)**

Throughout 2018, Banco Montepio carried out a series of initiatives aimed at reducing the exposure in non-performing loans, incorporating the write-off of loans amounting to 150 million euros.

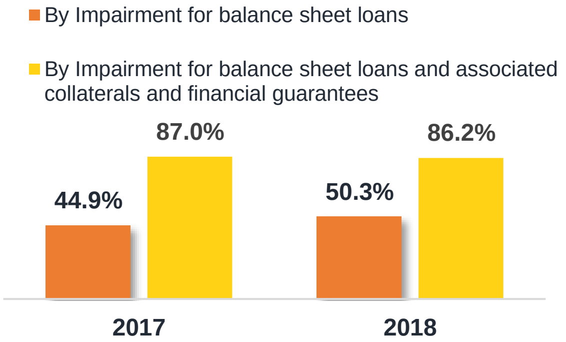
The balance of non-performing exposures (NPE) progressed favourably in relation to the value recorded at the end of 2017, standing at 1,879 million euros as at 31 December 2018, with the proportion of NPE in relation to the Total gross loans to customers standing at 14.4%, compared to 16.4% at the end of 2017.

Non-performing exposures (NPE)*



* EBA definition.

NPE coverage*



* EBA definition.

The coverage of non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees stood at 86.2% as at 31 December 2018, compared to 87.0% at the end of 2017, while the coverage by balance sheet impairment stood at 50.3%, which in turn compares favourably with the 44.9% recorded as at 31 December 2017.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

Pursuing the strategy of rebalancing the asset structure, Banco Montepio continued in 2018 to identify and implement measures aimed at improving the liquidity levels and active management of the portfolio of securities and other instruments.

As at 31 December 2018, the portfolio of securities and other instruments amounted to 2,216 million euros, compared to 2,385 million euros as at 31 December 2017 (-7.1%). The evolution of the portfolio of securities and other instruments in relation to the end of 2017 reveals, on the one hand, the sale of public debt securities throughout 2018, and on the other hand, the constitution of a portfolio of Other financial assets at amortised cost of public debt in 2018.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(million euros)

	2016	2017	2018	change 18/17	
				Amount	%
Financial assets held for trading	78	184	24	(160)	(87.1)
Financial assets at fair value through other comprehensive income	2 400	2 201	444	(1 757)	(79.8)
Other financial assets at amortised cost	1 126	-	1 256	1 256	-
Financial assets not held for trading mandatorily at fair value through profit or loss*	-	-	492	492	-
Total Securities portfolio and other financial assets	**3 604**	**2 385**	**2 216**	**(169)**	**(7.1)**

* In 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

The portfolio of securities and other instruments, analysed by type of instrument, showed a year-on-year decrease of 241 million euros in bonds and other debt instruments, which includes Portuguese, Italian and Spanish public debt, having shifted from 1,808 million euros as at 31 December 2017 to 1,567 million euros at end of 2018, explaining the reduction recorded in the total portfolio.

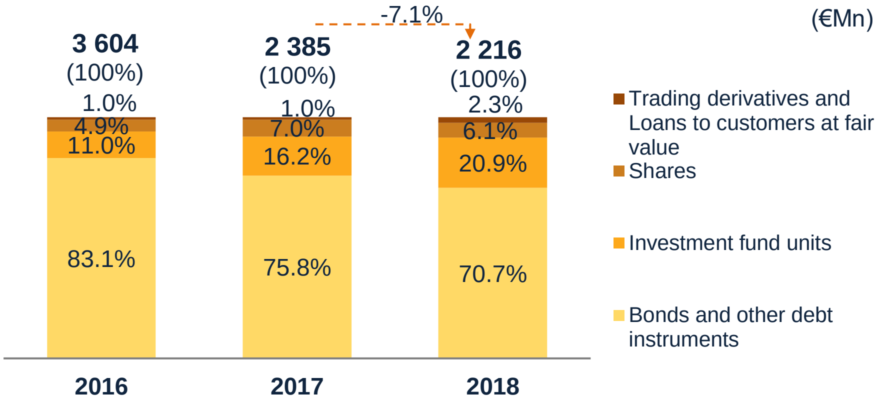
SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS BY TYPE OF INSTRUMENT

(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Bonds and other debt instruments	2 996	1 808	1 567	(241)	(13.3)
Shares	177	167	133	(34)	(20.7)
Investment fund units	398	385	464	79	20.4
Trading derivatives	33	25	24	(1)	(3.3)
Loans to customers at fair value	-	-	28	28	-
Total Securities portfolio and other financial assets	**3 604**	**2 385**	**2 216**	**(169)**	**(7.1)**

The structure of the portfolio of securities and other instruments remained, in 2018, primarily composed of bonds and other debt instruments, representing 70.7% of the total portfolio, with investment fund units accounting for 20.9%.

Structure of the Securities Portfolio and other financial assets

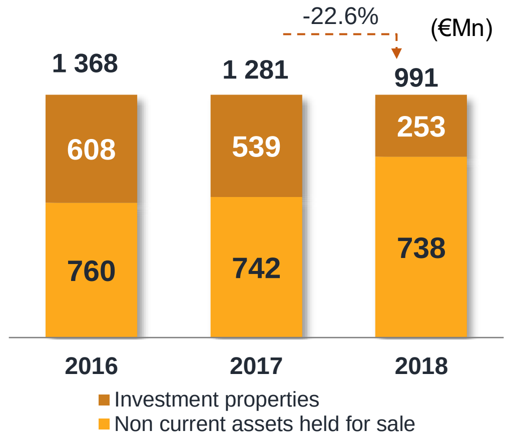


NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The total sum of the headings of Non-current assets held for sale and Investment properties showed a year-on-year decrease of 22.6% as at 31 December 2018, in shifting from 1,281 million euros at the end of 2017 to 991 million euros as at 31 December 2018, in line with the guidelines for the integrated management of real estate properties and the consequent reduction of exposure to this activity sector.

The heading of Non-current assets held for sale essentially shows the amount associated to real estate properties derived from the dissolution of loan contracts with customers, which decreased by evolving from 742 million euros as at 31 December 2017 to 738 million euros at the end of 2018. This evolution reflected the effect of the credit recovery and good performance of the sales of real estate properties in retail market throughout 2018.

Exposure to Real Estate Assets



Investment properties, a heading which records the real estate properties held by the Real Estate Investment Funds in the consolidation perimeter of Banco Montepio, decreased by 53.1%, in evolving from 539 million euros as at 31 December 2017 to 253 million euros at the end of 2018. This mainly reflects the deconsolidation of the Fundo de Investimento Imobiliário Aberto Valor Prime (Valor Prime Open Real Estate Investment Fund), pursuing the strategic objective of reducing the exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUING OPERATIONS

As at 31 December 2018, the heading of Non-current assets held for sale - discontinuing operations amounted to 295 million euros, corresponding to the value of the assets recorded by the Group's operations in Angola and with the Casa da Sorte Group, after having been adjusted for the necessary movements of the consolidation process, and was stated following the application of IFRS 5, as indicated in Note 61 of the Notes to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

At the end of 2018, the aggregate of Current and deferred taxes amounted to 471 million euros, compared to 473 million euros as at 31 December 2017.

According to the respective accounting policy, deferred tax assets are calculated based on the tax rates that are expected to be in force on the date of the reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

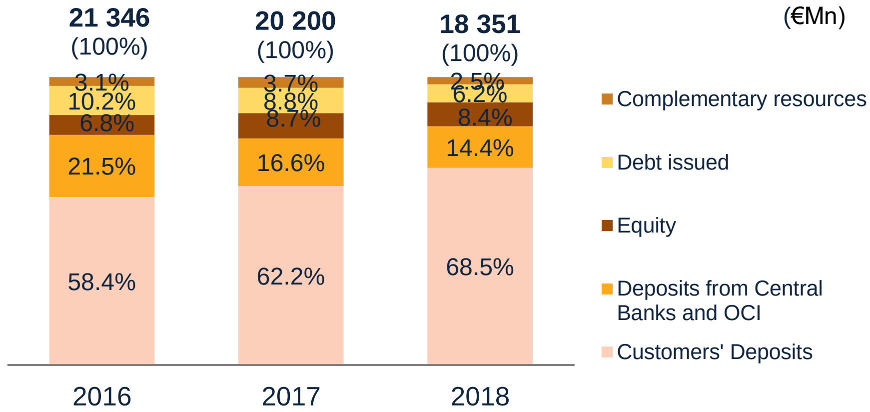
OTHER

The aggregate Other, presented in the Assets of the synthetic balance sheet, stood at 356 million euros as at 31 December 2018, compared to 462 million euros recorded at the end of 2017. This aggregate incorporates the headings of Hedge derivatives, Other tangible assets, Intangible assets, Investments in associates and Other assets. The decrease in this heading was primarily driven by the reduction of 108 million euros in the heading of Other assets, underpinned by the change observed in the heading of Sundry accounts which, as at 31 December 2017, included the value of 106.2 million euros, derived from stock exchange transactions awaiting financial settlement.

LIABILITIES

As at 31 December 2018, total Liabilities stood at 16,814 million euros, revealing a decrease of 1,623 million euros (-8.8%) in relation to the value of 18,437 million euros recorded as at 31 December 2017. This was due to the decrease recorded in Resources from central banks and other credit institutions (-704 million euros), in Issued debt (-636 million euros), in Non-current liabilities held for sale - discontinuing operations (-136 million euros), and in Other liabilities (-166 million euros). As at 31 December 2018, Equity funded 8.4% of the Assets while Customer deposits continued to be the main source of balance sheet funding, representing 68.5% of total liabilities and equity.

Liabilities and Equity Structure



DEPOSITS FROM CENTRAL BANKS AND OCI

As at 31 December 2018, the funding obtained from central banks and other credit institutions amounted to 2,641 million euros, compared to 3,345 million euros recorded at the end of 2017, revealing a reduction of 21.0%.

This heading incorporates funds taken at the ECB, which amounted to 1,395 million euros at the end of 2018, compared to 1,558 million euros as at 31 December 2017, and the funding obtained from other credit institutions stood at 1,245 million euros at the end of 2018, compared to 1,787 million euros as at 31 December 2017, resulting in year-on-year reductions of 10.5% and 30.5%, respectively. The lower dependence on the ECB reflects the success of the liquidity-generating measures that were implemented during 2018.

CUSTOMERS' RESOURCES

Throughout 2018, Banco Montepio developed a series of initiatives related to the attraction and retention of customer resources, through appropriate management aimed at diversifying the funding sources.

Total customers' resources amounted to 13,432 million euros at the end of 2018, of which 12,756 million euros correspond to on-balance sheet customers' resources, 98.6% of which referring to customer deposits.

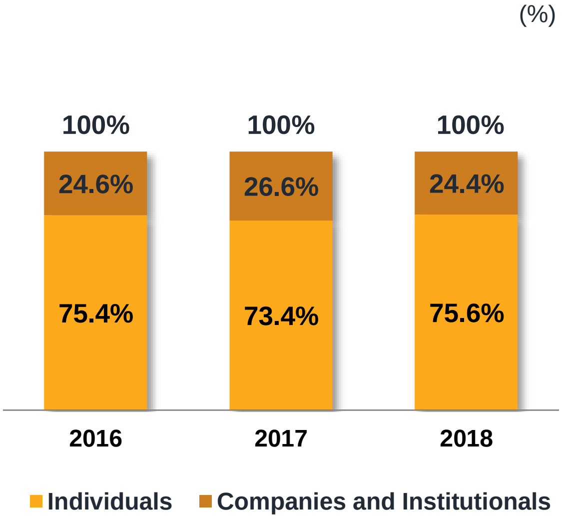
As at 31 December 2018, Customer deposits stood at 12,575 million euros, essentially concentrated in individual customers, a segment that kept its predominance in representing 75.6% of total deposits.

Customer deposits as at 31 December 2018 grew in relation to the value at the end of 2017, notwithstanding the context of interest rates at historically low levels and the more competitive environment.

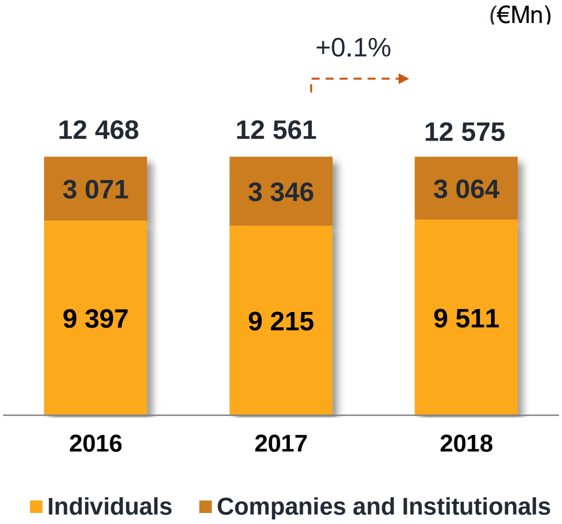
At the end of 2018, the heading of Securities placed with customers stood at 181 million euros, compared to 617 million euros as at 31 December 2017, reflecting the maturity of securitised debt.

Off-balance sheet customer resources reached 676 million euros as at 31 December 2018, compared to 709 million euros recorded as at 31 December 2017, mainly reflecting the evolution observed in Securities investment funds and Capitalisation insurance, alongside the increase recorded in Pension funds and Real estate investment funds.

Customers' deposits structure



Customers' deposits



CUSTOMERS' RESOURCES

(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Customer Deposits	**12 468**	**12 561**	**12 575**	**14**	**0.1**
Sight Deposits	3 302	3 509	3 999	490	14.0
Term Deposits	9 166	9 052	8 576	(476)	(5.3)
Securities placed with Customers	1 327	617	181	(436)	(70.7)
Total On-Balance sheet resources	**13 795**	**13 178**	**12 756**	**(422)**	**(3.2)**
Off-Balance sheet resources	723	709	676	(33)	(4.7)
Total Customers' resources	**14 517**	**13 887**	**13 432**	**(455)**	**(3.3)**

ISSUED DEBT

The aggregate heading of Issued debt incorporates the amounts recorded in the balance sheet relative to Debt securities issued and Other subordinated debt.

At the end of 2018, the amount of Issued debt fell by 35.7%, standing at 1,144 million euros, compared to 1,780 million euros recorded as at 31 December 2017, via the decrease recorded both in Debt securities issued (-29.2%) and in Other subordinated debt (-78.8%). The observed decrease (-636 million euros) reveals, on the one hand, the repayment upon maturity of senior and subordinated debt issuances and, on the other hand, the issuance of 50 million euros of subordinated debt undertaken at the end of 2018.

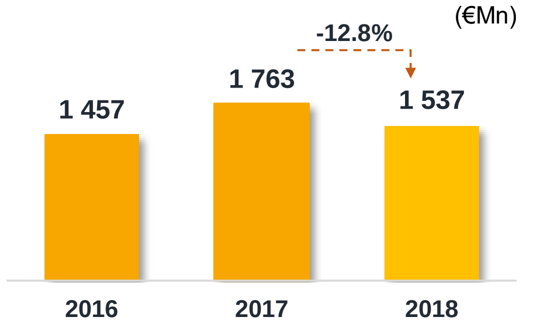
NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUING OPERATIONS

As at 31 December 2018, the heading of Non-current liabilities held for sale - discontinuing operations amounted to 194 million euros, corresponding to the value of the liabilities recorded by the Group's operations in Angola and with the Casa da Sorte Group, after having been adjusted for the necessary movements of the consolidation process, and was stated following the application of IFRS 5, as indicated in Note 61 of the Notes to the consolidated financial statements.

EQUITY

Equity stood at 1,537 million euros as at 31 December 2018, corresponding to a decrease of 226 million euros in relation to the value of the end of 2017, determined by the adverse impacts related to the IFRS 9 transition adjustment of 128 million euros, the recording of negative foreign exchange reserves of 38 million euros, negative actuarial differences of 35 million and negative fair value reserves of 36 million euros, notwithstanding the favourable effect of the net income of 12.5 million euros recorded in 2018.

Equity



EARNINGS

In 2018, Banco Montepio achieved a consolidated net income of 12.5 million euros, compared to 6.4 million euros recorded in 2017.

The net income for 2018 reflects, on the one hand, the adverse evolution of Net interest income, Net fees and commissions, the Results from financial operations, due to the higher level of gains recorded in 2017 related to the sale of Public debt portfolios (which were also reflected in Other operating income - negative in 2018), and, on the other hand, the unfavourable performance of Operating costs and allocations for Impairment and provisions in comparison to 2017.

The Net income for 2018 also shows the negative impact of a series of factors not related to the current operation of Banco Montepio, namely:

- The sale of Banco Terra S.A., which led to a decrease of 3.7 million euros in net income, caused by the recycling of the negative foreign exchange reserve, despite the fact that Banco Terra S.A. was sold at a value higher than its book value;
- The sale of a portfolio of non-performing loans, for the gross amount of 239 million euros, which led to a reduction of 8.4 million euros in Net income;
- The cost with the foreign exchange risk hedging of a stake denominated in Brazilian Reais, carried out as a capital preservation measure, amounting to 4.1 million euros; and
- The provision for an administrative fine resulting from an administrative proceeding imposed by Banco de Portugal related to events occurred in the period between 2009 and 2014, amounting to 2.5 million euros.

Banco Montepio

SYNTHETIC INCOME STATEMENT

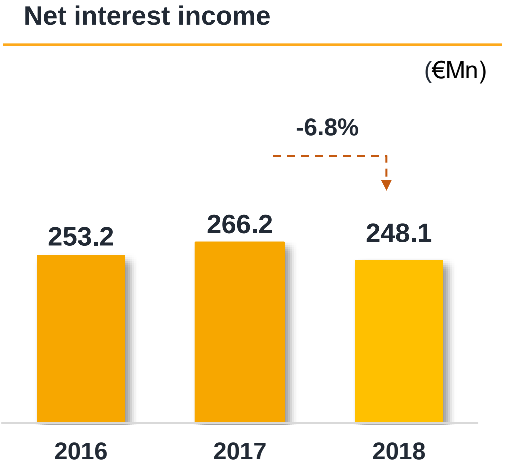
(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Net interest income	**253.2**	**266.2**	**248.1**	**(18.1)**	**(6.8)**
Commercial net interest income	*263.3*	*279.0*	*256.9*	*(22.1)*	*(7.9)*
Net fees and commissions	101.5	119.8	118.4	(1.4)	(1.2)
Core total operating income	**354.7**	**386.0**	**366.5**	**(19.5)**	**(5.1)**
Income from equity instruments	11.6	12.6	8.1	(4.5)	(35.8)
Results from financial operations	37.0	70.7	10.9	(59.8)	(84.6)
Other operating income	(31.8)	35.9	(8.1)	(44.0)	-
Total operating income	**371.5**	**505.2**	**377.4**	**(127.8)**	**(25.3)**
Staff Costs	165.5	156.2	156.0	(0.2)	(0.1)
General and administrative expenses	94.0	87.0	77.7	(9.3)	(10.7)
Depreciation and amortization	24.3	24.8	25.9	1.1	4.4
Operating costs	**283.8**	**268.0**	**259.6**	**(8.4)**	**(3.1)**
Net operating income before provisions and impairments	**87.7**	**237.2**	**117.8**	**(119.4)**	**(50.3)**
Net provisions and impairments	261.5	191.4	93.5	(97.9)	(51.1)
Share of profit of associates under the equity method	0.3	0.2	0.2	0.0	20.5
Net income before income tax	**(173.5)**	**46.0**	**24.5**	**(21.5)**	**(46.7)**
Income tax	96.2	(42.4)	(44.8)	(2.4)	(5.7)
Net income after income tax from continuing operations	**(77.3)**	**3.6**	**(20.3)**	**(23.9)**	**(<100)**
Income from discontinuing operations	(7.2)	4.2	36.1	31.9	>100
Non-controlling interests	2.0	1.4	3.3	1.9	>100
Net Income	**(86.5)**	**6.4**	**12.5**	**6.1**	**94.4**

TOTAL OPERATING INCOME

Total operating income amounted to 377,4 million euros in 2018, compared to the value of 505.2 million euros recorded in 2017, determined by the impact arising from the sale of a Securities portfolio in 2017, evidenced in the performance of the Results from financial operations and Net interest income.

Net interest income



Net interest income stood at 248.1 million euros in 2018, compared to the value of 266.2 million euros recorded in 2017. The evolution of Net interest income was adversely influenced by the lower interest from the loan portfolio and securities portfolio, and favourably influenced by the reduction observed in interest paid on customer deposits and issued debt.

In 2018, on the assets side, there was a decrease in the interest of the portfolio of Loans to customers of 49.8 million euros due to volume and price effects, revealing the deleveraging underway, namely in non-performing loans, with the average interest rate having evolved from 2.43% in 2017 to 2.26% in 2018, reflecting the effect of the repricing of operations, in a context where the main reference interest rates continue on negative ground.

The interest of the Securities portfolio also showed reduction of 24.7 million euros in relation to 2017, due to volume and price effects, reflecting the impact of the sales of public debt bonds carried out during 2017. At the same time, the average interest rate of the portfolio evolved adversely from 1.46% in 2017 to 0.66% in 2018.

On the liabilities side, Net interest income benefited from the positive impact of the decrease of the cost of Customer deposits of 27,8 million euros, via the price effect, showing the impacts of the reduction of the average rate, from 0.70% in 2017 to 0.45% in 2018, revealing the pricing management applied to the attraction of new deposits and in the renovation of existing ones.

The interest paid by the issued debt also contributed positively to the evolution of Net interest income between 2017 and 2018, both via the price effect and volume effect, with the interest paid for senior debt having fallen by 19.6 million euros in relation to 2017.

As result of this performance, the Net interest income margin stood at 1.43% in 2018, compared to 1.45% in 2017, primarily revealing the context of low interest rates and competitive dynamics that continue to condition the performance of Net interest income.

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BREAKDOWN OF NET INTEREST INCOME

(million euros)

	2017			2018		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits	469	0.00	0.0	1 371	1.01	14.0
Loans and advances to OCI	414	0.94	4.0	324	0.78	2.6
Loans to customers	14 738	2.43	363.7	13 709	2.26	313.9
Securities portfolio	2 471	1.46	36.5	1 733	0.67	11.8
Other (includes derivatives)			16.4			19.5
subtotal	18 092	2.29	420.6	17 137	2.08	361.7
Liabilities						
Resources from central banks	2 322	0.04	1.0	1 540	0.32	5.0
Resources from OCI	2 057	0.66	13.7	1 637	0.95	15.8
Customers' deposits	11 919	0.70	84.7	12 390	0.45	56.9
Senior debt	1 540	2.44	38.1	1 287	1.42	18.6
Subordinated debt	249	1.20	3.0	91	1.24	1.1
Other (includes derivatives)			13.9			16.2
subtotal	18 087	0.84	154.4	16 944	0.66	113.6
Net interest income		**1.45**	**266.2**		**1.43**	**248.1**

DETAILED EVOLUTION OF NET INTEREST INCOME BETWEEN 2017 AND 2018

(million euros)

	Volume effect	Price effect	Residual effect	Total
Assets				
Cash and deposits	0.0	4.8	9.2	14.0
Loans and advances to OCI	(0.9)	(0.7)	0.1	(1.4)
Loans to customers	(25.3)	(25.7)	1.2	(49.8)
Securities portfolio	(10.9)	(19.8)	6.0	(24.7)
Other (includes derivatives)	0.0	0.0	3.1	3.1
subtotal	(22.2)	(38.2)	1.5	(58.9)
Liabilities				
Resources from central banks	(0.3)	6.6	(2.3)	4.0
Resources from OCI	(2.8)	6.1	(1.2)	2.1
Customers' deposits	3.3	(29.8)	(1.3)	(27.8)
Senior debt	(6.3)	(15.9)	2.6	(19.6)
Subordinated debt	(1.9)	0.1	(0.0)	(1.9)
Other (includes derivatives)	0.0	0.0	2.3	2.3
subtotal	(9.7)	(32.8)	1.7	(40.8)
Change in net interest income	**(12.4)**	**(5.4)**	**(0.2)**	**(18.1)**

Income from equity instruments

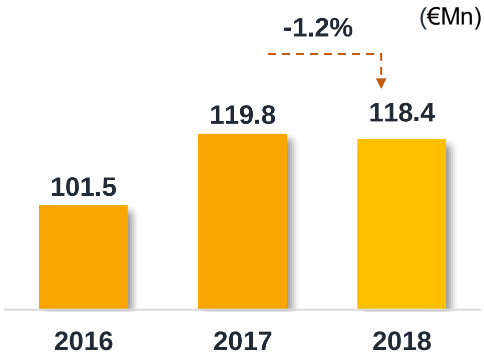
The heading of Income from equity instruments includes the income associated to variable yield securities, namely shares and investment fund units, related to investments stated in the portfolio of assets available for sale. The value stated in 2018 amounted to 8.1 million euros in 2018, comparing unfavourably with the 12.6 million euros recorded in 2017, due to the reclassification of the income from Investment fund units to Results from financial operations following the adoption of IFRS 9.

Net fees and commissions

Under the Transformation Plan, the strategy delineated for the progression of fees and commissions is underpinned by the ongoing management of pricing by its adjustment to the Banco Montepio's value proposition for each segment, defined according to its life cycle and financial profile, as well as by the growth of the first bank share, inducing a progressive increase of the customer base with a higher transaction level and binding.

Net fees and commissions related to services provided to customers stood at 118.4 million euros in 2018, representing a decrease of 1.2% in relation to the value of 119.8 million euros recorded in 2017, reflecting the unfavourable impact of the reduction in Loan fees and commissions (-2.7 million euros) and in Other fees and commissions[7] (-3.1 million euros), despite the increase recorded in the fees and commissions of Payment services[8] (+3.4 million euros) and in Market fees and commissions[9] (+0.9 million euros).

Net fees and commissions



Results from financial operations

The Results from financial operations reached 10.9 million euros in 2018, compared to 70.7 million euros recorded in 2017, due to lower gains from the sale of public debt, namely Portuguese public debt securities (8.2 million euros in 2018 compared to 73.4 million euros in 2017), as well as the lower results arising from foreign exchange differences by incorporating the cost with the foreign exchange hedging of a stake denominated in Brazilian Reais.

RESULTS FROM FINANCIAL OPERATIONS

(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	53.7	(14.8)	12.3	27.1	-
Net gains / (losses) from financial assets at fair value through other comprehensive income	(18.2)	83.6	5.6	(78.0)	(93.3)
Net gains / (losses) from foreign exchange differences	1.5	1.9	(7.0)	(8.9)	-
Results from financial operations	**37.0**	**70.7**	**10.9**	**(59.8)**	**(84.6)**
of which: Results from the sale of Portuguese public debt	*3.2*	*73.4*	*8.2*	*(65.2)*	*(88.8)*

[7] Includes fees for insurance mediation, provision of banking services and operations provided on account of third parties.
[8] Includes fees for deposit, custody, administration and collection of values, account maintenance, management, annuities, withdrawals subject to fees and commissions and credit card incidences.
[9] Includes fees for management, administration and custody of assets and operations on securities.

Other results

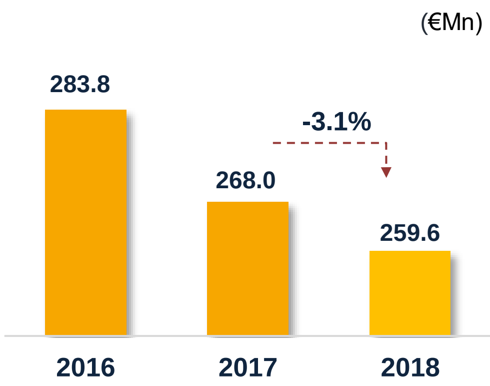
The heading of Other results incorporates the Results arising from the sale of other financial assets and Other operating income, which include, among others, the income obtained from the revaluation of investment properties, from services rendered, from investment property rents, from the reimbursement of expenses and from the assignment of employees, as well as the costs related to banking sector contributions, to the Deposit Guarantee Fund and to loan recovery services.

In 2018, Other results showed an adverse evolution in relation to that observed in 2017, in evolving from 35.9 million euros to -8.1 million euros. This showed the income stated in 2017 derived from the sale of Portuguese public debt securities of the portfolio of Investments held to maturity of the value of 15 million euros, the sale of a portfolio of non-performing loans of 14 million euros, and employee assignment valued at 12 million euros, in this case due to its reclassification to the heading of Staff costs done in 2018.

OPERATING COSTS

Operating costs amounted to 259.6 million euros in 2018, representing a 3.1% decrease in relation to the value recorded in 2017, underpinned by the reduction of General administrative expenses of 9.3 million euros (-10.7%) and Staff costs of 0.2 million euros (-0.1%), notwithstanding the increase recorded in Amortisation and depreciation of 1.1 million euros (+4.4%).

Operating costs



Staff costs in 2018 amounted to 156.0 million euros, compared with 156.2 million euros in 2017, and include the negative impacts of the unfreezing of salaries and careers, the increase in costs with the Pension Fund and of compensation payments to previous members of the Management and Supervisory Bodies, while at the same time having benefited from the positive impact of the reclassification of income from employee assignment.

General and administrative expenses stood at 77.7 million euros in 2018, evolving favourably in relation to the value of 87.0 million euros recorded in 2017, showing the decrease in expenses with specialized services of 6.9% (-2.5 million euros), in Advertising and publications of 31.3% (-1.7 million euros) and in Other administrative expenses of 29.2% (3.2 million euros).

Depreciation and amortisation amounted to 25.9 million euros, having grown by 4.4% in relation to the value recorded in 2017, caused by the performance of real estate properties and software.

In 2018, the Cost-to-income ratio, excluding the Results from financial operations and Other results (Results arising from the sale of other financial assets and Other operating income), stood at 69.3%, compared to 67.2% calculated in 2017.

OPERATING COSTS

(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Staff Costs	165.5	156.2	156.0	(0.2)	(0.1)
General and administrative expenses	94.0	87.0	77.7	(9.3)	(10.7)
Depreciation and amortisation	24.3	24.8	25.9	1.1	4.4
Operating costs	**283.8**	**268.0**	**259.6**	**(8.4)**	**(3.1)**
Efficiency ratios					
Cost-to-income (Operating costs / Total operating income) [a]	76.4%	53.0%	68.8%	15.8 p.p.	
Cost-to-income, excluding specific impacts [b]	77.5%	67.2%	69.3%	2.1 p.p.	

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.

(b) Excludes results from financial operations and Other income (proceeds from the sale of other assets and other operating income).

IMPAIRMENT AND PROVISIONS

The allocations for Impairments and provisions in 2018, calculated in conformity with IFRS 9, reached 93.5 million euros, compared to 191.4 million euros recorded in 2017, while Loans to customers (gross) amounted to 13,068 million euros in 2018, compared to 14,063 million euros in 2017, leading to a favorable evolution of the cost of credit risk. It should also be noted that under IFRS 9 transition adjustments, 157.1 million euros were recorded in equity, before the tax effect, related to impairments and provisions for loans, securities, other loans and advances to credit institutions and other assets.

The allocations for Loan impairments incorporate the result of the individual analysis made to significant exposures and which showed signs of impairment, on the one hand, and the value derived from the impairment model used to calculate the impairment associated to homogeneous populations, on the other hand, pursuant to accounting policy 1. c) described in the Notes to the Financial Statements. Loan impairment stood at 73.2 million euros in 2018, having evolved favourably in relation to the value of 160.7 million euros recorded in 2017, resulting in a cost of credit risk of 0.5% in 2018, compared to 1.1% in 2017.

The Impairment of other financial assets stood at 2.9 million euros, having fallen by 4.9 million euros in relation to the value recorded in 2017. In 2017, the heading of Impairment for financial assets at fair value through other comprehensive income includes the allocation of 8.6 million euros relative to impairment losses recognised for investment units in Specialised Credit Funds that were acquired in the context of the assignment of loans to customers. Pursuant to the classification criterion stipulated by IFRS 9, the investment units in these funds were classified, as at 1 January 2018, under the heading of Financial assets not held for trading mandatorily at fair value through profit or loss.

In relation to the Impairment of other assets, the value stated for 2018 stood at 13.2 million euros, representing an increase of 4.8% in relation to the value recorded in 2017, while Other provisions stood at 4.2 million euros, compared to 10.3 million euros recorded in 2017.

IMPAIRMENT AND PROVISIONS

(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Loan impairment	182.5	160.7	73.2	(87.5)	(54.4)
Other financial assets impairment	44.5	7.8	2.9	(4.9)	(62.8)
Other assets impairment	40.8	12.6	13.2	0.6	4.8
Other provisions	(6.3)	10.3	4.2	(6.1)	(59.2)
Total net provisions and impairment	**261.5**	**191.4**	**93.5**	**(97.9)**	**(51.1)**

INCOME TAX

Current and deferred taxes for 2018 amounted to -44.8 million euros, compared to -42.4 million euros stated in 2017, having been calculated in conformity with the International Accounting Standards (IAS) and observing the tax system applicable to each subsidiary of the Banco Montepio Group.

For 2018, the value of deferred taxes reflects the annulment of a deferred tax asset of 33 million euros which had been constituted in 2016 in relation to the financial stake held in Montepio Holding SGPS, S.A. under the assumption that it would be settled at the time of the sale of its subsidiaries, namely Finibanco Angola, S.A., Banco Terra, S.A., Montepio Investimento, S.A., and Montepio Crédito – Instituição Financeira de Crédito, S.A.

The deferred tax assets arise from the fact that, in some particular circumstances, the accounting treatment diverges from the tax framework, thus giving rise to the statement of deferred tax assets associated to temporary differences.

RESULTS FROM DISCONTINUING OPERATIONS

The heading of Results from discontinuing operations incorporates the net income for the year of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A. attributable to the Banco Montepio Group following the application of the accounting policy defined in IFRS 5, which stood at 36.1 million euros in 2018, having benefited from the impact of the annulment of an impairment that had been constituted for Finibanco Angola.

NON-CONTROLING INTERESTS

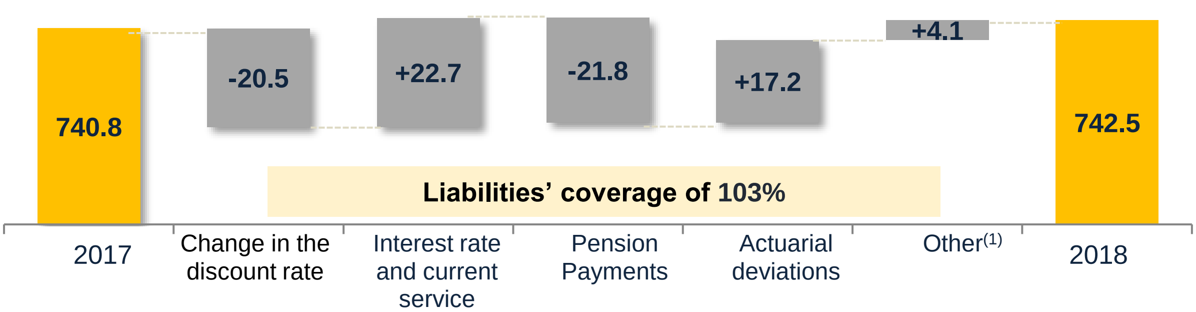
The Non-controlling interests recorded in 2018 correspond to the portion of capital held by third parties in the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A.

PENSION FUND

The liabilities related to retirement and survivor's pensions amounted to 742.5 million euros as at 31 December 2018, compared to 740.8 million euros recorded as at 31 December 2017, showing an increase of 1.7 million euros.

The evolution of the liabilities was driven, on the one hand, by the effect associated to the change of the actuarial assumption of the discount rate, which is reflected in a reduction of liabilities of 20.5 million euros, and by the payment of pensions of 21.8 million euros in the period, and, on the other hand, by the increases derived from the cost of interest and current service of 22.7 million euros and by the negative actuarial deviations of 17.2 million euros, as illustrated by the following chart.

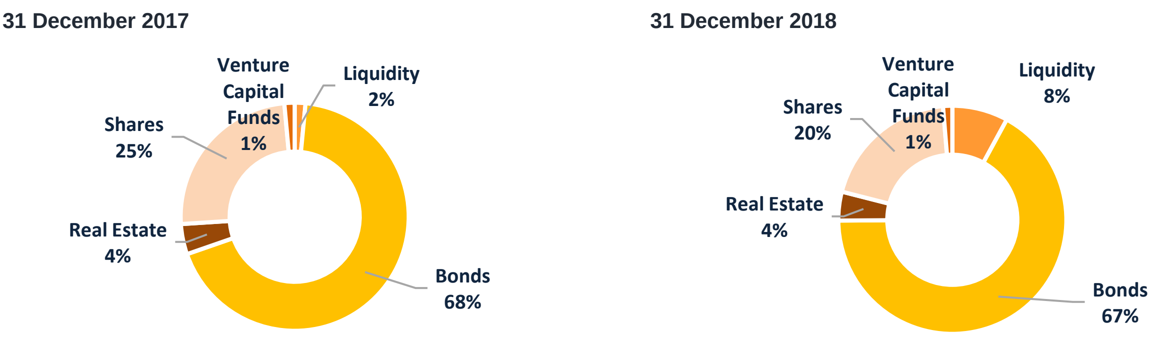
Evolution of Pension Responsibilities in 2018 (€Mn)



(1) Includes participants' contributions, early retirement, rescissions by mutual agreement and others.

The value of the Pension Fund's assets decreased by 1.1%, reaching a total of 725.8 million euros at the end of 2018, compared to 733.9 million euros at the end of 2017, continuing to show a conservative distribution, with 67% of these assets invested in Bonds compared to 68% in 2017.

Distribution of the pension fund assets portfolio



The evolution of the key indicators of the Pension Fund at the end of 2016, 2017 and 2018 are presented below, namely the liabilities, the value of the assets of the Pension Fund and the respective levels of funding.

PENSION FUND

(million euros)

	2016	2017	2018	Change 17/18	
				Amount	%
Responsabilidades totais	712.0	740.8	742.5	1.7	0.2
Responsabilidades mínimas a financiar	690.8	718.5	720.8	2.3	0.3
Valor dos Ativos do Fundo	698.7	733.9	725.8	(8.1)	(1.1)
Coberturas:					
Responsabilidades mínimas (1)	105.5%	105.9%	103.1%	(2.8 p.p.)	
Responsabilidades totais (1)	102.4%	102.7%	100.1%	(2.6 p.p.)	

(1) Also considering, in 2016, 2017 and 2018, the component directly financed by Banco Montepio referring to employees who are temporarily suspended from employment contracts and the contribution to Social Welfare Services (defined contribution).

Banco Montepio's total liabilities were entirely financed, and at levels above the minimum limits defined by Banco de Portugal, presenting a coverage level of 100.1% as at 31 December 2018.

According to Banco Montepio's accounting policy, and following the appraisal made on the adequacy of the actuarial assumptions, the discount rate was changed to 2.25% in 2018 (2.10% in 2017), taking into consideration, namely the evolution of the market yield rates of high quality bonds denominated in euros, with maturities adjusted to the settlement period of the Pension Fund's liabilities. As at 31 December 2018, the duration of the liabilities was 19.7 years (20.8 years as at 31 December 2017).

The main actuarial assumptions used in the determination of the liabilities in 2016, 2017 and 2018 were the following:

ACTUARIAL ASSUMPTIONS

	2016	2017	2018
Salary growth rate	0% em 2017; 1% following years	1.00%	1.00%
Pension growth rate	0% em 2017; 0.5% following years	0.50%	0.50%
Revaluation rate			
Salary growth rate Social security	2.00%	1.50%	1.50%
Pension growth rate	1.00%	1.00%	1.00%
Rate of return of Fund assets	2.00%	2.10%	2.25%
Discount rate	2.00%	2.10%	2.25%
Mortality table			
Men	TV 88/90	TV 88/90	TV 88/90
Women	TV 88/90	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial Valuation Methods (1)	UCP	UCP	UCP

(1) UCP - Projected Credit Unit

The information presented above is supplemented by the details presented in Note 50 to the consolidated financial statements.

Risk Management

RISK MANAGEMENT

The Banco Montepio Group's overall risk management entails a series of policies and procedures and the definition of limits concerning risk appetite, as well as the establishment of controls that enable, in an appropriate and integrated manner, identifying, assessing, monitoring, mitigating and reporting the risks derived from the activities developed in the different business lines and entities of the Banco Montepio Group. At the Banco Montepio Group, risk management falls under the institution's overall strategy, embodied in the definition of risk appetite in its various dimensions, in consolidated terms and for the different entities comprising the Group.

RISK MANAGEMENT SYSTEM

The Banco Montepio Group has a risk management system that is one of the pillars on which the internal control system is sustained, consisting of a series of processes that enable ensuring the correct comprehension of the material risks to which the institution is exposed. The risk management system aims to identify, assess, monitor and control all the material risks to which the institution is exposed, both via internal and external means, in order to ensure the maintenance of the level previously defined by the management body and which will not significantly affect the institution's financial situation.

The risk management strategy is established in conformity with the Banco Montepio Group's statement on risk appetite, considering solvency and liquidity aspects.

The risk management function is responsible for the effective application of the risk management system, which at Banco Montepio falls under the Risk Department. The risk management function constitutes one of the three key functions on which Banco Montepio's internal control system is based, alongside the compliance function and the internal audit function. Together, these functions constitute the three elements of the model of 3 lines of defence established by the guidelines of the European Banking Authority (EBA) on best practices of internal governance.

The risk function operates as a second line of defence of the internal control system, ensuring the existence of an appropriate risk management system and aimed at obtaining a vision of the overall risk profile of the institution, while challenging and supporting the business lines in the implementation of the first line processes of control. The main responsibilities of Banco Montepio's risk management function are listed below, in conformity with the internal regulation of the function and the duties established in the regulations:

a) Promote the implementation of the Banco Montepio Group's risk policies approved by the Board of Directors in the context of the risk management and control function;

b) Ensure the appropriate identification of the nature of the risks underlying the activity of the entities comprising the Group, the assessment and precise measurement of the magnitude of these risks, as well as the monitoring and effective control of the respective impact;

c) Monitor the approved risk appetite indicators, proposing, where necessary, the measures that ensure their compliance;

d) Support the Executive Committee in taking decisions of material influence in the Group's risk profile; and

e) Ensure compliance with the legislation and regulations in force.

The compliance function (control of compliance) as an integral part of the internal control system, and operating as a second line of defence, undertakes responsibility for the management of compliance risk, which is the risk of occurrence of legal or regulatory penalties, financial or reputation loss, as a consequence of breach of laws, regulations, specific determinations, contracts, rules of conduct and relations with customers, ethical principles or internal rules of Banco Montepio.

Compliance risk is mitigated by promoting a culture of ethics and compliance, and by independent, permanent and effective intervention of the compliance function. To this end, Banco Montepio has a policy dedicated to Compliance Risk – Policy and Methodological Approach for Management of Compliance Risk – which is communicated to all the institution's employees. This policy underlies the endorsement of a compliance culture, based on the identification, assessment, monitoring and mitigation of compliance risk.

The compliance function is independent from the organic units, with authority and its own status. This function is attributed specific human resources, solely allocated to performance of the function.

Concerning compliance activity, aspects were identified and appraised during 2018 that contribute to the characterisation of compliance risk, especially in institutional processes, associated to products and services, pre-contractual and contractual duties of disclosure of information to customers and, in general, providing specialised support on matters of control and compliance.

With respect to the Prevention of Money Laundering and Terrorist Financing (ML/TF), the instituted systems and their associated procedures were strengthened during 2018, in line with the legislation and regulations in force. In this regard, note should be made of Banco de Portugal Notice 2/2018 which regulates Law 83/2017 of 18 August, in particular the reinforcement of preventive duties established therein. Special note should also be made of the review of the model of internal risk of money laundering/terrorist financing, through assessment of the detected specific risks inherent to Banco Montepio's particular operative reality, as well as the installed control procedures for their mitigation, in order to appraise any adjustments made.

This function's activities also included initiatives taken in adjustment to the new Guidelines of the European Banking Authority on matters of internal governance of institutions (EBA/GL/2017/11), and adjustment to the new European regulatory challenges: Payment Services Directive (PSD2) and General Data Protection Regulation (GPDP), and to national regulatory challenges concerning Financial Intermediation and Prevention of Money Laundering and Terrorist Financing (referred to above).

The internal audit function, conducted by the Audit and Inspection Department (DAI), is of permanent nature and provides, in an independent and objective manner, assessment and consulting services aimed at enhancing value and improving the operationality of the Banco Montepio Group.

The internal audit function assists the Banco Montepio Group in achieving its objectives through the use of a systematic and disciplined approach to assess and improve the efficacy of the risk management, control and governance processes.

The internal audit function constitutes an integral part of the process of monitoring the internal control system and, as a third line of defence, assesses all of the processes and organic units of Banco Montepio, including the risk management function and the compliance function, and the subsidiaries incorporated in the Banco Montepio Group.

Its scope of action includes all the entities included in Banco Montepio's consolidation perimeter and in which Banco Montepio holds the majority of the capital or controls the management.

Regarding the branches abroad, if they have their own audit functions, the corporate internal audit function is attributed to Banco Montepio's Audit and Inspection Department, which will ensure the functional coordination of the local audit functions, in order to assure the alignment of practices and procedures at the Group level, and may include the conduct of local audit actions.

The Audit and Inspection Department may also audit organic units/entities that are outside the scope referred to above, but which provide essential services to the Banco Montepio Group under outsourcing arrangements.

Risk Management Governance Model

Up to 20 March 2018, Banco Montepio's risk management function reported directly to CEMG's Executive Board of Directors, under supervision of the Risk Committee (named Risk Commission, from October 2018), a statutory body exclusively composed of members without executive functions. Currently, Banco Montepio's risk management function reports hierarchically to the Executive Director responsible for risk (Chief Risk Officer), who has no direct responsibility for commercial divisions or units taking financial risk, with access and regular reporting to Banco Montepio's Board of Directors, namely in terms of monitoring the material risks for the Banco Montepio Group.

The Board of Directors is responsible for the strategy and policies to be adopted regarding risk management. This includes the approval of the principles and rules of the highest level that should be followed in risk management. The risk management function reports functionally to the Risk Commission, composed of non-executive Directors.

The management bodies of the subsidiaries of the Banco Montepio Group are responsible for approving their own risk management strategies, which should be in line with the business strategy defined for the subsidiary and in consolidated terms, as well as the Banco Montepio Group's overall risk strategy.

Audit Committee

The Audit Committee is Banco Montepio's supervisory body, whose duties include supervision of the Company's administration, supervision of the audit activities, the process of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management, control of compliance and the activity and independence of the statutory auditor and external auditor.

Risk Commission

The Board of Directors appoints the Risk Commission, including the nomination of its Chairman, whose duties, exercised in an independent form, are established in the respective Articles of Association. The mission of the Risk Commission is to permanently monitor the definition and implementation of the institution's risk strategy and risk appetite, and check that they are compatible with the medium and long-term sustainable strategy and with the action programme and budget that have been approved, advising the Executive Committee and Board of Directors in these spheres.

Risk Department

The Risk Department is Banco Montepio's unit responsible for performing the risk management function, being entrusted with monitoring all the financial and operational risks, exercising its function in an independent manner and in conformity with best practices and the regulatory requirements. The Risk Department carries out the analysis and management of risks, providing advice to the management body, namely through proposed rules and management models for the different risks, the preparation of management reports to substantiate the decisions taken, and participation in the Supporting Committees of the Board of Directors and to the Executive Committee. The Risk Department also assures compliance with a series of prudential reporting to the supervisory authority, particularly in the area of own fund requirements, control of major risks, liquidity risk, interest rate risk, country risk, counterpart risk, self-assessment of the adequacy of Own Funds, Liquidity, Market Discipline, Recovery Plan and Resolution Plan.

Supporting Committees of the Executive Committee

Committees providing support to the Executive Committee have been constituted, as forums of debate and support to decision-making, through formulation of proposals and recommendations in the areas of their scope of intervention. The Committee for Credit holds weekly meetings, where loan operations area appraised and decided in accordance with the policy and regulation on loan concession. The Capital, Asset and Liability Committee (CCAP) is responsible for the follow-up of the management of the Capital, Balance Sheet and Profit and Loss Account. Its duties include, in particular, the issue of proposals or recommendations with a view to the management of liquidity or capital positions, considering the scenarios of evolution of the activity, the macroeconomic context and the indicators relative to the real and projected evolution of the different risks.

Subsidiary Companies

In order to ensure an effective management of the risks associated to the Group's activities, the Risk Department is responsible for ensuring that all Banco Montepio Group companies, including those located abroad, adopt risk management systems that are coherent with one another and in conformity with the requirements defined in Banco Montepio's Internal Regulation of the risk management function, in the Banco Montepio Group's Overall Risk Policy and in all the other applicable internal policies and rules, without prejudice to the respective legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of Banco Montepio Group companies, on a consolidated and individual basis, with a view to ensuring the consistency of the risk concepts used, the methodologies of identification, assessment and control of risk, the supporting regulations and respective processes for monitoring the risk profile, as well as compliance with the applicable regulatory and prudential requirements, namely in consolidated terms. These activities should be conducted directly by the risk management functions of these entities, except in those for which Banco Montepio's management body decides that the development of these responsibilities by Banco Montepio's Risk Department would be more effective and efficient.

Risk Appetite Framework (RAF)

The RAF constitutes the main element of the Group's risk management system, being a general approach, according to which the risk appetite and strategy are established, communicated and monitored, including the necessary policies, processes, controls and systems. The risk limits underlying the risk management strategy and the maintenance of appropriate levels of capital and liquidity are documented in a Risk Appetite Statement (RAS) approved by the management bodies. The risk management system is part of the internal control system of the Banco Montepio Group, whose objective is the development of the activity in a sustained manner in line with the established RAS.

The evolution of the Banco Montepio Group's risk profile is regularly monitored in relation to the established risk appetite, with the respective reporting to the management body and monitoring by the supervisory body.

Model Validation Office

The Model Validation Centre (whose name was changed to Model Validation Office in the beginning of 2019) is responsible for the independent validation of the models developed within the Group, ensuring compliance with the applicable internal and external requirements. This structure reports functionally to the Risk Commission and hierarchically to the director responsible for risk, thus safeguarding its independence in relation to other organic structures responsible for the development and maintenance of models.

With a view to strengthening the model risk management of the Banco Montepio Group, during 2018 the Centre carried out a series of actions, in particular the following: (i) extension of the validation responsibilities to models other than Scoring and Rating models, that had already been validated; (ii) adoption of a Model Risk Management Policy for the Group; (iii) definition of methodologies for classification of the model's risk level, the severity of recommendations, the materiality of the alterations and model risk limits; (iv) strengthening of the reporting on model risk and follow-up of recommendations; (v) review of the validation framework and methodology in accordance with the best risk management practices; and (vi) launch of a process of inventorying models in the Group, involving the different organic structures of Banco Montepio and other entities of the Group.

Information Management

During 2018, the following data management policies were developed. These involve a series of policies aligned with the reference framework referred to as DAMA-DMBOK (DAMA International Guide to Data Management Body of Knowledge) and with the principles of BCBS 239 (Principles of effective risk data aggregation and risk reporting), which establish the guidelines and organisational model for data management. Important initiatives were developed during the second half of 2018 aimed at ensuring the application of the policies in internal processes of data management. These initiatives are essentially based on three aspects:

1. People - Strengthening of the team of the Information Management Office, the unit responsible for controlling the policy's application;

2. Processes - Reorganisation of the processes that involve data consumption and/or production, aligning them with the data management policies;

3. Technology - Technological renovation with the introduction of new tools for management of data quality and governance.

Therefore, yet another important step has been taken towards endowing the institution with the necessary tools to effectively support a management strategy for its data, ensuring the reliability of the information in meeting the internal and external reporting requirements, promoting operational efficiency and ensuring compliance with the regulatory requirements in this sphere.

Main developments in 2018

No âmbito da função de gestão de riscos, destacam-se os seguintes desenvolvimentos no decorrer do primeiro semestre de 2018:

- International Financial Reporting Standard IFRS 9: International financial reporting standard IFRS 9 entered into force on 1 January 2018, introducing significant changes in the classification of financial assets and in the recording of impairment. IFRS 9 is divided into three pillars: Classification and Measurement; Impairment; Hedge accounting. It is in the Impairment chapter that the most relevant impacts are observed Banco Montepio.
    - Regarding impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that comply with SPPI criteria (Solely Payment of Principal and Interest), considering the expected credit loss of one year, or the expected credit loss up to the maturity of the financial instrument (ECL lifetime). The Expected Loss model (IFRS 9) thus replaces the incurred loss model (IAS 39).
    - According to this alteration, financial assets are classified into segments, based on the evolution of their credit risk.
    - The measurement of expected losses (ECL) for the segment of homogenous populations is the result of the product of probability of default (PD) of the financial asset, the loss given default (LGD) and the exposure on the date of default (EAD), discounted at the effective interest rate of the contract up to the reporting date.
    - The main difference between the measured impairment losses for financial assets classified in the stages refers to the time horizon of the probability of default. The probability of default is one of the main differences in the calculation of IFRS 9 impairment (ECL), with two types of probability of default being estimated: probability of default of 12 months and lifetime probability of default.
- Regarding market risk management, the implementation of an integrated risk system with the front-office systems, with the consequent expediting of the calculation of Value-at-Risk, and respective back-testing and stress tests, was completed in the second half of 2018.

CREDIT RISK

Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations. Credit risk management benefits from a robust process of credit analysis and decision-making, based on a series of tools to support the credit decision-making process. The quantification of credit risk is also supported by the model for calculating impairment losses.

During the first semester of 2018, work continued on review of the credit risk management models and polices, accompanying the changes in the regulatory framework, and the guidelines issued by the national and European supervisors and regulators, and best market practices.

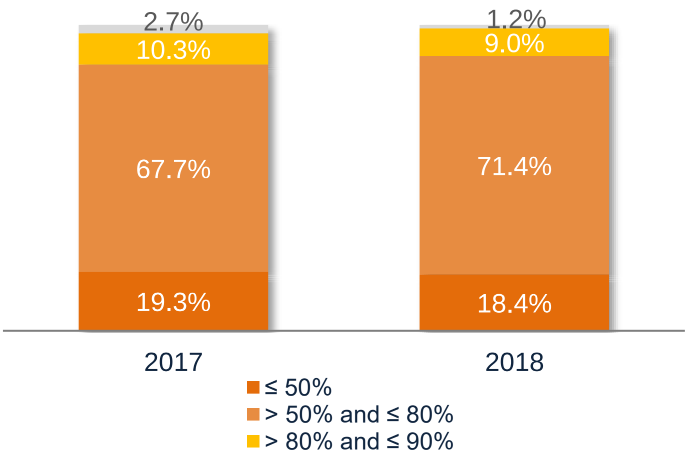
The decision-making process for loan operations is based on a series of policies using scoring models for the retail and business portfolios and rating models for the corporate segment. These models, developed based on internal historical data, enable obtaining an assessment which is reflected in the attribution of a risk category to the customer/operation, aggregated in a single risk scale, representing the respective probability of default. The models in question are subject to validation by a unit that is independent from the area responsible for their development, which reports to the Risk Committee (composed of non-executive directors) and approves the respective validation reports and opinions for changing the models.

The implemented models are monitored on a monthly basis by the Risk Department, with a process existing for regular updating in light of the results obtained, business or regulatory alterations that imply the need to review these models. The validation process carried out by an independent organic unit should also be noted.

In addition to the rating and scoring models, the decision-making process for loan operations is also based on rejection or scaling filters. Rejections or filters in terms of decision levels are determined by the occurrence of credit events in the financial system, breach of credit rules (for example, DSTI - Debt-Service-to-Income) and whenever the pricing associated to a particular operation represents a risk of adverse selection.

For mortgage loans granted during 2018, the levels of the -- Loan-to-Value ratio (LTV – financing value divided by the value of the guarantee) remained conservative, having shown a favourable evolution in relation to the previous year. The average LTV ratio, excluding financing of real estate properties that belonged Banco Montepio was 66.9% (67.6% in 2017), demonstrating an evolution in line with the observed improvement of indicators of the real estate market.

Distribution of the mortgage loan portfolio by LTV level



As at 31 December 2018, the weight of non-performing exposures (NPE) in Gross loans to customers recorded a reduction in relation to the same period of 2016 of 4.3 p.p., standing at 14.4%, compared to 16.4% at the end of 2017, to which contributed, on the one hand, the efforts in the area of credit recovery, and on the other hand, the write-off of loans throughout the year of the value of 150 million euros, as well as the sale of a portfolio of non-performing loans (NPL) of the gross value of 239 million euros.

The amount of impairments for credit risk reached 945 million euros at the end of 2018, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 103.4%. Moreover, the coverage of non-performing exposures stood at 50.3%, while the coverage ratio, also considering the associated total collateral and financial guarantees, reached 86.2%.

LOAN QUALITY INDICATORS

(million euros)

	2016	2017	2018	Change 18/17	
				Amount	%
Gross loans to customers	15 041	14 063	13 068	(995)	(7.1)
Loans and interest overdue by more than 90 days	1 372	1 146	914	(232)	(20.3)
Loans impairment	1 180	1 034	945	(89)	(8.6)
Ratios (%)					
Cost of credit risk	1.2	1.1	0.5	(0.6 p.p.)	
Loans and interest overdue by more than 90 days	9.1	8.2	7.0	(1.2 p.p.)	
Non-performing exposures (NPE) (a) / Gross loans to customers	18.7	16.4	14.4	(2.0 p.p.)	
Forborne exposures (a) / Gross loans to customers	8.9	8.2	7.2	(1.0 p.p.)	
Coverage by Impairments for balance sheet loans (%)					
Loans and interest overdue by more than 90 days	86.0	90.2	103.4	13.2 p.p.	
Non-performing exposures (NPE) (a)	42.1	44.9	50.3	5.4 p.p.	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees (a)	87.8	87.0	86.2	(0.8 p.p.)	

(a) EBA definition.

CREDIT CONCENTRATION RISK

Credit concentration risk arises from the existence of risk factors that are common or correlated between different entities or portfolios, to such an extent that the deterioration of any of these factors could have a simultaneous negative effect on the loan quality of each counterpart or on the earnings of each category of assets and liabilities. In a concentration scenario, the effect of the losses on a small number of exposures can be disproportionate, confirming the importance of the management of this risk in maintaining suitable solvency levels. At the Banco Montepio Group, the monitoring of concentration risk is primarily incident on credit concentration risks.

There are various procedures related to the identification, quantification and management of credit concentration risk. Credit concentration risk refers to the degree of concentration of the risk of default in the granted loan, derived from possible over-exposure to individual counterparts or groups of counterparts that are related to counterparts operating in the same activity sector, in the same geographic area or exposures with collateral or assets under common operation, excluding Group companies. In order to limit credit concentration risk due to exposure to a customer/group of interrelated customers, maximum exposure limits were defined for the aggregate positions of the credit and investment portfolios, for various entities of the Banco Montepio Group.

Concentration risk is managed centrally, with regular monitoring of risk indicators by the Risk Department. For the established Risk Appetite Statement (RAS), limits and objectives were defined for key indicators, with concentration risk being one of the relevant dimensions.

Credit concentration risk is monitored regularly, considering relevant risk indicators (individual and sector concentration) in comparison to previous periods so as to follow the evolution. The identification and monitoring of the largest exposures and most significant increased exposure of the loan portfolio are conducted monthly.

MARKET RISK

The concept of market risk reflects the potential loss that could be recorded by a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the different financial instruments comprising the portfolio, considering both the correlations that exist between them and their volatility.

Value-at-Risk (VaR) is one of the key metrics used to measure and monitor market risk. The Group calculates the VaR on a daily basis, both for its trading book and for the portfolio of financial assets at fair value through other comprehensive income. VaR is also calculated on a time horizon of 10 business days and at a 99% significance level, by the historical simulation method. The types of risk considered in this methodology are interest rate risk, exchange rate risk, price risk, spread risk and commodities risk.

With respect to market risk information and analysis, there is regular reporting on Banco Montepio's own portfolios and those of other entities of the Group, with various risk limits being defined, including overall limits of VaR, by Issuer, by type/class of asset and Stop Loss and Loss Trigger limits for positions held for trading and in other comprehensive income.

In the reports produced, the various exposure limits are controlled, analysed the risks of concentration, credit, interest rate and asset price variation, among others. These analyses consider the analysis of scenarios, namely the sensitivities of the securities portfolio to variations of interest rates, spreads, adverse exchange rate evolution and variation of the market prices of shares and real estate properties.

In the field of market risk, in addition to the risk report of Banco Montepio’s overall portfolio, specific risk reports are also produced for the trading book and the proprietary portfolios of financial assets at fair value through other comprehensive income.

In order to ensure more effective risk management, the positions in portfolio are disaggregated into a portfolio of financial assets at fair value through other comprehensive income, portfolio of other financial assets at amortised cost, portfolio of financial assets not necessarily held for trading at fair value through profit or loss, and portfolios of assets held for trading (which exclude hedge coverages and fair value option), with risk limits being defined according to the type of portfolio. The thresholds applicable to the portfolios are defined in internal regulations, updated on an annual basis or other, whenever justified by alterations to market risk levels. Stop loss and loss trigger thresholds are also defined, applicable to the portfolios. Whenever any of these thresholds are reached, the re-examination of the strategy intrinsic to this position is compulsory.

Concerning investment policy in the banking book, there was a reduction up to December 2018 of exposure to Italian and Spanish public debt securities, and higher exposure to Portuguese sovereign debt was recorded. Note should also be made of the downgrading of Italian public debt from BBB to BBB-. Reference is also made to the leaving of Greek public debt bonds (with B- rating), and to the fact that the changes referred to above led to variations in terms of the rating structure, namely in the BBB-, BBB and BBB+ buckets. The weight of bonds classified as investment grade in the total bond portfolio as at 31 December 2018 reached 90.2%. It should also be stressed that, at the end of December 2018, Banco Montepio only held positions in derivatives in the trading book.

STRUCTURE OF THE BOND PORTFOLIO BY RATING CLASSES

Rating	dez-17		dez-18		Chage	
	Amount	%	Amount	%	Amount	%
AA+	-	-	1	0.1	1	-
AA	2	0.1	-	-	(2)	-
AA-	2	0.1	-	-	(2)	-
A+	2	0.1	2	0.1	0	30.9
A	2	0.1	1	0.1	(1)	(52.1)
A-	2	0.1	3	0.2	1	48.7
BBB+	297	15.1	212	12.6	(85)	(28.7)
BBB	578	29.3	16	0.9	(562)	(97.2)
BBB-	860	43.7	1 280	76.2	420	48.9
B-	17	0.9	-	-	(17)	-
NR	46	2.3	52	3.0	6	13.1
Subtotal	**1 808**	**91.8**	**1 567**	**93.2**	**(241)**	**(13.3)**
Discontinuing subsidiaries	162	8.2	114	6.8	(48)	(29.5)
Total	**1 970**	**100.0**	**1 681**	**100.0**	**(289)**	**(14.7)**

In December 2018, the total of 1,681 million euros includes the value of 114 million euros corresponding to the securities portfolio of Finibanco Angola (securities with B- rating), which are stated under the heading of Non-current assets held for sale of discontinuing operations.

A summary of the VaR indicators in December 2017 and 2018 is presented below:

VaR INDICATORS [1]

	Dec-18		Dec-17	
	Banking Book	Trading Portfolio	Banking Book	Trading Portfolio
Market VaR [1] [2] [3]	**0.90%**	**0.17%**	**1.26%**	**5.83%**
Interest Rate Risk	0.41%	0.17%	0.37%	0.24%
Exchange Rate Risk	0.15%	0.00%	0.09%	0.19%
Price Risk	0.29%	0.00%	0.24%	0.59%
Credit risk (spread)	1.74%	0.00%	0.56%	4.81%
Commodity Risk	0.00%	0.00%	0.00%	0.00%

(1) - 10-day time horizon and significance level of 99%; As a % of total portfolio assets; Includes the portfolios of CEMG and Montepio Investimento.

(2) Includes diversification effect.

(3) - Excludes positions of Banco Terra and Finibanco Angola.

Moreover, analyses are conducted of scenarios for the trading book to supplement the analysis of the other risk indicators. However, in December 2018 the trading book did not have any open positions in equity securities and bonds.

EXCHANGE RATE RISK

Concerning the exchange rate risk of the banking book, in general, the different resources attracted in different currencies are invested in assets in the respective money market for maturity periods that are not higher than those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the assets and liabilities. The current foreign exchange exposure of the Montepio Group in consolidated terms is essentially the result of structural positions derived from the conversion of the balances of the subsidiaries in their main currencies, namely the Kwanza, Brazilian Real and American Dollar, concerning Finibanco Angola. Banco Montepio's stake in Banco Terra was sold at the end of December 2018, leading to deconsolidation.

Limits of exposure have been defined for the exchange rate risk of the banking book, which are monitored by the management bodies and Capital, Asset and Liability Committee (CCAP), where any overrunning of the established limits follows an established circuit, including approval by the management body or the implementation of measures to cover this risk.

The limits defined for exchange rate risk include limits of position by currency, in consolidated and individual terms, as well as in terms of VaR, and are also disaggregated in terms of the trading book and banking book.

INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk caused by operations of the banking portfolio is assessed through risk sensitivity analysis, on an individual and consolidated basis for the subsidiaries included in the Group's consolidated balance sheet.

Interest rate risk is appraised in accordance with the impacts on net interest income, net worth and own funds caused by variations in market interest rates. The main risk factors arise from the mismatch between the interest rate revision periods and/or residual maturity between assets and liabilities (repricing risk), from non-parallel variations in interest rate curves (yield curve risk), from the nonexistence of perfect correlation between different indexers with the same repricing period (basis risk), and from the options associated to instruments which enable divergent action of agents depending on the level of rates that are contracted and applied at any given time (option risk).

Following the recommendations of Basel and Banco de Portugal Instruction number 34/2018 of 15 June, the Group calculates its exposure to balance sheet interest rate risk, at least quarterly, based on the methodology of the Bank of International Settlements (BIS), classifying all the headings of the assets, liabilities and off-balance sheet items which do not belong to the trading book, by repricing brackets.

In this context, limits are defined for exposure to interest rate risk factors which are monitored by Capital, Asset and Liability Committee (CCAP), where any overrunning of the established limits, even if temporary, requires the approval of the management body or the implementation of measures to cover the exposure.

At the same time, a stress test is conducted with six shock scenarios in the interest rate curve. This test measures impacts on net interest income at one year and on net worth of the shocks in the interest rate curve prescribed in the BIS document of April 2016, Standards – Interest rate risk in the banking book.

Based on the financial features of each contract, the respective expected cash flow projection is made, according to the rate repricing dates and any pertinent performance assumptions that are considered.

The table below presents a summary of the exposure to balance sheet interest rate risk, classifying all the headings of the assets, liabilities and off-balance sheet items, which do not belong to the trading book, by repricing brackets:

INTEREST RATE REPRICING GAPS IN DECEMBER 2018

(million euros)

	Residual maturities of repricing				
	Up to three months	**Three to six months**	**Six months to one year**	**One to five years**	**Over five years**
Assets	8 918	3 023	753	1 392	959
Off balance sheet	6	10	14	753	0
Total assets	**8 924**	**3 032**	**767**	**2 145**	**959**
Liabilities	2 956	1 717	1 964	5 324	51
Off balance sheet	758	10	14	0	1
Total liabilities	**3 714**	**1 727**	**1 978**	**5 324**	**52**
GAP (Assets - Liabilities) in Dec 2018	**5 210**	**1 306**	**(1 211)**	**(3 179)**	**907**
GAP (Assets - Liabilities) in Dec 2017	**2 610**	**1 409**	**(1 881)**	**(5 485)**	**748**

In view of the interest rate gaps observed as at 31 December 2018, an instantaneous and parallel positive shift of the interest rates by 100 basis points would lead to a variation of net gains in the expected economic value of the banking portfolio of approximately -19.0 million euros.

LIQUIDITY RISK

Liquidity risk is assessed using regulatory indicators defined by the supervisory authorities and other internal measurements for which exposure limits are also defined. This control is reinforced by the execution of stress tests, aimed at characterising Banco Montepio's risk profile and assure that the Group meets its obligations in the event of a liquidity crisis.

The objective of controlling the liquidity levels is to maintain a satisfactory level of liquid assets so as to meet financial needs in the short, medium and long term. Liquidity risk is monitored daily, with various reports being prepared for control and monitoring purposes and to support decision-taking within the Capital, Asset and Liability Committee (CCAP). Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through weekly and monthly reports.

The evolution of the liquidity situation is monitored, in particular, based on estimated future cash flow projections for various time horizons, considering Banco Montepio's balance sheet. The liquidity position of the day under review and the amount of assets that are considered highly liquid in the uncompromised securities portfolio are added to these projections so as to determine the accumulated liquidity gap for various time horizons. Moreover, the liquidity positions are also monitored from a prudential perspective, calculated according to the rules required by Banco de Portugal (Instruction number 13/2009 of 15 September), as well as the level of compliance of the liquidity prudential indicators, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM), and internal ratios such as, for example, loan-to-deposits ratios, concentration of funding sources, short term funding and eligible assets.

In December 2018, the liquidity gaps up to 12 months were as presented in the table below.

LIQUIDITY POSITION GAPS IN DECEMBER 2018

(million euros)

Position reference date + forecast amount	Maturity periods				
	On sight and up to 1 week	Above 1 week and up to 1 month	Above 1 month and up to 3 months	Above 3 months and up to 6 months	Above 6 months and up to 12 months
Accumulated mismatches	2 936	2 905	2 773	2 687	2 568

As at 31 December 2018, customer resources continued to be the main source of funding, accounting for 75.0% of total funding sources:

Liabilities	%
Resources from central banks	8.3
Resources from other credit institutions	7.4
Resources from Customers	75.0
Debt securities issued	6.5
Other liabilities	2.8

The Liquidity Coverage Ratio (LCR) reached 160.5% at the end of 2018, above the minimum requirement of 100%. Special note should also be made to the maintenance of a balanced commercial balance sheet with the loan-to-deposit ratio, considering loans and on-balance sheet customer resources, standing at 88.7%, compared to 92.4% at the end of 2017.

REAL ESTATE RISK

Real estate risk is embodied in possible negative impacts on Banco Montepio's results or own funds, due to fluctuations in the market price of real estate assets.

Real estate risk arises from the real estate assets on the balance sheet, whether from properties given in lieu of repayment or judicial auction sale in the context of recovery procedures for loans or investment units of real estate funds held in the securities portfolio. These exposures are monitored based on analyses of scenarios that seek to estimate potential impacts of alterations in the real estate market on the portfolios of these real estate assets, providing necessary information for the definition of the real estate risk management policy.

During 2018, the Banco Montepio Group's exposure to real estate risk, in the components described above, fell by approximately 207 million euros, shifting from 1,494 million euros at the end of 2017 to 1,287 million euros as at 31 December 2018.

PENSION FUND RISK

Pension Fund risk arises from the potential devaluation of the fund’s portfolio of assets or from the decrease of the corresponding expected returns, as well as from increased liabilities of this fund as a result of the evolution of the different actuarial assumptions. When faced with scenarios of this type, Banco Montepio is required to make unforeseen contributions, so as to maintain the benefits defined by the Fund.

The Pension Fund Monitoring Committee is responsible for the regular analysis and monitoring of the management of Banco Montepio’s Pension Fund. Supplementing the above, the Risk Department produces monthly reports on the evolution of the market value of the Pension Fund portfolio and associated risk indicators.

As at 31 December 2018, the accumulated negative actuarial deviation of the Pension Fund stood at -223 million euros, with 35 million euros referring to 2018.

OPERATIONAL RISK AND BUSINESS CONTINUITY

Operational risk corresponds to the potential loss arising from failures or inadequacies in internal procedures, persons or systems, as well as potential losses derived from external events. Banco Montepio adopts the standard approach to quantify its own fund requirements for operational risk, supported by an implemented operational risk management system that is based on identifying, assessing, monitoring, measuring, mitigating and reporting this type of risk.

The Risk Department performs the corporate function of operational risk management for Banco Montepio This is supported by specific interlocutors within different organic units that assure the appropriate implementation of the operational risk management.

The assessment of the operational risk profile for new products, processes and systems and their monitoring, on a regular basis, has permitted the prior identification and mitigation of situations of operational risk.

With regard to the monitoring of operational risk in 2018, the activities of collection and analysis of loss events were maintained. In terms of exposure to operational risk, the business lines showing most severity in 2018 continue to be those related to retail and payment and settlement activities, as indicated in the following table:

EVENTS DISTRIBUTION BY BUSINESS LINE IN 2018

	Frequency	Severity
Retail Banking	26.9%	53.0%
Payment and settlement	71.6%	45.0%

Also continuing to be essential in the management of this specific type of risk is the prior identification of relevant operational risks whenever a product, process or system is implemented or reviewed, and follow-up is ensured of action plans aimed at preventing or mitigating the effects of the materialisation of the risks with greatest frequency / severity of loss events or with higher residual value in the context of the self-assessment process.

Self-assessment of Operational Risks

The operational risk management cycle implemented at Banco Montepio is based on the preparation of a table of activities and respective operational risks and controls, enabling the identification of the potential exposure of each body/organic unit to the operational risk, determination of its risk profile and prioritisation of any mitigation actions. The operational risks are mapped considering seven main categories: internal fraud; external fraud; employment and safety at work practices; customer, products and commercial practices; damages to physical assets; disturbance of activities and system failures; and implementation, delivery and management of processes. The operational risks and respective controls are self-assessed regularly, as a rule in the form of workshops with the representatives of each body/organic unit and the support of the Risk Department.

Based on the results of the self-assessments, conducted in terms of impacts and frequencies for the risks and percentage efficacy for the controls, a matrix of tolerance to residual risk is established, which will substantiate the risk level considered acceptable for the institution and will enable identifying any risks for which additional mitigation measures may need to be designed.

Business Continuity Management

The cycle of business continuity management is supported by a series of activities of assessment, design, implementation and monitoring, integrated in a continuous improvement cycle aimed at making business processes more resilient, and ensuring the continuity of operations in the case of events that interrupt the activity.

The evolution of the sector, the actual internal alterations, the growing concern with the total range of assets to be protected, the quality of their protection and their cost-benefit ratio in comparison to other market players imply the pressing need for a periodic review of the business continuity management.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The internal capital adequacy process (ICAAP) is an essential component in the risk management of the Group, which seeks to ensure an analysis of the evolution occurred in the practices of qualitative and quantitative assessment of the risks to which the Group is exposed, the appraisal of the internal controls and effects which enable mitigating the exposure to risk, the simulation of adverse situations with impacts on the solvency of the Group and the assessment of the adequacy of internal capital.

Banco Montepio's ICAAP exercise is conducted at a consolidated level with the following main objectives:

- Promote ICAAP as a tool to support strategic decision-making in the Group;
- Stimulate a culture of risk that fosters the participation of the entire organisation in the management of the internal capital (management body, business areas and internal control functions);
- Assure the adequacy of internal capital to its risk profile and risk strategies and business;
- Assure an appropriate identification, quantification, control and mitigation of the material risks to which the Group is exposed;
- Assure the suitable documentation of the demonstrated results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in decision-making processes;
- Foresee a contingency plan to assure the management of the activity and the adequacy of the internal capital in the event of a recession or crisis.

The results of the ICAAP enable investigating whether the Group's capitalisation is, in a sustainable form, adequate to the risks derived from its activity. This capital adequacy is assessed based on the comparison between the available internal capital and the economic capital requirements, taking into account the risk appetite level established by the management body.

At a first stage, this entails identification of the material risks faced by the Group's activity, based on an internal risk classification. All the risks identified as material and the risks considered in Basel Pillar I, regardless of being considered material or not, are integrated in the ICAAP.

At a second stage, the material risks are modelled with a view to the quantification of the respective economic capital requirements, based on an extremely adverse scenario in line with the defined risk appetite level. The risks are thus incorporated by add-on to the regulatory capital. The capital add-on values therefore include the requirements relative to other risks not considered in Pillar I (regulatory vision) and the difference between the regulatory and economic requirements, taking into account the risk quantification methodologies used internally by the Group.

Capital adequacy is assessed based on the comparison between the economic capital requirements and the available internal capital to absorb risks, calculated considering the established risk appetite level.

The result of the capital adequacy assessment is supplemented by the values obtained through reverse stress tests and under stress test scenarios. The objective is to assess the Group's capacity to absorb unexpected losses, where potential contingency plans should be identified to deal with any insufficiency of internal capital, duly aligned with other capital planning exercises, namely the Funding and Capital Plan and the Recovery Plan.

In light of the defined strategic plan that is reviewed periodically, no significant changes are foreseen in the materiality of the different types of risk. The process of assessment of the internal capital during 2018 demonstrated that the Group is adequately capitalised. Additionally, the Funding and Capital Plan foresees measures that will enable strengthening the Group’s solvency levels.

STRESS TESTS

Pursuant to the regulatory terms, the Group conducts stress tests, under the Group's Recovery Plan, the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP) submitted to Banco de Portugal.

The Group's Recovery Plan involves analysis and measurement of impacts derived from adverse scenarios, considering systemic events, idiosyncratic events of the Group and a combination of both. This analysis gave rise to a series of strategic options and recovery measures to be placed in practice in order to assure the preservation and solidity of the Group's levels of capital, liquidity, profitability and operating activities, in the event of being faced with situations of contingency or financial crisis.

The ILAAP provides the Board of Directors, Executive Committee and supervisory body with an appropriate overview of the evolution of the liquidity and funding risk profile, as well as overall exposure to risk. Moreover, it also provides information on the Montepio Group's available liquidity sources and the adequacy of its liquidity.

In order to assess capital insufficiency during periods of stress, the ICAAP included the definition of a series of stress tests (reverse stress tests and scenarios) on the risk quantification models and capital adequacy. The outcome of these tests enables confirming the adequacy of internal capital levels to the tested adverse scenarios.

In addition to the stress tests reported to Banco de Portugal, the Group regularly carries out other impact studies aimed at providing an analytical vision of its position in terms of liquidity, net income for the year and capital when subject to adverse scenarios arising from alterations in risk factors such as interest rates, credit spreads, repayment of deposits, margins of assessment of eligible assets applied by the ECB, risk ratings (of the Group and counterparties), portfolio loss ratios, collateral, among others.

The stress tests and analyses of adverse scenarios are disclosed and debated with the Group's management, with the conclusions drawn being subsequently incorporated in the strategic decision-making processes, more precisely in the determination of levels of solvency, liquidity, exposure to specific risks (counterparty and price risks) and overall risks (interest rate, exchange rate and liquidity risks).

Risk Ratings

RISK RATINGS

2018 rating events

On 24 January 2018, the agency Fitch Ratings announced an upward revision of the risk rating of Covered Bonds issued by Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio), from 'A+' to 'AA-', with 'Stable' outlook. The following contributed to this upward revision: (1) the level of protection conferred by the quality of the autonomous assets allocated to these bonds in light of the updating of the assessment methodology applied by the agency to the Portuguese covered bonds, published on 12 January 2018; (2) the upward revision of the long term risk rating (Long Term IDR – Issuer Default Rating) of Banco Montepio, from 'B' to 'B+', published on 21 December 2017; following the progress derived from the implementation of the Strategic Plan 2016-2018 and the improvement of the main financial indicators; (3) the upward revision of the risk rating of the Portuguese Republic from 'BB+' to 'BBB' occurred on 15 December 2017.

In the second half of the year, on 7 December 2018, Fitch Ratings placed long-term senior unsecured debt with probability of negative evolution (negative watch rating) following the agency's forecast that the approval of the new law on deposit hierarchy would weaken the credit position of holders of this type of debt.

The financial rating agency DBRS Ratings Limited (DBRS) confirmed, on 1 October 2018, the ratings attributed to Banco Montepio following the progress made concerning asset quality and profitability. According to DBRS, the improvements are largely related to the reduction of non-performing loans and the increased respective coverage levels, the improvements of accumulated results, and the signs of stabilisation of the customer deposit base.

On 16 October 2018, the financial rating agency Moody's Investors Service (Moodys), announced an improvement of the outlook on evolution of the rating of the long-term bank deposits of Banco Montepio, from developing to positive, reflecting the agency's expectation that the implementation of the Transformation Plan would gradually strengthen the indicators of financial solidity. Furthermore, the agency upgraded the Long-term Counterparty Risk Rating from B2 to B1.

The risk ratings attributed to Banco Montepio by the rating agencies as at 31 December 2018 and 2017 are presented in the table below:

Risk Ratings

Agências de *Rating*	Covered Bonds (CPT[1])		Long-term		Short-term		Outlook	
	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**
Fitch Ratings	A+	**AA-**	B+	**B+**	B	**B**	Stable	**Stable**
Moody's Investors Service	A3	**A3**	B3	**B3**	NP	**NP**	Developing	**Positive**
DBRS Ratings Limited	A	**A**	BB	**BB**	R-4	**R-4**	Negative	**Negative**

(1) Conditional Pass-through Covered Bond Programme

Non-Financial Statement

NON-FINANCIAL STATEMENT

FRAMEWORK DECREE-LAW NO. 89/2017

Banco Montepio stands as a unique and independent financial institution, increasingly closer to families, companies and institutions of the Social Economy. An institution with history, and which celebrated 175 years of existence in March 2019, in which tradition and innovation cohabite in harmony. Its standards of action always bear in mind the principles of ethics in business, the primacy of the customers' interest and protection of their savings, loyalty to customers, investors and supervision authorities, but also the solidarity and social responsibility that its vocation and centenary origin require. The aspect of sustainability has been firmly imprinted at Banco Montepio since its beginning, and the commitments undertaken are based on pillars of high standards, rigour and ethics. The Social Responsibility strategy defined by Banco Montepio is based on sustained development as a driver of change and, to this end, recognises four axes of action for sustainable development: the affirmation of identity, focus on people, environmental promotion and cooperation.

This chapter, which is an integral part of the Management Report of 2018, highlights Banco Montepio's policies and practices concerning environmental and social issues and relative to the employees, to equality between women and men, non-discrimination, respect for human rights and the combat of corruption. In presenting the Bank's activity in these areas, in this chapter, Banco Montepio also ensures compliance with the requirements of Decree-Law 89/2017, published on 28 July 2017, which foresees the disclosure of non-financial information, so as to enable understanding Banco Montepio's activities in matters of social responsibility.

In 2018, and continuing the practice of previous years, Banco Montepio collected and summarised non-financial information among the fully consolidating subsidiaries (see Group Structure section of this report), subsequently presenting this information in this chapter of the Management Report.

VALUE CREATION FOR THE BUSINESS

Since its creation, Banco Montepio has progressively placed at the disposal of its individual, company and Social Economy customers a universal offer of complementary products and services through a dynamic, prudent and ethical management, based on high standards of social responsibility and sustainability contributing to the development and consolidation of the economy in Portugal.

For the creation of value for the business, Banco Montepio also considers risk management and the combat of corruption and attempted bribery as highly relevant.

RESPONSIBLE BUSINESS

Pursuing the mission of affirming its positioning by applying principles intrinsic to banking ethics, over the years Banco Montepio has progressively offered its customers financial products and services with social and environmental benefits, particularly the case of the offer dedicated to the Social Economy sector, thus contributing to meet society's challenges in line with best practices.

In 2018, Banco Montepio continued the strategy for the segment of individual customers of encouraging household savings, namely by offering products of resources with different characteristics and maturities, and a service designed for those who want to pay the minimum and receive the maximum service. "15 em 1 | Serviço Máximo" (15 in 1 | Maximum Service) enabled customers to cut their daily expenses, through a series of benefits with exemption of account maintenance fees. As the offer is intended for individual customers aged over 18 years old, this service sought to extend the benefits to the entire family and, from the start, encourage saving through the offer of a saving voucher of €25.00 for opening or increasing saving accounts for minors.

At the same time, Banco Montepio maintained its offer of Overall Solutions, involving a set of products and services, with differentiated prices, directed at individual customers with different profiles of banking needs. Concerning the offer of sustainable nature, Banco Montepio continued to provide banking products aimed at compliance with social and environmental imperatives, namely solutions of financial inclusion, promotion of saving, support to education, promotion of health and well-being and products inducing good environmental practices. With regard to the Individuals segment, please see the Business Segment section of this report, which presents more detailed information.

On the other hand, Banco Montepio reinforced its participation in public sector initiatives aimed at stimulating the financing of companies in diverse aspects through protocols, which is the case of "Linha de crédito para apoio ao Desenvolvimento do Negócio 2018" (Credit line to support Business Development 2018), directed at micro, small and medium-sized enterprises (SME) and startups. As in previous years and considering the performance of "Linha de Apoio à Qualificação da Oferta - Turismo de Portugal" (Support Line for Qualification of the Offer - Tourismo de Portugal), and alignment with the specific needs of companies of the tourism sector, Turismo de Portugal and Banco Montepio renewed this credit line in 2018. With regard to the Corporate segment, please see the Business Segment section of this report, which presents more detailed information.

Support to the Social Economy plays a preponderant role in Banco Montepio's strategic development, by support to the Social Economy and follow-up of the entities included therein, namely through dialogue with its representative structures and stakeholders, building bridges of understanding and strengthening relationship networks directed towards the growth and strengthening of the Social Economy and its agents. With regard to the Social Economy, please see the Business Segment section of this report, which presents more detailed information.

Being aware that the growth of its business and the maximisation of benefits attributed to its customers are the driving force of the institution, Banco Montepio is dedicated to continuously providing quality services to its customers, observing high ethical standards.

In order to further enhance the institution's culture of ethical and responsible business management, Banco Montepio acts preventively, having organised various specific contents of training programmes aimed at ensuring that the employees do not risky behaviour or practices.

Banco Montepio maintained its anti-corruption programme, which includes a channel for complaints through which any of its employees can communicate, in a confidential manner, possible irregularities on issues that infringe or compromise the institution, its accounting organisation, administration or internal supervision.

The table below presents the training actions conducted throughout 2018 related to the institution's mission on matters of creation of value for the business and social responsibility.

Training actions in 2018

	No. Actions	No. Training Hours	No. Employees covered
Montepio Women Mentoring Program	8	225	53
Harassment at Work	10	285	81
Support to the Design of Equality and Monitoring Plans	1	3	1
Business Continuity	7	70	41
Social Economy	4	1693	7
MoneyGram - Fraud Prevention	5	38	19
Sustainability - Montepio Group	4	1068	2 132
Ethics, Code and Duty of Conduct	10	480	320
Wellness, Health and Safety	25	30	15
Articulation between professional, family and personal life; protection of parenthood; family care	1	9	3
Corporate Volunteering	2	4	2
Prevention of Money Laundering and Terrorist Financing	20	3802	2 682
Total	**97**	**7 707**	**3 554**

RISK MANAGEMENT

The Banco Montepio Group's overall risk management entails a series of policies, procedures, definition of limits concerning risk appetite, and controls that enable, in an appropriate and integrated manner, identifying, measuring, assessing, monitoring, mitigating and reporting the risks derived from the activities developed in the different business lines and entities of the Banco Montepio Group. The different dimensions of risk covered by the risk management function and their governance can be consulted in the chapter on Risk Management of the Management Report, while this section highlights operational risk corresponding to matters of social responsibility.

The operational risk management cycle implemented at Banco Montepio is transversal to all the materially relevant activities developed at the institution. This process includes the preparation of a table of activities and respective operational risks and controls, enabling identification of the potential exposure of each body/organic unit to the operational risk, determination of its risk profile and prioritisation of any mitigation actions. The operational risks are monitored considering the following main categories:

- Internal Fraud: Losses arising from acts aimed intentionally at the practice of fraud, the improper appropriation of assets or at circumventing regulations, legislation or internal polices/rules, which involve at least one employee of the institution;
- External Fraud: Losses arising from acts aimed intentionally at the practice of fraud, the improper appropriation of assets or at circumventing legislation by third parties;
- Employment practices and workplace safety: Losses arising from acts that are not in conformity with the legislation or collective labour agreements, health and safety, the payment of personal injury or acts related to differentiation/discrimination;
- Customers, products and business practices: Losses arising from intentional non-compliance or due to negligence of a professional obligation relative to specific customers, or due to the nature or design of a product;
- Damage to physical assets: Losses arising from damage or loss causes to physical assets by natural disasters or other events;
- Disturbance of activities and system failures: Losses arising from disturbance of commercial activities or system failures;
- Execution, delivery and process management: Losses arising from failures in the processing of operations or in process management, as well as relations with commercial counterparts and suppliers.

The operational risks and respective controls are self-assessed regularly, as a rule in workshop arrangements with the representatives of each body/organic unit. In 2018, a review was made of 55 processes involving 18 Divisions/70 Departments, of which 6 Divisions/34 Departments are of the commercial network.

The results of the self-assessments were reported to the Board of Directors via the Annual Report on Operational Risk, and a specific presentation at the Risk Commission. Based on the results of the self-assessments, conducted with respect to impacts and frequencies for the risks and percentage efficacy for the controls, a matrix of tolerance to residual risk is established, which will substantiate the risk level considered acceptable for the institution and will enable identifying any risks for which additional mitigation measures may need to be designed. Subsequently, the operational risk culture was promoted in the commercial network, through presentations to the Commercial Divisions, which involved the heads of Division, Regional Departments and Branches. Opinions were also issued on operational risk of preventive nature, about the organisation, products, processes and procedures, aimed at revealing risks and proposing controls to mitigates these risks and strengthen the products and processes.

FIGHTING CORRUPTION AND BRIBERY ATTEMPT

In the context of the fight against corruption and attempted bribery, namely in the combat of money laundering and terrorist financing, Banco Montepio has implemented policies relative to customer identification, analysis and monitoring of high risk customers, customer acceptance, management of the risk of money laundering and terrorist financing, and relative to sanctions, in order to ensure compliance with the legislation in force and aligned with best market practices.

Any non-compliance detected is subject to immediate sanctions, and when deemed necessary, action plans are implemented to correct any situations requiring greater intervention.

OUR POLICIES

Banco Montepio has the following specific policies related to the business:

- Policy on management of the risk of money laundering and terrorist financing;
- Policy on analysis and monitoring of high-risk customers;
- Policy on customer acceptance;
- Policy on customer identification;
- Policy on sanctions;
- Policy on conflict of interest;
- Policy on prevention of market abuse.

OUR PERFORMANCE

Banco Montepio presents information related to the indicator: Training on anti-corruption policies and procedures.

Without prejudice to the continuous improvement that Banco Montepio aims to implement, this non-financial statement presents the most materially relevant information for the subsidiaries of the Banco Montepio Group, where, for the indicator in question, information is presented for Banco Montepio. In this regard, the training on anti-corruption policies and procedures amounted to 4,320 hours in 2018, of which 3,802 hours were on prevention of money laundering and terrorist financing, 480 hours were on ethics, code and duty of conduct, and 38 hours were on MoneyGram – prevention of fraud.

VALUE CREATION FOR EMPLOYEES

HUMAN CAPITAL AND TRAINING

Banco Montepio believes that human capital is the institution's core asset, so, it continued to develop initiatives considered strategic in the area of Human Resources Management, in particular training, performance management and the professional and personal development of its employees. Topics such as diversity, ethics and integrity, the best working conditions and balance between professional and personal life of the employees, concentrate growing attention by Banco Montepio. The Banco Montepio Group carried out a total of 79,838 hours of training in 2018.

Total Training Hours in 2018

	No. Actions	No. Training Hours	No. Participations
Banco Montepio:			
2016	699	51 769	19 282
2017	1 174	230 624	49 529
2018	684	74 034	26 619
Subsidiaries 2018:			
Montepio Crédito	27	5 225	662
Montepio Valor	38	229	26
Finibanco Angola	9	350	21
Total 2018	**758**	**79 838**	**27 328**

PERFORMANCE MANAGEMENT

The System of Counselling and Performance Management of Banco Montepio - "Modelo 3D" (3D Model) was launched in 2017, portraying a tool in 2018 which challenged the employees to an individual reflection on their performance, but also contributed to this being done in partnership with their senior managers. The system focuses on an analysis of the past and on the needs for the employees' future development. The monitoring of their performance and a process of effective dialogue reflected in true sharing between the parties involved.

The pilot cycle was completed during 2018, the first in this new model, started at the end of 2017. This pilot initiative achieved its goals, as it enabled testing and analysing the need for changes and adjustment to a series of particularities of the system, as well as detecting points that required improvement.

The 2018 cycle of the 3D Model started in the second half of the year. It was decided that only the skills component would be assessed and the need to carry out counselling conversations between the leadership and employees would be strengthened. The indicators of the different stages of the process during the 2018 cycle revealed a high participation rate, both of the employees and the leadership.

DIVERSITY

For Banco Montepio, diversity is a guiding basic principle of its internal and external action, with non-discrimination thus being one of the values considered in its Code of Conduct. Banco Montepio therefore undertakes the commitment of non-discrimination and equality of treatment regardless of age, sex, ethnicity, citizenship, place of origin, religion, political or ideological beliefs.

ETHICS AND INTEGRITY

Code of Conduct of Banco Montepio

Banco Montepio endorses the guiding principle of systematically showing responsible behaviour that contributes to the sustainability of its customers and their families, combining modern and innovative banking with traditional values such as resilience, honesty, transparency and respect for others.

These values are reflected in the Code of Conduct which define the minimum standards of interaction with others, such as customers and partners, being applicable to all employees of the Banco Montepio Group. Banco Montepio, through "Academia Montepio" (Montepio Academy), continued to promote training actions in 2018 on “Ethics, Code and Duty of Conduct”, an initiative that involved 320 employees of Banco Montepio, covering 480 hours.

OUR POLICIES

Banco Montepio has the following specific policies related to the employees:

- Collective Labour Agreement subscribed with the "Sindicato dos Bancários do Norte" (Trade Union of Northern Bank Workers), the "Sindicato dos Bancários do Centro" (Trade Union of Central Bank Workers) the "Sindicato dos Bancários do Sul e Ilhas" (Trade Union of Southern and Island Bank Workers), the "Sindicato dos Quadros e Técnicos Bancários" (Trade Union of Middle Management and Technical Bank Workers)and the "Sindicato Independente da Banca" (Independent Banking Trade Union). This Agreement is applicable to Banco Montepio and its subsidiaries Montepio Valor and Montepio Crédito.
- Code of Conduct, which includes a series of requirements stipulating respect for human rights and the environment.

OUR PRACTICES

Gender equality

The joining of the iGen Forum, in 2017, strengthened Banco Montepio's interest in and commitment to this guiding principle. A specific plan was developed, focused on boosting internal initiatives and practices that lead to a more balanced gender representation and to equal opportunities.

The 1st edition of the "Programa de Mentoria Mulheres Montepio" (Montepio Women Mentorship Programme) began in 2018, with the participation of around 15 pairs of Mentors- Mentees, aimed at:

- Providing contact with Leading Women of Banco Montepio, promoting the sharing of knowledge, networking and the valorisation of role models in the organisation;
- Fast-tracking the development of Montepio Women, increasing their chances of success;
- Endowing the Mentees with personal and management skills, facilitating their personal and professional growth at Banco Montepio;
- Supporting Montepio Women along their career path, namely in balancing their professional and personal life.

Working Conditions, Health and Safety

Banco Montepio aims to make its workplaces safer, healthier and more productive, promoting healthy life-styles and well-being, and developing a culture of risk prevention. Amongst the initiatives carried out in 2018, the following are worthy of mention:

- Personalised monitoring of serious situations of illness and individualised health promotion intervention, meeting specific needs;
- Reactivation of psychosocial support, through casuistic and multidisciplinary analysis;
- Assessment and control of occupational risks, individualised ergonomic analyses of work stations for mitigation of the detected risks, ensuring the attribution of ergonomic equipment to employees with specific risk factors, whenever necessary;
- General assessment of psychosocial risks, through a questionnaire provided to all the institution's employees;
- Annual vaccination campaign against seasonal flu, free of charge;
- Celebration of world food day, with assessment of physical parameters of the employees and counselling towards adopting a healthy life-style;
- Commemoration of the national day of prevention and safety at work, through a campaign to raise awareness on the practice of workplace gym exercises.

Reconciliation of Working Life with Personal Life

At Banco Montepio, the good balance between professional and personal life was a factor that the institution took into account, seeking to define measures to facilitate this or offering solutions that would enable its employees to achieve the best combination possible, namely:

- Scrupulous compliance with all the rules on protection of parental rights;
- Attribution of flexible working hours or unpaid leave, when requested and whenever possible;
- Authorisation for home-based work, for defined periods, when relevant and possible;
- Plans for follow-up, psychosocial support to employees in situations of domestic violence, mugging, robberies or debt restructuring.

Representation of Workers

Banco Montepio maintained direct and regular dialogue with all the workers' representation bodies, providing them with the necessary conditions so that all, namely union delegates, workers' committee, and health and safety representatives, could freely develop the representation activities for which they are responsible, rigorously giving them the credit hours established by the Law.

OUR PERFORMANCE

Banco Montepio presents information on its subsidiaries relative to the following indicators:

- Employees by type of contract, by gender and by region;
- Average training hours per year, per employee and by type of training;
- Employees by gender and by age group;
- Training on human rights policies and practices.

Banco Montepio

Without prejudice to the continuous improvement that Banco Montepio aims to implement, this non-financial statement presents the most materially relevant information for the subsidiaries of Banco Montepio, as detailed below.

Characterization of Employees: Domestic Activity

		Banco Montepio			Montepio Crédito			Montepio Valor		
		2016	2017	2018	2016	2017	2018	2016	2017	2018
Per type of contract	Permanent	3 587	3 580	3 486	127	125	124	15	22	22
	Contract	1	50	80	1	2	1	9	4	4
Per gender	Male	1 917	1 925	1 869	60	57	55	11	13	13
	Female	1 671	1 705	1 697	68	70	70	13	13	13
Per age group	18 to 39 years	944	836	715	47	41	31	14	15	15
	40 years or more	2 644	2 794	2 851	81	86	94	10	11	11
Per region	North	1 111	1 111	1 100	109	107	105	-	-	-
	Center	1 981	2 030	410	0	0	0	-	-	-
	South	337	331	1 913	19	20	20	-	-	26
	Islands	143	144	131	0	0	0	-	-	-
	International	16	14	12	-	-	-	-	-	-
Average training per employee	Average hours	15.9	63.8	21.9	21.7	37.7	40.8	6.7	9.7	17.6

Characterization of Employees: Internacional Activity

		Finibanco Angola			Banco Terra		
		2016	2017	2018	2016	2017	2018
Per type of contract	Permanent	106	133	145	-	173	168
	Contract	110	90	80	-	23	13
Per gender	Male	115	119	120	-	109	103
	Female	101	104	105	-	87	78
Per age group	18 to 39 years	194	197	195	-	155	134
	40 years or more	22	26	30	-	41	47
Per region	Maputo	-			107	118	117
	Inhambane				9	8	8
	Sofala				8	8	9
	Manica				9	8	8
	Tete				34	38	23
	Nampula				17	16	16
	Luanda	191	200	202	-		
	Benguela	13	12	13			
	Huambo	6	6	5			
	Huíla	6	5	5			
Training per year per employee	Average hours	119.6	68.8	16.7	-	3.1	3.5

BENEFITS FOR EMPLOYEES

Banco Montepio has progressively develop a series of initiatives in the sphere of Human Resources Management, but also through the Social Services of the Montepio Group. The Social Services contribute to improve the meeting of employee needs, offering its members and beneficiaries more than 100 activities and over 70 discounts through protocols and partnerships established in various areas, such as motor vehicles and fuel, culture and leisure, sports, education, health, telecommunications and tourism. Examples of these are partner entities are Galp Frota, Repsol Move, MEO Telecomunicações, NOS Comunicações, Vodafone, Portugália Restaurantes and Lisbon Zoo.

Throughout 2018, in the cultural area note should be made of the acquisition of tickets at a lower value for a diversity of shows, from summer music festivals to opera performances, spread over the entire country. More than 2,500 books for reading were also made available, without any associated cost, through the Lisbon and Porto libraries, as well as economic meals at the Social Service canteens, located in Alfragide, Lisbon and Porto.

In addition to the existing protocols in the areas mentioned above, the Social Services also focused on the development of cultural, sports, recreational and social activities, so as to make culture and sports accessible to all the employees and, at the same time, ensure that its action promotes the internal cohesion of the Montepio Group.

Amongst the initiatives carried out in 2018, the following are worthy of mention:

- Holidays Camps with activities for the employees' children held during school holiday periods, namely at Easter and in the summer. Some of the Holiday Camp activities are carried out in partnership with entities, which is the case of Diverlanhoso, Ribeira de Pena Park, Porto Lazer, Lisbon Zoo and Happy Code;
- Circus sessions (in Lisbon and Porto), as well as local festivities in the zone of Coimbra, Faro, Funchal, Leiria, Ponta Delgada and Beira Interior, during the Christmas season. Presents are also given to all the employees' children aged up to 12 years old. During this season, the Social Services strengthened their solidarity action in collaboration with the Commercial Department of the Social Economy and Public Sector, by providing tickets for the Circus to various non-profit making institutions of the Lisbon and Porto region;
- National travel and leisure trips (Serra da Estrela, Aqueduto das Águas Livres and Marvão) as well as international (Sri Lanka and Bulgaria).

VALUE CREATION FOR SOCIETY

In order to create value for society, Banco Montepio has demonstrated its enormous concern for the community and the environment.

COMMUNITY

Under its responsibilities to society, Banco Montepio has progressively fostered the economic evolution of its customers and the community, pursuing sustainable growth and challenging the future, with the objective of supporting families, economic agents and entrepreneurial projects, inducing honesty, solidity, transparency and humanism, throughout the life cycle.

Banco Montepio, being placed within the Montepio Group, its shareholder, also participates in a series of initiatives developed by the latter, in particular the following:

The "Programa de Voluntariado Corporativo" (Corporate Volunteering Programme) is one of its most emblematic flagships of the Montepio Group's social responsibility, which seeks to cover all its employees and retired personnel, including all of Banco Montepio's employees and retired personnel, extending its action throughout the entire country and autonomous regions. this programme develops and supports projects in the areas of social economy, social solidarity, health, environment, education and training, with priority given to projects that promote an improved quality of life of children, young people, the elderly and disabled. All the projects supported are in line with the Sustainable Development Goals (SDG), such as for example the "Projeto de Intervenção Social" (Social Intervention Project) (SDG 1 – No Poverty and SDG 11 - Sustainable Cities and Communities, the "Jantares Comunitários" (Community Dinners) (SDG 2 - Zero Hunger), the "Ateliers Temáticos" (Thematic Workshops) (SDG 4 - Quality Education), and the "Prémio Voluntariado Jovem" (Youth Volunteering Award) (SDG 11 - Sustainable Cities and Communities and SDG 17 - Partnerships to achieve the Goal).

During 2018, the joining of the Volunteering Programme to the Employee Volunteering European Network (EVEN) and International Association for Volunteer Effort (IAVE) enabled its effective presence as Judge of the European Volunteering Capital 2020, and the award of the Diploma of Recognition in Social Responsibility and Sustainability, by "Associação Portuguesa de Ética Empresarial" (Portuguese Association of Business Ethics).

The Montepio Group carried out a total of 63 voluntary acts in 2018, which involved the participation of 764 employees and retired personnel.

The 6th edition of "Dia do Voluntariado" (Volunteer Day) of the Montepio Group simultaneously entailed 54 voluntary actions with the participation of 604 volunteers, enabling support to the community and Social Economy institutions.

In terms of volunteering of skills, reference is made to the participation of Banco Montepio volunteers in Junior Achievement Portugal (JAP), a non-profit organisation which is part of the largest and oldest organisation of the world in the area of education towards enterprising mentality and attitude. JAP programmes enable establishing a bridge between the theory learnt at school and what happens in practice, operating as examples to be followed by the children and young people of the schools involved, positively marking the academic pathway of elementary, secondary and higher education.

JA Portugal
A Member of JA Worldwide

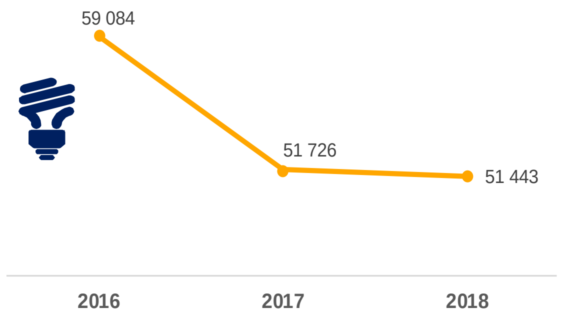
ENVIRONMENT

Concerning the environment, Banco Montepio has progressively emphasised the importance of understanding the relations between natural capital and the business as a pillar of growth and profitability, combined with strengthening the image. In this regard, Banco Montepio's intervention has involved implementing measures aimed at reducing energy and paper consumption, as well as the production of waste, in order to minimise CO_2 emissions.

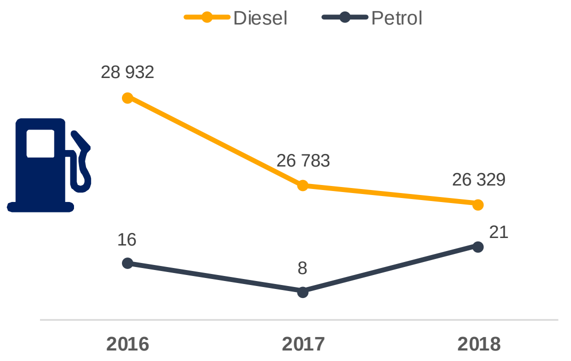
During 2018, Banco Montepio continued its intervention towards mitigating changes in natural resources, promoting energy efficiency gains, focusing on minimising CO_2 emissions, cutting paper consumption and managing waste in an efficient manner.

In 2018, electricity consumption fell by 0.5% compared to 2017, which reflects the completion of the implementation of the main energy efficiency measures, such as for example the placement of LED lamps and the replacement of obsolete equipment by more energy efficient equipment.

Electricity consumption (GJ)



Fuel Consumption (GJ)



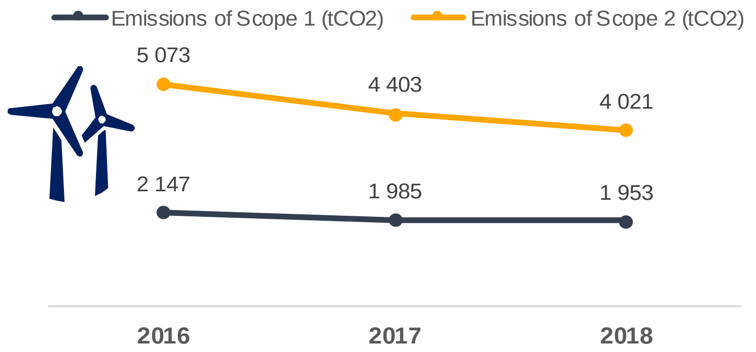
In relation to fuel consumption, and in order to contribute to decreasing CO_2 emissions, Banco Montepio recorded a reduction of 1.6% in the fuel consumption of its fleet in 2018.

Emission factors

Energy	Unit	Factor	Source
Electricity	kg CO_2/GJ	78.2	International Energy Agency (2015) - CO_2 Emissions from Fuel Combustion
Diesel	Kg CO_2/GJ	74.1	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015
Petrol	Kg CO_2/GJ	69.3	

In line with the reduction of total energy consumption (electricity and fuel), total CO_2 emissions fell by 414 tons in 2018 in relation to 2017, corresponding to a 6.5% decrease.

Emissions (tCO2)

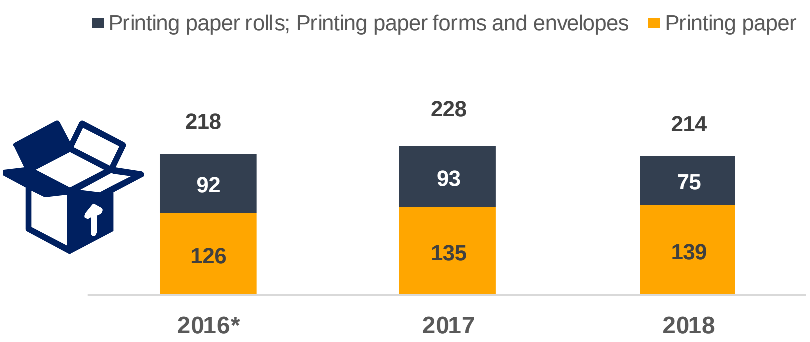


Conversion factors

Energy	Unit	Factor	Source
Eletricidade	GJ/KWh	0.0036	International Energy Agency – Basic Conversions
Diesel	Density (Kg/l)	0.84	APA (2014) -Table of fuel density values (2013)
	PCI (GJ/t)	42.6	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015 (pag.102)
Petrol	Density (Kg/l)	0.75	Decree-Law No. 142/2010, of 31 December
	PCI (GJ/t)	44	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015 (pag. 102)

Banco Montepio's total paper consumption fell by 14 tons in relation to 2017, considering the component of envelopes, reflecting a lower consumption of paper in rolls and a variety of printing (-18 tons) which slightly offset the increase in photocopy paper consumption in 2018. In 2018, overall paper consumption decreased in relation to the previous year as a result of the dematerialisation measures underway.

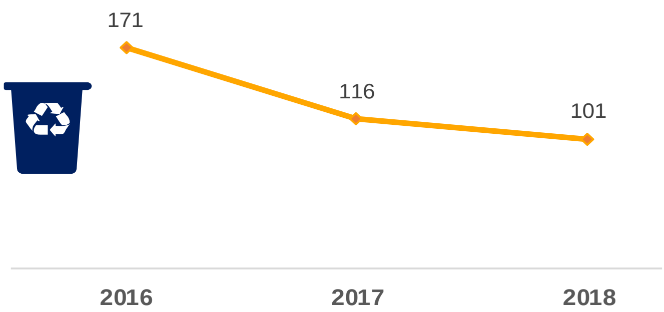
Paper Consumption (t)



* In 2016 it is not accounted for the consumption of paper in the form of envelopes.

The vast majority of the waste produced by Banco Montepio is considered non-hazardous with its final destination being valorisation. In 2018, there was a reduction of 13% of waste produced in relation to 2017, corresponding to a decrease of 15 tons of waste.

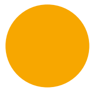
Waste (t)



Main environmental initiatives undertaken

In order to increase energy efficiency, in terms of the appropriate use of resources and consequent cost reduction, Banco Montepio adopted a series of initiatives, in particular:

Executed / Not Executed

	Adopted Measures	Degree of Execution Dec.18
Informatics	• Server virtualisation with reduction of energy consumption;	
	• Substitution of core infrastructures (hardware) for equipment with greater energy efficiency.	
Facilities	• Replacement for low-energy LED bulbs in spaces where the central services of Banco Montepio operate;	
	• Substitution of HVAC (with refrigerating gas R22) equipment at branches, for more efficient equipment with less aggressive gases for the environment;	
	• Substitution of HVAC (with refrigerating gas R22) equipment at the building of Rua Castilho, for more efficient equipment with less aggressive gases for the environment.	
Materiais	• Increase, compared to 2017, in the adhesion to digital documentation via NET24 (16% for individual customers and 17% for corporate customers) and consequently reduction of external mail;	Continuous Implementation
	• Gradual dematerialisation of the Daily Movement of Documents (DMD) and of the accounts opening process, in substitution of the paper format.	Continuous Implementation

In the same context, Banco Montepio started a project to dematerialise processes mainly aimed at reducing paper and energy consumption.

Process dematerialisation project	
Project	• The project is based on the collection of digital signatures, through tablet devices, which allows scanning the document and, at the same time, capturing the image, which will serve as proof for the Customer.
Objectives	• Dematerialisation of processes, with elimination of paper printing and paper circulation; • Improvement of the Customer's day and experience; • Streamlining of the procedural handling, contributing towards the improvement of the service provided and cost reduction. • The implementation of this project includes other intangible gains; • Positioning of the Montepio brand with an image of modernity and innovation; • Environmental concern, contributing towards the reduction of the ecological footprint; • Monitoring of best market trends, to meet Customers' expectations.
Results	• Decrease in the consumption of paper in the processes and operations contemplated in this project (opening / maintenance of customers and current accounts, certificates of operation of transactions instructed at the Branches), based on the amount of dematerialized operations, paper savings will have reached a value of ≈ 1,500,000 sheets; • Reduction of expenses related to consumables associated to the generation of paper documents (printer toners, archive folders, etc.).
Next steps	• Progressive extension of these features to more business processes (opening of Corporate current accounts and credit operations).

OUR POLICIES

Banco Montepio has the following specific policies related to the environment:

- Code of Conduct, which includes a series of requirements stipulating respect for human rights and the environment.

OUR PERFORMANCE

Banco Montepio presents information on its subsidiaries relative to the following indicators:

- Total paper consumption;

- Total energy consumption inside the institution (including fuel, electricity, heating, chilling and steam).

Without prejudice to the continuous improvement that Banco Montepio aims to implement, this non-financial statement presents the most materially relevant information for the subsidiaries of Banco Montepio.

Total Consumption: Domestic activity

		Banco Montepio			Montepio Crédito		
		2016	2017	2018	2016	2017	2018
Paper	(ton)	218	228	214	7	10	9
Electricity	(kwh)	16 412 197	14 368 357	14 289 723	166 313	145 620	134 946
Fuel	(liters)	811 904	751 416	7 39 075	76 348	71 403	67 421

Total Consumption: International activity

		Banco Terra (Moçambique)			Finibanco Angola		
		2016	2017	2018	2016	2017	2018
Paper	(ton)	8	8	(a)	96	120	151
Electricity	(kwh)	472 276	481 313	(a)	961 293	1 068 104	856 423
Fuel	(liters)	58 746	57 449	(a)	327 021	327 713	186 182

(a) Banco Terra S.A. was sold in 2018, and is no longer part of the consolidation perimeter of the CEMG Group.

Banco Montepio

TABLE OF CORRESPONDENCE WITH DECREE-LAW NO. 89/2017

Requirement	Response	
Corporate Model		
D DL 89/2017 - Article 3 (referring to article 508-G (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a)		**Page**
Corporate model of the company	The Banco Montepio Group - Group structure	18
	Transformation Plan	39
	Business segments - retail banking; corporate banking; social economy; subsidiaries; international activity	45, 45, 46, 54, 61
	Value creation for business - responsible business	108
Diversity in governance bodies		
DL 89/2017 - Article 4 (referring to Article 245 (1)(r) and (2) of the Central Securities Depository (CSD)) - Directive 2014/95/EU - Article 20 (1)(g)		
Diversity policy applied by the company to its management and supervisory bodies	*Requirement not applicable to Banco Montepio*	-
Environmental issues		
DL 89/2017 - Article 3 (2) (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to environmental issues	Value creation for society - our policies	122
Results of the application of the policies	Value creation for society - environment	118
Main associated risks and the way in which those risks are managed	The Banco Montepio Group - risk management	88
	Value creation for business - risk management	110
Key performance indicators	Value creation for society - environment - Tables of consumptions	119
	Value creation for society - our performance	122**Error! Bookmark not defined.**
Social and employee-related issues		
DL 89/2017 - Article 3 (2) (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to social and employee-related issues	Value creation for society - our policies	122
	Value creation for employees - our policies	114
	Value creation for employees - ethics and integrity - Code of Conduct of Banco Montepio	114
Results of the application of the policies	The Banco Montepio Group - people	22
	Value creation for society - community	117
	Value creation for employees - human capital and training	112
	Value creation for employees - performance management	113
	Value creation for employees - diversity	113
	Value creation for employees - ethics and integrity	114
Main associated risks and the way in which those risks are managed	The Banco Montepio Group - risk management	88
	Value creation for business - risk management	110
Key performance indicators	The Banco Montepio Group - people - tables with the evolution of the employees	22
	The Banco Montepio Group - people - charts with the distribution of Banco Montepio employees	23
	The Banco Montepio Group - people - table with indicators on training	23
	Value creation for society - our performance	122
	Creating value for employees - human capital and training - training table	112
	Value creation for employees - our performance	115

Equality between men and women and non-discrimination Article 3 (2) of DL 89/2017 (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to issues of equality between men and women and non-discrimination	Value creation for employees - our policies	114
	Value creation for employees - ethics and integrity - Code of Conduct of Banco Montepio	114
Results of the application of the policies	Value creation for employees - diversity	113
Main associated risks and the way in which those risks are managed	The Banco Montepio Group - risk management	88
	Value creation for business - risk management	110
Key performance indicators	The Banco Montepio Group - people - charts with the distribution of Banco Montepio employees	23
	Value creation for employees - our performance	115
Specific policies related to respect for Human Rights	Value creation for employees - our policies	114
	Value creation for employees - ethics and integrity - Code of Conduct of Banco Montepio	114
Results of the application of the policies	Value creation for employees - ethics and integrity	114
Main associated risks and the way in which those risks are managed	The Banco Montepio Group - risk management	88
	Value creation for business - risk management	110
Key performance indicators	Value creation for employees - our performance	115
Specific policies related to the fight against corruption and attempted bribery	Value creation for the business - our policies	112
Results of the application of the policies	Value creation for the business - fight against corruption and attempted bribery	112
Main associated risks and the way in which those risks are managed	The Banco Montepio Group - risk management	88
	Value creation for business - risk management	110
Key performance indicators	Value creation for the business - our performance	112
	Value creation for the business - fight against corruption and attempted bribery - table training actions in 2018	110

GLOSSARY

HVAC	Heating, ventilation and air conditioning
CO_2	Carbon Dioxide
GJ	Gigajoule
Kg	Kilogram
Kwh	Kilowatt-hour
l	Litre
LED	Light-emitting diode
LCV	Lower Calorific Value
t	Ton

Consolidated Financial Statements For 2018

CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Consolidated Income Statement
for the periods ended as at 31 December 2018 and 2017

(Thousands of Euro)

	2018	2017
Interest and similar income	361 708	420 631
Interest and similar expense	113 604	154 405
Net interest income	248 104	266 226
Dividends from equity instruments	8 080	12 611
Net fee and commission income	118 399	119 808
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	12 273	(14 807)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	5 626	83 622
Net gains/ (losses) arising from exchange differences	(7 000)	1 922
Net gains/ (losses) arising from sale of other financial assets	9 075	37 850
Other operating income/ (expense)	(17 205)	(1 965)
Total operating income	377 352	505 267
Staff costs	156 004	156 207
General and administrative expenses	77 726	87 005
Depreciation and amortisation	25 897	24 809
	259 627	268 021
Loans impairment	73 191	160 711
Other financial assets impairment	2 865	7 766
Other assets impairment	13 198	12 550
Other provisions	4 234	10 323
Operating profit	24 237	45 896
Share of profit of associates under the equity method	252	166
Profit before income tax	24 489	46 062
Tax		
Current	963	(6 470)
Deferred	(45 791)	(35 891)
Profit/ (loss) after tax from continuing operations	(20 339)	3 701
Profit/ (loss) from discontinuing operations	36 156	4 112
Consolidated net profit/ (loss) after tax	15 817	7 813
Consolidated net profit/ (loss) for the period attributable to		
Shareholder	12 512	6 437
Non-controlling interests	3 305	1 376
Consolidated net profit / (loss) for the period	15 817	7 813

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Balance Sheet on 31 December 2018 and 2017

(Thousands of Euro)

	2018	2017
Assets		
Cash and deposits at central banks	1 610 635	1 733 628
Loans and advances to credit institutions repayable on demand	78 088	50 205
Other loans and advances to credit institutions	209 932	312 203
Loans and advances to customers	12 123 212	13 029 318
Financial assets held-for-trading	23 739	184 076
Financial assets not held for trading mandatorily at fair value through profit or loss	492 594	-
Financial assets at fair value through other compreehensive income	444 073	2 200 893
Hedging derivatives	5 666	-
Other financial assets at amortised cost	1 255 651	-
Investments in associates	4 282	4 097
Non-current assets held for sale	737 937	742 221
Non-current assets held for sale - discontinuing operations	294 725	474 475
Investment properties	253 097	538 625
Property, plant and equipment	229 599	233 312
Intangible assets	32 326	31 371
Current tax assets	11 073	7 327
Deferred tax assets	460 268	466 000
Other assets	84 430	192 273
Total Assets	18 351 327	20 200 024
Liabilities		
Deposits from central banks	1 395 320	1 557 840
Deposits from other credit institutions	1 245 435	1 786 717
Deposits from customers	12 575 224	12 561 040
Debt securities issued	1 093 934	1 544 054
Financial liabilities held-for-trading	13 496	16 171
Hedging derivatives	-	1 663
Non-current liabilities held for sale - discontinuing operations	193 995	330 392
Provisions	31 080	27 096
Current tax liabilities	10 960	5 217
Other subordinated debt	50 044	236 193
Other liabilities	204 906	370 720
Total Liabilities	16 814 394	18 437 103
Equity		
Share capital	2 420 000	2 420 000
Other equity instruments	6 323	6 323
Fair value reserves	(18 710)	27 924
Other reserves and retained earnings	(898 743)	(730 598)
Consolidated net profit/ (loss) for the period attributable to the Shareholderd	12 512	6 437
Total Equity attributable to the Shareholder	1 521 382	1 730 086
Non-controlling interests	15 551	32 835
Total Equity	1 536 933	1 762 921
Total Liabilities and Equity	18 351 327	20 200 024

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Consolidated
Financial Statements
For 2018

PROPOSAL FOR THE APLICATION OF RESULTS – Individual Basis

Considering the legal and statutory provisions relative to the Legal Reserve, and the fact that, for the financial year of 2018, Caixa Económica Montepio Geral, caixa económica bancária, S.A. recorded a consolidated net income of 12,512,285.59 euros and an individual net income of 2,018,835.12 euros, it is proposed, pursuant to subparagraph f) of number 5 of article 66 and for the purposes of subparagraph b) of number 1 of article 376 of the Companies Code, that the net income stated in the individual balance sheet should be applied as follows:

(Euros)

	Amount
For Legal Reserve	201 883.51
To be transferred to Retained Earnings	1 816 951.61
NET INCOME OF THE YEAR ON AN INDIVIDUAL BASIS	**2 018 835.12**

BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva
Non-Executive Members	Luís Eduardo Henriques Guimarães Amadeu Ferreira de Paiva Manuel Ferreira Teixeira Vítor Manuel do Carmo Martins Rui Pedro Brás de Matos Heitor Pedro Jorge Gouveia Alves Carlos Francisco Ferreira Alves
Executive Vice-Chairman	Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Executive Members	Nuno Cardoso Correia da Mota Pinto José Carlos Sequeira Mateus Pedro Miguel Nunes Ventaneira Carlos Miguel López Leiria Pinto Helena Catarina Gomes Soares de Moura Costa Pina Leandro Rodrigues da Graça Silva

Lisbon, 29 April 2019

Part II

Financial Statements and Notes to the Financial Statements

Consolidated Financial Statements and Notes to the Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Consolidated Income Statement
for the periods ended as at 31 December 2018 and 2017

(Thousands of Euro)

	Notes	2018	2017
Interest and similar income	3	361 708	420 631
Interest and similar expense	3	113 604	154 405
Net interest income	3	248 104	266 226
Dividends from equity instruments	4	8 080	12 611
Net fee and commission income	5	118 399	119 808
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	12 273	(14 807)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	5 626	83 622
Net gains/ (losses) arising from exchange differences	8	(7 000)	1 922
Net gains/ (losses) arising from sale of other financial assets	9	9 075	37 850
Other operating income/ (expense)	10	(17 205)	(1 965)
Total operating income		377 352	505 267
Staff costs	11	156 004	156 207
General and administrative expenses	12	77 726	87 005
Depreciation and amortisation	13	25 897	24 809
		259 627	268 021
Loans impairment	14	73 191	160 711
Other financial assets impairment	15	2 865	7 766
Other assets impairment	16	13 198	12 550
Other provisions	17	4 234	10 323
Operating profit		24 237	45 896
Share of profit of associates under the equity method	18	252	166
Profit before income tax		24 489	46 062
Tax			
Current	33	963	(6 470)
Deferred	33	(45 791)	(35 891)
Profit/ (loss) after tax from continuing operations		(20 339)	3 701
Profit/ (loss) from discontinuing operations	61	36 156	4 112
Consolidated net profit/ (loss) after tax		15 817	7 813
Consolidated net profit/ (loss) for the period attributable to			
Shareholder		12 512	6 437
Non-controlling interests	47	3 305	1 376
Consolidated net profit / (loss) for the period		15 817	7 813

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

The following notes form an integral part of these consolidated financial statements

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Balance Sheet on 31 December 2018 and 2017

(Thousands of Euro)

	Notes	2018	2017
Assets			
Cash and deposits at central banks	19	1 610 635	1 733 628
Loans and advances to credit institutions repayable on demand	20	78 088	50 205
Other loans and advances to credit institutions	21	209 932	312 203
Loans and advances to customers	22	12 123 212	13 029 318
Financial assets held-for-trading	23	23 739	184 076
Financial assets not held for trading mandatorily at fair value through profit or loss	24	492 594	-
Financial assets at fair value through other compreehensive income	25	444 073	2 200 893
Hedging derivatives	26	5 666	-
Other financial assets at amortised cost	27	1 255 651	-
Investments in associates	28	4 282	4 097
Non-current assets held for sale	29	737 937	742 221
Non-current assets held for sale - discontinuing operations	62	294 725	474 475
Investment properties	30	253 097	538 625
Property, plant and equipment	31	229 599	233 312
Intangible assets	32	32 326	31 371
Current tax assets	-	11 073	7 327
Deferred tax assets	33	460 268	466 000
Other assets	34	84 430	192 273
Total Assets		18 351 327	20 200 024
Liabilities			
Deposits from central banks	35	1 395 320	1 557 840
Deposits from other credit institutions	36	1 245 435	1 786 717
Deposits from customers	37	12 575 224	12 561 040
Debt securities issued	38	1 093 934	1 544 054
Financial liabilities held-for-trading	23	13 496	16 171
Hedging derivatives	26	-	1 663
Non-current liabilities held for sale - discontinuing operations	62	193 995	330 392
Provisions	39	31 080	27 096
Current tax liabilities	-	10 960	5 217
Other subordinated debt	40	50 044	236 193
Other liabilities	41	204 906	370 720
Total Liabilities		16 814 394	18 437 103
Equity			
Share capital	42	2 420 000	2 420 000
Other equity instruments	43	6 323	6 323
Fair value reserves	45	(18 710)	27 924
Other reserves and retained earnings	44 and 45	(898 743)	(730 598)
Consolidated net profit/ (loss) for the period attributable to the Shareholderd		12 512	6 437
Total Equity attributable to the Shareholder		1 521 382	1 730 086
Non-controlling interests	47	15 551	32 835
Total Equity		1 536 933	1 762 921
Total Liabilities and Equity		18 351 327	20 200 024

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

The following notes form an integral part of these consolidated financial statements

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Consolidated Statement of Cash Flows
for the periods ended as at 31 December 2018 and 2017

(Thousands of Euro)

	2018	2017
Cash flows from operating activities		
Interest income received	327 931	384 714
Commission income received	145 590	148 871
Interest expense paid	(126 827)	(169 188)
Commission expense paid	(30 546)	(30 171)
Payments to employees and suppliers	(261 437)	(252 420)
Recovery of loans and interests	11 164	3 580
Other payments and receivables	(73 888)	26 895
Income tax payment	(4 163)	1 410
	(12 176)	113 691
(Increases) / decreases in operating assets		
Loans and advances to credit institutions and customers	756 144	917 240
Deposits held for monetary central purposes	138 663	(1385 059)
Other assets	29 255	176 327
	924 062	(291 492)
(Increases) / decreases in operating liabilities		
Deposits from customers	32 889	104 172
Deposits from credit institutions	(540 893)	(487 338)
Deposits from central banks	(150 000)	(764 390)
	(658 004)	(1147 556)
	253 882	(1325 357)
Cash flows arising from investing activities		
Non-current assets / liabilities held for sale - discontinuing operations	87 378	(10 791)
Dividends received	8 080	12 611
(Acquisition) / Sale of financial assets held-for-trading	153 106	(129 149)
(Acquisition) / Sale of financial assets at fair value through profit or loss	(7 802)	329 078
(Acquisition) / Sale of financial assets at fair value through other comprehensive income	1 421 608	-
(Acquisition) / Sale of derivative hedging instruments	3 209	-
(Acquisition) / Sale of other assets at amortised cost	(1257 945)	1 140 500
Acquisition of fixed assets and investment properties	(23 006)	(21 576)
Sale of fixed assets and investment properties	49 831	74 352
Change in the consolidation perimeter of investment properties		-
	434 459	1 395 025
Cash flows from financing activities		
Dividends paid	(2 792)	(1 213)
Capital increase	-	250 000
Other equity instruments	(322)	(318)
Proceeds from issuance of bonds and subordinated debt	50 000	904 055
Reimbursement of bonds and subordinated debt	(684 654)	(1276 198)
Increase/ (decrease) in other sundry liabilities	-	
	(637 768)	(123 674)
Effect of changes in exchange rate on cash and cash equivalents	(7 000)	1 922
Net changes in cash and cash equivalents	43 573	(52 084)
Cash and cash equivalents at the beggining of the period		
Cash (Note 19)	178 927	211 648
Loans and advances to credit institutions repayable on demand (Note 20)	50 185	69 568
	229 112	281 216
Cash and cash equivalents at the end of the period		
Cash (Note 19)	194 597	178 927
Loans and advances to credit institutions repayable on demand (Note 20)	78 088	50 205
	272 685	229 132

The following notes form an integral part of these consolidated financial statements

Caixa Económica Montepio Geral
caixa económica bancária. S.A.

Consolidated Statement of Changes in Equity
for the periods ended as at 31 December 2018 and 2007

(Thousands of Euro)

					Other reserves and retained earnings				
	Share Capital	**Participation Fund**	**Other equity instruments**	**Fair value reserves**	**General and special reserves**	**Other reserves**	**Equity attributable to the shareholder**	**Non-controlling interests**	**Total Equity**
Balance on 31 December 2016	**1 770 000**	**399 919**	**6 323**	**(6 860)**	**186 000**	**(922 085)**	**1 433 297**	**23 201**	**1 456 498**
Other comprehensive income:									
Exchange differences arising from the consolidation	-	-	-	-	-	693	693	687	1 380
Actuarial gains (Note 50)	-	-	-	-	-	3 260	3 260	-	3 260
Deferred taxes related to balance sheet changes accounted for retained earnings (Note 33)	-	-	-	-	-	(996)	(996)	-	(996)
Changes in fair value (Note 45)	-	-	-	53 613	-	-	53 613	-	53 613
Deferred taxes related to fair value changes (Note 33 and 45)	-	-	-	(18 829)	-	-	(18 829)	-	(18 829)
IAS 29 impact related to the equity of Finibanco Angola S.A. (Note 58)	-	-	-	-	-	37 474	37 474	8 580	46 054
Impairment related to discontinuing operations (Note 61)	-	-	-	-	-	(32 509)	(32 509)	-	(32 509)
Consolidated net profit/ (loss) for the period	-	-	-	-	-	6 437	6 437	1 376	7 813
Total comprehensive income for the period	-	-	-	34 784	-	14 359	49 143	10 643	59 786
Share capital increase (Note 42)	250 000	-	-	-	-	-	250 000	-	250 000
Changes in the consolidation perimeter	-	-	-	-	-	473	473	193	666
Disposal of own securities	-	81	-	-	-	-	81	-	81
Costs related to the issue of perpetual subordinated instruments	-	-	-	-	-	(318)	(318)	-	(318)
Dividends paid	-	-	-	-	-	(1 975)	(1 975)	(1 202)	(3 177)
Conversion of the participation fund into share capital (Note 42)	400 000	(400 000)	-	-	-	-	-	-	-
Other consolidation reserves	-	-	-	-	-	(615)	(615)	-	(615)
Balance on 31 December 2017	**2 420 000**	**-**	**6 323**	**27 924**	**186 000**	**(910 161)**	**1 730 086**	**32 835**	**1 762 921**
IFRS 9 transition adjustments									
Gross amount	-	-	-	(15 869)	-	(136 515)	(152 384)	(150)	(152 534)
Taxes	-	-	-	5 891	-	18 080	23 971	-	23 971
Balance on 1 January 2018	**2 420 000**	**-**	**6 323**	**17 946**	**186 000**	**(1028 596)**	**1 601 673**	**32 685**	**1 634 358**
Other comprehensive income:									
Exchange differences arising from the consolidation	-	-	-	-	-	(44 555)	(44 555)	(11 462)	(56 017)
Actuarial gains (losses) for the period (Note 52)	-	-	-	-	-	(35 411)	(35 411)	-	(35 411)
Deferred taxes related to balance sheet changes accounted for retained earnings (Note 33)	-	-	-	-	-	10 387	10 387	-	10 387
Fair value adjustments (Note 45)	-	-	-	(36 252)	-	-	(36 252)	-	(36 252)
Deferred taxes related to fair value changes (Nota 33 and 45)	-	-	-	(404)	-	-	(404)	-	(404)
IAS 29 impact related to the equity of Finibanco Angola S.A. (Note 58)	-	-	-	-	-	7 991	7 991	1 970	9 961
Disposal of Banco Terra	-	-	-	-	-	6 843	6 843	(11 881)	(5 038)
Consolidated net profit/ (loss) for the period	-	-	-	-	-	12 512	12 512	3 305	15 817
Total comprehensive income for the period	-	-	-	(36 656)	-	(42 233)	(78 889)	(18 068)	(96 957)
Change in the consolidation perimeter	-	-	-	-	-	(158)	(158)	799	641
Costs related to the issue of perpetual subordinated instruments	-	-	-	-	-	(322)	(322)	-	(322)
Legal reserve	-	-	-	-	5 767	(5 767)	-	-	-
Reserves paid	-	-	-	-	-	235	235	-	235
Dividends paid	-	-	-	-	-	(1 669)	(1 669)	(1 123)	(2 792)
Other consolidation reserves	-	-	-	-	-	512	512	1 258	1 770
Balance on 31 December 2018	**2 420 000**	**-**	**6 323**	**(18 710)**	**191 767**	**(1077 998)**	**1 521 382**	**15 551**	**1 536 933**

The following notes form an integral part of these consolidated financial statements

Banco Montepio

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Consolidated Statement of Comprehensive Income
for the period ended as at 31 December 2018

(Thousands of Euro)

		2018				
	Notes	Continuing operations	Discontinuing operations	Total	Shareholder	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	45	(8 381)	-	(8 381)	(8 381)	-
Loans and advances to customers	45	(655)	-	(655)	(655)	-
Own credit risk	45	(142)	-	(142)	(142)	-
Taxes related to fair value changes	33	(404)	-	(404)	(404)	-
Exchange differences arising from the consolidation	45	-	(56 017)	(56 017)	(44 555)	(11 462)
Application of IAS 29 related to the Equity of Finibanco Angola, S.A.	61	-	9 961	9 961	7 991	1 970
		(9 582)	(46 056)	(55 638)	(46 146)	(9 492)
Items that won't be reclassified into the Income Statement						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	45	(27 074)	-	(27 074)	(27 074)	-
Actuarial gains/ (losses) for the period	50	(35 411)	-	(35 411)	(35 411)	-
Disposal of Banco Terra		-	(5 038)	(5 038)	6 843	(11 881)
Taxes on changes in equity recorded against retained earnings	33	10 387	-	10 387	10 387	-
		(52 098)	(5 038)	(57 136)	(45 255)	(11 881)
Other comprehensive income/ (loss) for the period		(61 680)	(51 094)	(112 774)	(91 401)	(21 373)
Consolidated net profit/ (loss) for the period		(1 211)	17 028	15 817	12 512	3 305
Total consolidated comprehensive income/ (loss) for the period		(62 891)	(34 066)	(96 957)	(78 889)	(18 068)

The following notes form an integral part of these consolidated financial statements

Banco Montepio

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Statement of Comprehensive Income
for the period ended as at 31 December 2017

(Thousands of Euro)

	Notes	2017 Continuing operations	Discontinuing operations	Total	Shareholder	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensinve income and loans and advances to customers						
Debt instruments	45	64 732	-	64 732	64 732	-
Loans and advances to customers	45	(331)	-	(331)	(331)	-
Taxes related to fair value changes	33	(18 829)	-	(18 829)	(18 829)	-
Exchange differences arising from the consolidation	45	-	1 380	1 380	693	687
Application of IAS 29 related to the Equity of Finibanco Angola, S.A.	61	-	46 054	46 054	37 474	8 580
Impairment related to discontinuing operations	61	-	(32 509)	(32 509)	(32 509)	-
		45 572	14 925	60 497	51 230	9 267
Items that won't be reclassified into the Income Statement						
Financial assets at fair value through other comprehensinve income and loans and advances to customers						
Equity instruments	45	-	-	(10 788)	(10 788)	-
Taxes on changes in equity recorded against retained earnings	33	(996)	-	(996)	(996)	-
Actuarial gains/ (losses) for the period		3 260	-	3 260	3 260	-
		2 264	-	(8 524)	(8 524)	-
Other comprehensive income/ (loss) for the period		47 836	14 925	51 973	42 706	9 267
Consolidated net profit / (loss) for the period		2 325	5 488	7 813	6 437	1 376
Total consolidated comprehensive income/ (loss) for the period		50 161	20 413	59 786	49 143	10 643

The following notes form an integral part of these consolidated financial statements

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter “CEMG” or “Banco Montepio”) is a credit institution, based at Rua Castilho, no. 5, 1250-066, Lisbon, held by Montepio Geral Associação Mutualista (hereinafter “MGAM”), established on 24 March, 1844, and authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, Banco Montepio is authorised to perform banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

On 10 September 2015 it was published the Decree-Law no. 190/2015, which introduces amendments in the Legal Framework of Credit Institutions and Financial Companies and in the Mutual Association Code. Following the publication of this Decree-Law, CEMG changed its classification to “caixa económica bancária”.

As at 14 September 2017, the Deed of the bylaws was executed, transforming CEMG into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, CEMG’s financial statements are required to be prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union (“EU”) from 2017 onwards. IFRS comprise accounting standards issued by the International Accounting Standards Board (“IASB”) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and its predecessor body.

The consolidated financial statements presented herein were approved by the Board of Directors of Banco Montepio on 29 April 2019. The financial statements are presented in Euro rounded to the nearest thousand.

All references made regarding to normatives in this document report to the current version.

The consolidated financial statements of the Group for the period ended 31 December 2018 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2018, as disclosed in Note 56.

The accounting policies presented in this note were applied consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period, except for the changes arising from the adoption of IFRS 9 - Financial Instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 replaces IAS 39 Financial instruments – Recognition and Measurement and establishes new rules for the accounting of financial instruments introducing significant modifications mainly regarding impairment requirements. Requirements introduced by IFRS 9 are, in general, applied retrospectively through the restatement of the opening balance up to the initial application date.

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

The financial statements were prepared under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

The preparation of the financial statements in accordance with IFRS's requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The main estimates and assumptions involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in the accounting policy described in note 1 aa).

The financial statements of Banco Montepio are consolidated in the financial statements of MGAM.

b) Basis of consolidation

The consolidated financial statements now presented reflect the assets, liabilities, profits and losses of Banco Montepio and its subsidiaries ("Group"), and the results attributable to the Group by its financial investments in associated companies, for the years ended at 31 December 2018 and 2017.

Investments in subsidiaries

Subsidiaries are entities (including investment funds and securitisation vehicles) controlled by the Group. The Group controls an entity when has exposure, or rights, to variable returns derived of its involvement with this entity and can reclaim them with the power that have over the entity relevant activities (de facto control). The financial statements of the subsidiaries are included on the consolidated financial statements since the moment that the Group acquires control until the moment that the control ceases.

Accumulated losses are attributed to non-controlling interests in the respective proportion, implying that the Group can recognise negative non-controlling interests.

On a step acquisition process resulting in the acquisition of control the revaluation of any participation previously acquired is booked against the profit and loss account, when goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, the participation retained is revaluated at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

Investments in associates

Investments in associated companies are consolidated by the equity method between the beginning date that the Group acquires significant influence and the ending date it ceases. Associates are those entities, in which the Group has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that the Group has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If the Group holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Group does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced at least by one of the following ways:

- representation on the Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Group and the investee;
- interchange of the management team; and
- provision of essential technical information.

The consolidated financial statements include the part that is attributable to the Group of the total reserves and results of associated companies accounted on an equity basis. When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any medium or long-term interest in that associate, is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred in a legal or constructive obligation to assume those losses on behalf of an associate.

Goodwill – Differences arising from consolidation

Concentrations of business activities are recorded by the purchase method. The acquisition cost corresponds to the fair value determined at the purchase date, of the given assets and incurred or assumed liabilities.

Costs directly related with a subsidiary acquisition is recognised directly in the income statement.

The positive goodwill that results from the acquisitions, is recognised as an asset carried at acquisition cost and not subject to amortisation.

Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the total value or the total cost of acquisition and the total or corresponding share of the fair value of the net assets, liabilities and contingent liabilities acquired, respectively, depending on the option taken.

Negative goodwill arising on an acquisition is recognised directly in the income statement in the year the business combination occurs.

The recoverable amount of the goodwill is assessed annually, regardless of the existence of any impairment triggers. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the higgest between the value in use of the assets and its fair value less costs to sell, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Goodwill is no longer adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked in the income statement, or reserves, if applicable.

Acquisition and dilution of non-controlling interests

The acquisition of the non-controlling interests that does not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, is not recognised additional goodwill resulting from this transaction. The difference between the acquisition cost and the book value or fair value of non-controlling interests acquired is recognised directly in reserves. On this basis, the gains and losses resulting from the sale of non-controlling interests, that does not impact the control position of a subsidiary, are always recognised against reserves.

Loss of control

The gains and losses resulting from the dilution or sale of a financial position in a subsidiary, with loss of control, are recognised by the Group in the income statement.

In an acquisition (dilution) of non-controlling interests not resulting in a loss of control, the difference between the fair value of the non-controlling interests acquired and the consideration paid, is accounted against reserves.

Investments in foreign subsidiaries and associates

The financial statements of the foreign subsidiaries and associates of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries not considered as functional currency of a hyperinflationary economy, are converted into euro at the official exchange rate at the balance sheet date.

If the functional currency of a foreign subsidiary is the currency of a hyperinflationary economy, then its financial statements are first adjusted to reflect the purchasing power at the date of the current balance sheet and later converted into the reporting currency using the exchange rate at the current balance sheet date.

In this regard, non-monetary items are updated at the end of the reporting period through the application of a general price index, from the acquisition date or the last revaluation date, whichever occurred most recently. Income and expenses items, including other comprehensive income, are also updated, and the gain or loss on the net monetary position is calculated, which reflects the gain or loss on the net monetary position of the foreign subsidiary.

As at 31 December 2018, for Angola, the inflation rate accumulated in the past three years is close to or above 100%, depending on the index used. This is an objective quantitative condition in addition to the existence of other conditions set forth in IAS 29, which means that the functional currency of Finibanco Angola, S.A.'s financial statements as of 31 December 2018 corresponds to the currency of a hyperinflationary economy. As at 31 December 2018, since the conditions observed as at 31 December 2017 are still present, the functional currency of Finibanco Angola, S.A. is still considered as corresponding to a hyperinflationary economy (see note 63).

Regarding the investments in foreign operations that are consolidated in the Group accounts under the full consolidation and equity methods, for exchange differences between the conversion to Euros of the opening net assets at the beginning of the year and their value in Euros at the exchange rate ruling at the balance sheet date, for consolidated accounts, are charged against consolidated reserves – exchange differences. Exchange differences resulting from hedging instruments related with investments in foreign currency are booked in reserves resulting from those investments. Whenever the hedge is not fully effective, the ineffective portion is accounted in the income statement.

The income and expenses of these subsidiaries are converted to Euros at an approximate rate of the rates ruling at the dates of the transactions. Exchange differences from the conversion to Euros of the profits and losses for the reporting year, arising from the difference between the exchange rate used in the income statement and the exchange rate prevailing at the balance sheet date, are recognised in reserves - exchange differences.

On disposal of investments in foreign subsidiaries for which there is loss of control, exchange differences related to the investment in the foreign operation and to the associated hedge transaction previously recognised in reserves, are transferred to profit and loss as part of the gains or loss arising from the disposal.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

c) Loans and advances to customers

Loans and advances to customers includes loans and advances originated by the Group which are not intended to be sold in the short term and are recognised when cash is advanced to borrowers.

The derecognition of these assets occurs in the following situations: (i) the contractual rights of the Group to their respective cash flows have expired; or (ii) the Group transferred substantially all the associated risks and rewards of ownership; or (iii) notwithstanding the fact that the Group may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred.

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

Impairment

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

The new impairment model is applicable to the following instruments of Banco Montepio, which are not measured at fair value through profit or loss:

- Financial assets classified as debt instruments;
- Commitments and financial guarantees issued.

Under IFRS 9 no impairment is recognised in equity instruments, since they are measured at fair value.

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

- Stage 1: no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;

- Stage 2: instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

- Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

The calculation of impairment losses in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since the initial recognition; and
- Incorporation of forward-looking information in ECL calculation.

ECLs Calculation

ECL correspond to unbiased weighted estimates of credit losses that will be determined as follows:

- Financial assets without signs of impairment at the reporting date: the actual value of the difference between the contractual cash flows and the cash flows that Banco Montepio expects to receive;
- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the actual value of the estimated cash flows;
- Unused credit commitments: the actual value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that Banco Montepio expects to receive;
- Financial guarantees: the actual value of expected reimbursement payments deducted from the amounts that Banco Montepio expects to recover.

IFRS 9 defines financial assets with signs of impairment in a similar way as IAS 39 defined impaired financial assets.

Definition of default

Under IFRS 9, Banco Montepio will consider that its financial assets are in default by applying the same definition used in the regulatory view.

Significant increase in credit risk

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

Under IFRS 9, the identification of a significant increase in credit risk is performed by comparing:

- The remaining PD lifetime at the reporting date, and
- The remaining PD lifetime at this moment, that has been estimated at the initial moment of the exposure´s recognition.

Banco Montepio identifies the occurrence of a significant increase in credit risk through the comparison of the actual 12 months PD and the 12 months PD estimated at the contract's inception, as a proxy for the comparison between the actual remaining PD lifetime and the remaining PD lifetime calculated at the contract's inception.

When evaluating the significant increase in credit risk, Banco Montepio considers as a backstop the existence of more than 30 days of delay, amongst others.

Degrees of credit risk

In accordance with the current management of Banco Montepio´s credit risk, each customer and consequently its exposures are classified with a degree of risk from its masterscale.

Banco Montepio uses this degrees of risk as a primary factor for the identification of a significant increase in credit risk, in accordance with IFRS 9.

Inputs for the measurement of ECL

The main inputs used for measuring ECLs in a collective basis include the following parameters:

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

These parameters are obtained through internal statistic models and other relevant historical data considering the existing regulatory models adjusted in order to reflect the forward-looking information.

The PD are estimated based on a certain historical period and are calculated using statistical models. These models are based in internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the related PD is also changed.

The degrees of risk are highly important for the determination of the PDs for each exposure. Banco Montepio collects default and performance indicators regarding its credit risk exposures through analysis by type of customers and type of product.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. Banco Montepio estimates LGD´s parameters based on historical recovery rates after the counterparties entry into default. The LGD´s models considers existing collaterals and time of default as well as recovery costs. In case of contracts collaterised by real estate, LTV ratios (loan to value) are an extremely important parameter in the determination of the LGD.

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

As described above, except for the financial assets that consider a 12 month PD as they do not present a significant increase in credit risk, Banco Montepio calculates the ECL considering the risk of default during the maximum contractual maturity period of the contract or, in certain specific situations, based on the behavior maturity.

Forward-looking information

Under IFRS 9, Banco Montepio includes forward looking information both in its assessment of the significant increase in credit risk and in the measurement of the ECL, using an external entity for the acquisition of relevant macroeconomic variables. This approach represents a forecast of what is more likely to occur and will be in line with other data used by Banco Montepio for other purposes, such a strategic planning and budgeting.

Write-offs policy

The Group recognises the write-off of an asset when there is no reasonable expectations to recover the asset as a whole or in part. This record occurs after all recovery actions developed by the Group are proven to be unsuccessful. The write-off of an asset are recognised in out-off balance accounts.

d) Financial instruments

(i) Classification, initial recognition and subsequent measurement

Financial assets are recognised on their trade date, which is the date on which the Group commits to acquiring the asset and are classified considering its underlying purpose, in the following categories:

1) Financial assets and liabilities at fair value through profit or loss

1a) Financial assets held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising from financial assets at fair value through profit or loss.

The interest from debt instruments is recognised as net interest income.

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

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

In this category are included Financial Instruments managed in a fair value basis, not for trading, or debt instruments whose cash flows do not comply with the criteria of solely reimbursement of principal and payment of interests over the outstanding principal ("SPPI – *Solely Payments of Principal and Interest").*

At inception, an entity may irrevocably recognise a financial asset measured at fair value through profit or loss if it eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as "accounting mismatch") that otherwise would result in the measurement of financial assets and liabilities or in the recognition of gains and losses from them, in different basis.

However, at inception, IFRS 9 allows that an entity makes an irrevocably selection (instrument by instrument) in order to present as comprehensive income the subsequent fair value changes from an investment in an equity instrument that meets the definition criteria of IFRS 9. This option only applies to instruments not for trading nor the contingent retribution recognised by an acquirer in a business combination to which IFRS 3 applies.

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

The Group has adopted the Fair value Option for certain owned issuances and deposits from customers which contain embedded derivatives or with hedge derivatives associated.

The changes in fair value attributable to changes in the credit risk of these liabilities was recognised in the income statement in 2018, under Net gains / (losses) arising from assets and liabilities at fair value through profit or loss in accordance with IAS 39. According to IFRS 9, this fair value changes are recognised in other comprehensive income, where the amount recognised in other comprehensive income in each year will be variable. The accumulated amount recognised in other comprehensive income will be nil if these liabilities are reimbursed at maturity date.

The designation of other financial assets and liabilities at fair value through profit and loss (Fair Value Option) is performed whenever at least one of the following requirements is fulfilled:

- the financial assets and liabilities are managed, evaluated and reported internally at its fair value;
- the designation of those financial assets and liabilities eliminates or significantly reduces the accounting mismatch of the transactions; and
- the financial assets and liabilities include embedded derivatives that significantly change the cash flows of the original contracts (host contracts).

Considering that the transactions performed by Banco Montepio in the normal course of business are fulfilled at market prices, the financial assets and liabilities at fair value through profit or loss are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit and loss in the initial moment and subsequent fair value changes under IFRS 9 according to the following:

  - the amount related to the fair value change attributable to changes in the credit risk of the liability is presented in Other comprehensive income; and
  - the remaining amount of the fair value change is presented in the income statement.

2) Financial assets at fair value through other comprehensive income

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

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

Financial assets held with the purpose of being maintained by Banco Montepio, namely bonds, treasury bills or shares, are classified as at fair value through other comprehensive income, except if they are classified in another category of financial assets. The financial assets at fair value through other comprehensive income are initially accounted at fair value, including all expenses or income associated with the transactions and subsequently measured at fair value. The changes in fair value are accounted for against "fair value reserves".

i) Debt instruments

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

ii) Equity instruments

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

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

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

3) Other financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following criteria are met and if is not designated at fair value through profit or loss by option (use of Fair value option):

- the financial asset is held within a business model whose main objective is to hold financial assets in order to collect contractual cash flows; and
- the contratual cash flows occur in specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI). In this category are included non-

derivative financial assets with fixed or determinable payments and fixed maturity, for which Banco Montepio has the intention and capacity to maintain until the maturity of the assets and that were not included in any other category of financial assets. These financial assets are initially recognised at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognised in Net interest income. The impairment losses are recognised in profit and loss when identified.

4) Loans and receivables - Loans represented by securities

Non-derivative financial assets with fixed or determined payments, that are not quoted in a market and which the Group does not intend to sell immediately or in a near future, may be classified in this category.

In addition to loans granted, the Group recognises in this category unquoted bonds and commercial paper. The financial assets recognised in this category are initially accounted at fair value and subsequently at amortised cost net of impairment. The related transaction costs are included in the effective interest rate for these financial instruments. The interests accounted based on the effective interest rate method are recognised in Net interest income.

Impairment losses are recognised in profit and loss when identified.

5) Other financial liabilities

Other financial liabilities are all financial liabilities that are not recognised as financial liabilities at fair value through profit and loss. This category includes money market transactions, deposits from customers and from other credit institutions, debt securities issued, and other transactions.

These financial liabilities are initially recognised at fair value and subsequently at amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognised in net interest income.

The financial gains or losses calculated at the time of the repurchase of other financial liabilities are recognised as Net gains / (losses) arising from assets and liabilities at fair value through profit and loss when occurred.

(ii) Impairment

At each balance sheet date, an assessment over the impairment of debt instruments classified at amortised cost or at fair value through other comprehensive income is made in accordance with the ECL methodology.

(iii) Embedded derivatives

Embedded derivatives should be accounted for separately as derivatives if the economic risks and benefits of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is not initially measured at fair value with changes through profit and loss. Embedded derivatives are classified as trading and recognised at fair value with changes through profit and loss.

e) Hedge accounting

(i) Hedge accounting

The Group designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading derivatives.

Derivative hedging instruments are recorded at fair value and gains and losses on re-measurement are recognised in accordance with the hedge accounting model adopted by the Group. An hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting year; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative and to changes in foreign exchange risk related with the monetary items is recognised through profit and loss.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognised in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses recognised until the discontinuance of the hedge accounting are amortised through profit and loss over the residual period of the hedged item.

(iii) Hedge effectiveness

For a hedge relationship to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

f) Reclassification between financial instruments categories

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

g) Derecognition

The Group derecognises financial assets when all rights to future cash flows have expired. In a transfer of assets, derecognition can only occur either when risks and rewards have been substantially transferred or Banco Montepio Group does not maintain control over the assets.

The Group derecognises financial liabilities when these are cancelled or extinguished.

h) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Income from equity instruments (dividends) are recognised when the right to receive this income is established and are deducted to equity.

i) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

Securities lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognised as a financial liability. Securities borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either customers or credit institutions. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or interest expense (net interest income).

(ii) Repurchase agreements

The Group performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date are not recognised on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognised on an accrual basis over the period of the transaction and is included in Interest and similar income and Interest and similar expense.

j) Non-current assets held for sale and discontinued operations

Non-current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets are available for immediate sale and its sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term, are consolidated until the disposal.

The Group also classifies as non-current assets held for sale, the investments arising from recovered loans that are measured initially by the lower of its fair value net of selling costs and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalised.

The fair value is based in market values being determined based on the expected selling price estimated through periodic valuations performed by independent experts registered with Portuguese Securities Market Commission (CMVM).

The subsequent measurement of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of selling costs, not subject to amortisation. In case of unrealised losses, these should be recognised as impairment losses against results for the period.

k) Finance lease transactions

At the lessee's perspective, finance lease transactions are recorded as an asset and liability at fair value of the leased asset, which is equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each year end.

At the lessor's perspective, assets held under finance leases are recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals are a combination of the financial income and amortisation of the capital outstanding. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

l) Interest income and expenses

Interest income and expense for financial instruments measured at amortised cost are recognised in the interests and similar income or interests and similar expenses (net interest income) through the effective interest rate method. The interest related to financial assets at fair value through other comprehensive income are calculated using the effective interest rate method and are also recognised on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains/(losses) arising from assets and liabilities at fair value through profit and loss. For hedging derivatives of interest rate risk and those related to financial assets or financial liabilities recognised in the Fair Value Option category, the interest component of the changes in their fair value is recognised under interest income or expense (Net interest income).

m) Financial results (Net gains/(losses) arising from financial assets at fair value through other comprehensive income, Net gains / (losses) arising from assets and liabilities at fair value through profit or loss and Net gains/ (losses) arising from other financial assets at amortised cost)

Financial results include gains and losses arising from financial assets and financial liabilities at fair value through profit and loss, that is, fair value changes and interest on trading derivatives and embedded derivatives), as well as the corresponding dividends received. This caption also includes gains and losses arising from the sale of debt instruments of financial assets at fair value through other comprehensive income and of other financial assets at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this caption.

n) Fee and commission income

Income from fees and commissions is recognised in accordance with the following criteria:

- Fees and commissions which are earned as services are provided are recognised in income over the period in which the service is being provided; or

- Fees and commissions that are earned on the execution of a significant act, are recognised as income when the service is completed; and

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognised in Net interest income.

o) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognised in the Group's consolidated financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period to which they relate.

p) Property, plant and equipment

Property, plant and equipment are recorded at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognised as a separate asset only when it is probable that future economic benefits will result for the Group. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Building for own use	50
Expenditure on rented buildings	10
Other property and equipment	4 a 10

Whenever there is an indication that property and equipment might be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash-flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

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

q) Investment property

Real estate properties owned by the investment funds consolidated in the Group, are recognised as Investment properties considering, that the main objective of these buildings is the capital appreciation on a long-term basis and not its sale in a short-term period, or its maintenance for own use.

These investments are initially recognised at its acquisition cost, including the transaction costs and subsequently revaluated at its fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognised in results in the year in which they occur, as Other operating income.

The expertise responsible for the valuation of the assets are properly certified for that purpose, being registered in CMVM.

r) Intangible assets

Software

The Group accounts as intangible assets the costs associated to software acquired from external entities and depreciates them on a straight-line basis by an estimated lifetime of three or six years. The Group does not capitalise internal costs arising from software development.

s) Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with Central Banks.

t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis.

u) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in the profit and loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognised against equity.

v) Post-employment and long-term benefits

Defined benefit plans

Banco Montepio has the responsibility to pay its employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of Collective Labor Agreement (ACT). In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the general Social Security system and the attribution of an end-of-career award corresponding to 1.5 times the monthly retribution received at the retirement date.

Arising from the signing of the Collective Labor Agreement (ACT) and subsequent amendments, the Group set up pension funds to cover the liabilities with pensions on retirement and disability, widows' pension, health-care benefits and death subsidy.

On 1 January 2011, bank employees were integrated in the Social Security System which ensure their protection in maternity, paternity, adoption and old age. Protections associated with sickness, incapacity, survival and death remain under banks responsibility (Decree-Law No 1-A/2011, of 3 January).

The contribution rate is 26.6% in which 23.6% belongs to Banco Montepio, and 3% to employees, replacing the Caixa de Abono de Familia dos Empregados Bancários (CAFEB) extinguished by the same Decree-Law. As a result, the pension rights of the active employees started to be covered by the terms defined by Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in Collective Labor Agreement ("Acordo Colectivo de Trabalho").

Following the Government approval of the Decree-Law nº. 127/2011, which was published in 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank employees was established, regarding the transfer to Social Security domain of the liabilities with pensions under payment to retired employers and pensioners, as at 31 December 2011.

This decree-law established that the liabilities to be transferred were the liabilities with pensions under payment at 31 December 2011 to retired employees and pensioners, at permanent values (discount rate 0%) in the terms set forth in Collective Labour Regulation Instrument (IRCT). The liabilities regarding the update of pensions, benefit plans, contributions to Social-Medical Assistance Services (SAMS) over retirement and survival pensions, death subsidy and deferred survival pension are still under the responsibility of the Institutions.

In December 2016, Banco Montepio issued a new Collective Labor Agreement/ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career award which replaced the extinguished old-age bonus, as disclosed in Note 50.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the requirements of IAS 19.

The Group´s liabilities with pension plans and other benefits are calculated annually, at 31 December of each year.

The pension liabilities and health care benefits are covered by the Pension fund that is managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The Group´s net liability regarding defined benefit pension plans and other benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates associated with high quality corporate bonds and with a similar maturity to the date of termination of the plan. The net liability is determined after the deduction of the fair value of the assets of the Pensions Plan.

The income / cost of interests with the pension plan is calculated, multiplying the net asset / liability with retirement pension (liabilities less the fair value of the plan's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned before. On this basis, the income / cost net of interests includes the interest costs associated with retirement pension liabilities and the expected return of the plan's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) gains and losses resulting from differences between actuarial assumptions used and the amounts actually observed (experience gains and losses) and changes in actuarial assumptions and (ii) gains and losses arising from the difference between the expected return of the plan's assets and the amounts obtained, are recognised against equity under other comprehensive income.

The Group recognises in its income statement a net total amount that comprises (i) the current service cost, (ii) the income / cost net of interest with the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurred during the period. The costs of early retirements correspond to the increase in liabilities due to the employee's retirement before reaching retirement age.

Other benefits non-related with pensions, namely retired employees' health expenses and benefits to spouses and descendants by death and expenses with house loans, are also used to calculate liabilities.

Payments to the Pension Fund shall be made by the Group on an annual basis and according to a schedule of contributions in order to maintain the solvency of the fund. The liability related with pensions in payment shall be funded at a minimum level of 100% and 95% to past services cost with active employees.

Defined contribution plan

As at 31 December 2018, Banco Montepio has a defined contribution plan for employees who were admitted after 3 March 2009. For this plan, designated as contributory, contributions are made monthly and equal to 1.5% of the effective remuneration to be made by the company and 1.5% to be made by the employee.

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement in the period to which they relate.

w) Income taxes

Until 31 December 2011, Banco Montepio was an entity exempt from Income Tax ("IRC"), in accordance with subparagraph a) n. 1 of Article 10 of the IRC. This exemption had been recognised under the Order of 3 December 1993 by the Secretary of State for Fiscal Issues and confirmed by Law no. 10-B/96 of March 23, approving the State Budget for 1996.

With effect from 1 January 2012, Banco Montepio is subject to the regime established by the Income Tax Code (CIRC). Additionally, deferred taxes resulting from the temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation, are accounted for, whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax recognised in profit or loss comprises current and deferred tax effects. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and cash flow hedging derivatives are subsequently recognised in profit and loss in the moment the results that originated the deferred taxes are recognised.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at the balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

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

As established in IAS 12, paragraph 74, the Group compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In 2018, Banco Montepio became the dominant company of the Group subject to Income tax under the Special Taxation Regime of Group Companies (*Regime Especial de Tributação dos Grupos de Sociedades*, hereinafter "RETGS"), whose previously dominant company was Montepio Holding, S.G.P.S., S.A.

Thus, the Group considers that the effects arising from the calculation of the taxable income in accordance with RETGS are incorporated in the calculation of the current tax for the year of each one of the entities, including the effect in the current tax for the year by using a tax loss generated by another group entity.

x) Segmental reporting

The Group adopted the IFRS 8 – Operational Segments for the purposes of disclosure of financial information by operational segments. An operating segment is a Group's component: (i) that engages in business activities from which it may earn revenues or incur expenses; (ii) whose operational results are regularly reviewed by the main responsible for the Group operational decisions about allocating resources to the segment and assess its performance; and (iii) for which distinct financial information is available.

The Group controls its business activity through the following main segments: (i) Operational: Commercial Banking, Investment Banking, International Banking, Markets and Other Segments, and (ii) Geographic: Domestic Area and International Area (Angola and Cape Verde).

y) Provisions

Provisions are recognised when (i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

The provision measurement is according with the principles defined in IAS 37 in respect of the best estimate of expected cost, the more likely result for the ongoing processes, considering the risk and uncertainties related to the process. In cases where the discount effect is material, provisions correspond to actual value of the expected future payments, discounted by a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

z) Insurance and reinsurance brokerage services

Banco Montepio is duly authorised by the Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões - “ASF”) to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the Article 8, paragraph a), subparagraph i) of Decree-Law 144/2006 of 31 July, operating in the life and non-life insurance brokerage areas.

In the insurance brokerage services area, Banco Montepio sells insurance contracts. As remuneration for the insurance brokerage services rendered, Banco Montepio receives commission for brokering insurance contracts and investment contracts, which is defined in agreements/protocols established between Banco Montepio and the Insurers.

Commission received for insurance brokerage services refers to:

- commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through Banco Montepio and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;
- commission for participation in the results of insurance, which are calculated annually and paid by the insurer in the beginning of the year following that to which they refer (up to 31 January).

Commission received for insurance brokerage services are recognised in an accrual basis. Fees paid in a different period from that to which it relates are recorded as a receivable in the caption “Other assets” by corresponding entry to “Income from services and commissions - for insurance brokerage services”.

aa) Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors and management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Group reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, the Group reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment losses on a regularly basis, as described in the accounting policy described in note 1 c).

The evaluation process in determining whether an amount of impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

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

Fair value of derivative financial instruments

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different financial results for a particular period.

Entities included in the consolidation perimeter

For the purposes of determining entities to include in the consolidation perimeter, the Group assesses whether is exposed to, or has rights to, the variable returns from its involvement with the entity and can obtain those variable returns through the power it holds over that entity (de facto control).

The decision if an entity needs to be consolidated by the Group requires the use of judgment, estimates and assumptions to determine what extend the Group is exposed to the variable returns and its ability to use its power to affect those returns.

Different estimates and assumptions could lead the Group to a different scope of consolidation perimeter with a direct impact in the consolidated net income.

Income taxes

The Group is subject to the payment of income taxes in several jurisdictions.

Significant interpretations and estimates are required in determining the global amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

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

The Portuguese Tax and Customs Authorities are entitled to review the Group determination of its annual taxable earnings, for a period of four years, save where any deduction or tax credit has been made in which the period is the exercise of that right. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pensions and other post-employment and long-term benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as discount rate, pensions' growth rate and wages and mortality table, estimated return on investments, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Valuation of non-current assets held for sale and investment properties

Non-current assets held for sale are measured at the lower amount between its fair value net of selling costs and the book value of the existing credit at the date the change was made. Investment properties are measured at fair value. Fair value is determined on the basis of periodic assessments made by external experts registered with CMVM. Different methodologies and assumptions would have an impact on the determination of the assets fair value and consequently on the financial statements.

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigations and considering the risks and uncertainties of the process. Different assumptions and judgments would have an impact in determining the amount of provisions and consequently on the financial statements.

2 Net interest income and net gains/(losses) arising from assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income

Existing IFRS require a separate disclosure of net interest income, net gains arising from assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income, as presented in notes 3, 6 and 7. A particular business activity can generate impacts either in net gains/(losses) arising from assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income or in net interest income captions. Therefore, the disclosure now presented highlights the contribution of the different business activities to the net interest income and to the net gains arising from assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Net interest income	248 104	266 226
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	12 273	(14 807)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	5 626	83 622
	266 003	335 041

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Interest and similar income		
Loans and advances to customers	313 769	363 701
Deposits and other short-term investments	16 601	3 978
Financial assets held-for-trading	14 258	15 861
Financial assets at fair value through other comprehensive income	7 869	22 971
Derivative hedging instruments	6 563	1 348
Other financial assets at amortised cost	2 230	12 504
Non-trading financial assets mandatorily at fair value through profit or loss	338	-
Other interest and similar income	80	268
	361 708	420 631
Interest and similar expense		
Deposits from customers	56 912	84 696
Securities issued	18 550	38 110
Deposits from central banks and other credit institutions	20 810	14 692
Financial liabilities held-for-trading	12 474	13 100
Derivative hedging instrumets	3 707	762
Other subordinated liabilities	1 140	3 038
Other interest and similar expense	11	7
	113 604	154 405
Net interest income	248 104	266 226

The balance Interest and similar income – Loans and advances to customers includes, respectively, the amount of Euro 21,256 thousand and the amount of Euro 8,658 thousand (31 December 2017: Euro 21,534 thousand and Euro 7,441 thousand), related to commissions and other gains/losses which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 I).

In addition, the balance Interest and similar income - Loans and advances to customers also includes the amount of Euro 338 thousand referring to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

As at 31 December 2018, the balance Interest and similar income includes the amount of Euro 21,698 thousand related to customers classified under stage 3. As of 31 December 2017, this balance includes the amount of Euro 68,444 thousand related to customers with signs of impairment.

4 Dividends from equity instruments

This balance includes dividends and income from investment fund units received during the year, relating to financial assets at fair value through other comprehensive income.

5 Net fee and commission income

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Fee and commission income		
From banking services	103 562	99 897
From transactions on behalf of third parties	27 871	29 159
From insurance brokerage services	8 931	7 572
Guarantees provided	5 357	6 254
Commitments to third parties	2 543	2 824
Other fee and commission income	698	4 248
	148 962	149 954
Fee and commission expense		
From banking services rendered by third parties	20 330	19 766
From transactions with securities	805	663
Other fee and commission expense	9 428	9 717
	30 563	30 146
Net fee and commission income	118 399	119 808

As at 31 December 2018 and 2017, the balance Insurance brokerage services is presented as follows:

(Thousands of Euro)

	2018	2017
Life insurance	4 736	4 815
Non-life insurance	4 195	2 757
	8 931	7 572

Insurance brokerage services remunerations were received in full in cash and all its fees were the result of insurance intermediation carried out by Lusitania, Companhia de Seguros, S.A. and Lusitania Vida, Companhia de Seguros, S.A.

6 Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss

The amount of this account is comprised of:

(Thousands of Euro)

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held-for-trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	2 174	2 867	(693)	11 327	10 886	441
Issued by other entities	2 088	854	1 234	53 708	68 535	(14 827)
Shares	1 827	2 669	(842)	13 937	13 665	272
Investment units	156	379	(223)	4 059	4 084	(25)
	6 245	6 769	(524)	83 031	97 170	(14 139)
Derivative financial instruments						
Interest rate contracts	64 661	64 939	(278)	149 002	146 142	2 860
Exchange rate contracts	30 548	31 385	(837)	32 650	33 054	(404)
Futures contracts	4 926	4 856	70	3 652	5 017	(1 365)
Option contracts	1 088	876	212	3 585	3 232	353
Commodities contracts	1 010	235	775	-	-	-
	102 233	102 291	(58)	188 889	187 445	1 444
Non-trading financial assets mandatorily at fair value through profit or loss						
Investment units	15 171	4 339	10 832	-	-	-
Loans and advances to customers	1 074	388	686	-	-	-
	16 245	4 727	11 518	-	-	-
Other financial assets at fair value through profit or loss						
Shares	36	-	36	-	-	-
Loans and advances to customers	91	198	(107)	60	595	(535)
	127	198	(71)	60	595	(535)
Financial liabilities at fair value through profit or loss						
Deposits from credit institutions	-	-	-	3	-	3
Deposits from customers	22	-	22	38	59	(21)
Debt securities issued	546	52	494	294	817	(523)
Other subordinated debt	-	-	-	-	1 056	(1 056)
	568	52	516	335	1 932	(1 597)
Derivative hedging instruments						
Interest rate contracts	54 871	47 189	7 682	8 134	10 383	(2 249)
	54 871	47 189	7 682	8 134	10 383	(2 249)
Hedged financial liabilities						
Liabilities represented by securities	11 070	17 860	(6 790)	4 462	2 193	2 269
	11 070	17 860	(6 790)	4 462	2 193	2 269
	191 359	179 086	12 273	284 911	299 718	(14 807)

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

7 Net gains/ (losses) arising from financial assets at fair value through other comprehensive income

The amount of this account is comprised of:

(Thousands of Euro)

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	13 138	7 723	5 415	82 735	4 125	78 610
Issued by other entities	449	238	211	3 006	207	2 799
Shares	-	-	-	787	88	699
Other variable income securities	-	-	-	3 160	1 646	1 514
	13 587	7 961	5 626	89 688	6 066	83 622

As at 31 December 2018, the balance Fixed income securities – Bonds – Issued by public entities includes Euro 7,905 thousand and Euro 2,898 thousand related with capital gains generated with the sale of Portuguese and Spanish public debt bonds, respectively, and the amount of Euro 5,388 thousand related with capital losses related to the Italian and Greek public debt. As at 31 December 2017, this balance included the amount of Euro 73,029 thousand related with capital gains generated with the sale of Portuguese public debt bonds and Euro 5,393 thousand related with capital gains generated with the sale of Spanish and Italian public debt bonds.

8 Net gains/ (losses) arising from exchange differences

The amount of this account is comprised of:

(Thousands of Euro)

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	75 299	82 299	(7 000)	49 619	47 697	1 922

This account comprises the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 u).

9 Net gains/ (losses) arising from sale of other financial assets

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Sale of non-current assets held for sale	15 072	6 328
Sale of other assets	(726)	15 315
Sale of loans and advances to customers	(5 271)	16 207
	9 075	37 850

As at 31 December 2018, the balance Sale of loans and advances to customers includes a loss generated on the sale of a portfolio of loans to customers which was in default in the amount of Euro 4,904 thousand, as disclosed in note 22.

As at 31 December 2017, the balance Sale of loans and advances to customers includes the gains generated on the sale of two portfolios of loans to customers which were in default, as disclosed in notes 22 and 23.

As at 31 December 2017, the balance Sale of other assets includes the amount of Euro 14,375 thousand related to the gain generated on the sale of part of the portfolio of the Portuguese public debt bonds and which was previously recorded in the portfolio of financial assets at fair value through other comprehensive income and that was previously recorded in the portfolio of other financial assets at amortised cost.

The balance Sale of non-current assets held for sale includes essentially the result obtained with the sale of real estate properties, as described in note 29.

10 Other operating income/ (expenses)

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Other operating income		
Profits arising from investment properties revaluation	12 628	19 121
Reimbursement of expenses	7 174	6 559
Profits arising from deposits on demand management	6 925	9 751
Profits arising from investment properties rentals	6 500	15 211
Services rendered	4 663	4 727
Staff transfer	-	18 990
Repurchase of debt securities issued	955	2 054
Other	14 921	16 735
	53 766	93 148
Other operating expenses		
Contributions:		
Banking sector	11 080	11 875
Ex-ante for the Single Resolution Fund	8 113	9 702
National Resolution Fund	2 691	3 612
Deposit Guarantee Fund	22	13
Expenses with investment properties revaluation	7 909	15 620
Servicing and expenses with the recovery and disposal of loans	6 500	20 152
Taxes	3 665	5 628
Expenses with issuances	1 238	2 694
Donations and membership	662	879
Repurchase of debt securities issued	-	631
Other	29 091	24 307
	70 971	95 113
Other net operating income/ (expenses)	(17 205)	(1 965)

As at 31 December 2017, the balance Other operating income – Staff transfer includes the amount of Euro 18,245 thousand related to the staff transfer from Banco Montepio to MGAM and to entities under its control.

In 2018, income associated with staff transfer in the amount of Euro 11,728 thousand was recorded under Staff costs, as referred in note 11.

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

The item *Ex-ante* Contribution to the Single Resolution Fund corresponds to the annual contribution, in accordance with paragraph 1, article 153-H of the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), which transposed the articles 100 (4) (a) and 103 (1) of the Directive 2015/59/EU of the European Parliament and of the Council of 15 May 2014, and article 20 of the Delegated Regulation (EU) 2015/63 of 21 October 2014 (“Delegated regulation”) and with the conditions provided by the Implementing Regulation 2015/81 of the Council from 19 December 2014 (“Implementing Regulation”).

This contribution was determined by the Bank of Portugal, in its quality of National Resolution Authority, based in the methodology defined in accordance with its articles 4, 13 and 20 in the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 June of each year, as stipulated in the Agreement for the Transfer and Mutualisation of the contributions to the Single Resolution Fund signed in Brussels on 21 May 2014 and approved by the Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to Article 67 (4) of Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July 2014 (MUR Regulation).

In addition, it is the responsibility of the Single Resolution Council ("CUR"), in close cooperation with the Bank of Portugal, as the national resolution authority, to calculate on an annual basis these contributions, pursuant to and for the purposes Article 70 (2) of the MUR Regulation. In 2018, Banco Montepio opted for the use of irrevocable payment commitments, by 15% of the contribution’s value, as provided for in Article 8 (3) of the Implementing Regulation. On this basis, Banco Montepio decided to settle Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposit, as disclosed in notes 21 and 48. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

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

The item Other operating expenses - Expenses with properties held for trading includes the costs related to the promotion in the sale of real estate, property tax (IMI) and additional property tax (AIMI), condominium quotas and maintenance and repair of real estate properties.

The item Servicing and credit recovery expenses registers servicing costs applied to a portfolio of non-performing credits made by third parties.

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Remunerations	111 211	118 918
Mandatory social security charges	32 153	30 545
Charges with the Pension Fund	9 107	1 648
Other staff costs	3 533	5 096
	156 004	156 207

As at 31 December 2018, Staff costs reflects the effect of Staff transfers from Banco Montepio to MGAM and to entities of Banco Montepio Group in the amount of Euro 11,728 thousand. As at 31 December 2017, this amount was Euro 18,245 thousand and was recorded under Other operating income, as referred in note 10.

The remuneration of the Board of Directors members aims to be a compensation for their direct activities in the Group and any function performed in companies or corporate bodies for which they have been designated by indication or on behalf of the Group.

In 2018, the amount of compensation paid to the previous Executive Board of Directors and to the General and Supervisory Board, which in both cases were fulfilling their function until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

As at 31 December 2018 and 2017, the Management did not receive any retribution of variable remuneration.

First-line managers are considered as Other key management staff.

The costs with salaries and other benefits attributed to the Board of Directors, General Meeting Board, Audit Committee, Board of Directors of the Banco Montepio's subsidiaries, previous Executive Board of Directors, previous General and Supervisory Board and Other key management staff, in 2018, are presented as follows:

	Board of Directors	Audit Committee	General Meeting Board	Board of Directors of CEMG subsidiaries	Previous Executive Board of Directors	Previous General and Supervisory Board	Supervisory Board	Other key managament staff	Total
Remunerations and other short-term benefits	1 573	216	7	542	528	284	75	3 723	6 948
Pension costs	20	-	-	-	-	-	-	119	139
Costs with health-care benefits (SAMS)	9	-	-	2	10	-	-	71	92
Social Security Charges	333	40	2	94	118	51	16	814	1 468
	1 935	256	9	638	656	335	91	4 727	8 647

As at 31 December 2018, the remuneration received by the General and Supervisory Board in the period in which they exercised their functions amounted to Euro 335 thousand (31 December 2017: Euro 1,064 thousand).

The costs with remunerations and other benefits attributed to the Executive Board of Directors, Audit Committee, General Meeting Board and Other key management staff of the Group, in 2017 are presented as follows:

(Thousands of Euro)

	Executive Board of Directors	General and Supervisory Board and General Meeting Board	Other key management staff	Total
Remunerations and other short-term benefits	2 887	1 125	4 020	8 032
Pension costs	1 747	505	-	2 252
Costs with health-care benefits (SAMS)	15	-	83	98
Social Security charges	620	205	936	1 761
	5 269	1 835	5 039	12 143

As at 31 December 2018, loans granted to the Board of Directors of Banco Montepio (after 20 March 2018) amounted to Euro 337 thousand, to the Board of Directors of Banco Montepio's subsidiaries amounted to Euro 2,582 thousand (31 December 2017: Euro 1,108 thousand), to the General and Supervisory Board (after 20 March 2018) amounted to Euro 163 thousand and to the key management staff amounted to Euro 3,122 thousand (31 December 2017: Euro 3,042 thousand. Loans granted to the Executive Board of Directors of Banco Montepio (until 20 March 2018) amounted to Euro 132 thousand (31 December 2017: Euro 134 thousand) and to the General and Supervisory Board of Banco Montepio (until 20 March 2018) amounted to Euro 2,034 thousand (31 December 2017: Euro 2,323 thousand), according to note 52.

The average number of employees, by professional category, in the Group during 2018 and 2017 is as follows:

	2018	2017
Management	218	210
Managerial staff	663	660
Technical staff	1 403	1 373
Administrative staff	1 435	1 457
Staff	53	53
	3 772	3 753

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Rental costs	9 834	9 234
Specialised services		
Other specialised services	21 812	26 152
IT services	10 101	7 398
Independent work	1 862	2 712
Maintenance and repair	6 229	7 268
Communication costs	5 543	5 624
Water, energy and fuel	4 243	4 597
Advertising costs	3 652	5 318
Transportation	2 587	2 644
Consumables	1 421	1 583
Insurance	1 133	2 390
Travel, hotel and representation costs	1 115	1 219
Training	552	70
Other general and administrative costs	7 642	10 796
	77 726	87 005

The balance Rental costs, includes the amount of Euro 7,944 thousand (31 December 2017: Euro 7,238 thousand) related to rents paid regarding buildings used by the Group as lessee.

The balance Other general and administrative expenses includes the amount of Euro 3,642 thousand (31 December 2017: Euro 3,930 thousand) related with services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

The Group has several vehicle operational leasing contracts. Payments made under such leasing contracts are recognised in income during the duration of the contract. The future minimum payments for operational leasing contracts not revocable by maturity, are presented as follows:

(Thousands of Euro)

	2018	2017
Within 1 year	1 344	1 587
1 to 5 years	2 664	501
	4 008	2 088

The balance Other specialised services includes fees invoiced (excluding VAT) by the Group's Statutory Auditor within its functions of statutory audit as well as other services, including the ones rendered by its network, as follows:

	(Thousands of Euro)	
	2018	**2017**
Audit		
Statutory Audit services	1 417	1 307
Other reliability assurance services required by law		
Issuance of opinions on the internal control systems	380	182
Issuance of opinions for the regulatory entities and support on engagements for supervisory purposes	305	202
Issuance of several reports	58	38
	743	422
Other reliability services not required by law	489	356
	2 649	2 085

13 Depreciation and amortisation

The amount of this account is comprised of:

	(Thousands of Euro)	
	2018	**2017**
Intangible assets		
Software	14 132	13 862
Property, plant and equipment		
Land and buildings		
For own use	5 593	4 718
Leasehold improvements in rented buildings	1 181	1 589
Equipment		
IT equipment	3 003	2 762
Interior installations	1 327	1 052
Furniture	350	401
Security equipment	181	243
Transportation	110	134
Machinery and tools	11	11
Operating leases	8	34
Other property, plant and equipment	1	3
	11 765	10 947
	25 897	24 809

14 Loans impairment

The amount of this account is comprised of:

	(Thousands of Euro)	
	2018	**2017**
Other loans and advances to credit institutions		
Charge for the period	1 958	-
Write-back for the period	(2 494)	-
	(536)	-
Loans and advances to customers		
Charge for the period net of reversals	84 891	164 291
Recovery of loans and interes charged-off	(11 164)	(3 580)
	73 727	160 711
	73 191	160 711

This account relates to the estimate of the incurred losses determined according with the accounting policy described in note 1 c).

15 Other financial assets impairment

The amount of this account is comprised of:

	(Thousands of Euro)	
	2018	**2017**
Impairment of financial assets at fair value through other comprehensive income		
Charge for the period net of reversals	186	7 766
Impairment of other financial assets at amortised cost		
Charge for the period net of reversals	2 679	-
	2 865	7 766

As at 31 December 2017, the balance Impairment of financial assets at fair value through other comprehensinve income includes the charge for the period in the amount of Euro 8,624 thousand that corresponds to impairment losses recognised for investments units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers. In accordance with the classification criteria under IFRS 9, investment units in these funds were classified as of 1 January 2018, as Financial assets not held for trading mandatorily at fair value through profit or loss.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Impairment for investments in associates		
Charge for the period	322	-
Impairment for non-current assets held for sale		
Charge for the period	15 579	12 985
Write-back for the period	(8 827)	(2 844)
	6 752	10 141
Impairment for property, plant and equipment		
Write-back for the period	(1 155)	(245)
Impairment for other assets		
Charge for the period	10 312	9 381
Write-back for the period	(3 033)	(6 727)
	7 279	2 654
	13 198	12 550

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Provisions for guarantess and commitments		
Charge for the period	11 343	16 558
Write-back for the period	(13 156)	(14 268)
	(1 813)	2 290
Provisions for other risks and charges		
Charge for the period	11 135	10 193
Write-back for the period	(5 088)	(2 160)
	6 047	8 033
	4 234	10 323

18 Share of profit of associates under the equity method

The contribution of the associated companies accounted under the equity method is analysed as follows:

(Thousand of Euro)

	2018	2017
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	252	166

19 Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Cash	194 597	178 927
Deposits at central banks		
Banco de Portugal	1 416 038	1 554 701
	1 610 635	1 733 628

As at 31 December 2018, the balance Central bank relating to deposits within the Bank de Portugal, includes the amount of Euro 90,286 thousand (31 December 2017: Euro 92,448 thousand) to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of deposits and other effective liabilities. The cash reserve requirements, according with the European Central Bank System for Euro Zone, establishes the maintenance of a deposit with the Central Bank equivalent to 1% of the average value of deposits and other liabilities, during each reserve requirements period.

At as 31 December 2018, deposits within the Bank de Portugal were remunerated at the rate of -0.4%.

20 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Credit institutions in Portugal	1 252	1 364
Credit institutions abroad	50 799	9 639
Amounts due for collection	26 037	39 202
	78 088	50 205

The balance Amounts due for collection represents essentially cheques receivable from other credit institutions due for collection.

21 Other loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Loans and advances to credit institutions in Portugal		
Term deposits	1 987	1 986
Other loans and advances	112	7 088
	2 099	9 074
Loans and advances to credit institutions abroad		
Very short-term deposits	-	30 000
CSA's	27 179	40 226
Term deposits	9 226	7 659
Reverse repos	2 190	3 405
Subordinated deposits	243	130
Other loans and advances	169 394	221 709
	208 232	303 129
	210 331	312 203
Impairment for credit risk over other loans and advances to credit institutions	(399)	-
	209 932	312 203

The Credit Support Annex (hereinafter referred to as "CSA's") are contracts that regulate the delivery, reception and monitoring of delivered/received collateral to cover the exposure of a counterparty to the other, as a result of open positions in over-the-counter derivatives. According to most CSA's executed by the Group, this collateral might be in the form of securities or cash, however, in the Group's particular case, collaterals are all in cash.

Collaterals in cash delivered (establishment or strengthening) or received (collateral release) result from the changes in the fair value of the several derivative instruments that the Group negotiated with each one of the counterparties and are an effective transfer of cash, through TARGET2 transfers, for each one of the counterparties, as a guarantee of the Group's exposure towards the counterparty.

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, the Group holds an amount of Euro 27,179 thousand (31 December 2017: Euro 40,226 thousand) related to deposits in credit institutions given as collateral for the above-mentioned operations.

The caption Loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) related to a deposit made and accepted as collateral within the Ex-ante Contribution to the Resolution Fund, as described in notes 10 and 48.

The caption Loans and advances to credit institutions abroad – Other loans and advances includes the amounts deposited on behalf of the vehicles incorporated for the purpose of the Group's securitisation transactions.

The balance Other loans and advances to credit institutions, by maturity, is analysed as follows:

(Thousands of Euro)

	2018	2017
Within 3 months	27 765	77 314
3 to 6 months	4 886	3 475
6 months to 1 year	2 740	4 405
1 to 5 years	8 844	8 476
Above 5 years	153 015	208 569
Undetermined	13 081	9 964
	210 331	312 203

Impairment movements for credit risks on Other loans and advances to credit institutions are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	-	-
IFRS 9 transition adjustment	924	-
Charge for the period net of reversals	(525)	-
Balance on 31 December	399	-

22 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)	2018	2017
Corporate		
Loans not represented by securities		
Loans	2 688 150	2 810 479
Commercial lines of credit	447 699	477 745
Finance lease	444 928	464 640
Discounted bills	66 035	71 695
Factoring	175 467	144 199
Overdrafts	5 421	2 543
Other loans	639 142	708 465
Loans represented by securities		
Commercial paper	277 787	252 357
Bonds	169 922	242 387
Retail		
Mortgage loans	6 170 438	6 598 927
Finance lease	63 137	66 557
Consumer credit and other loans	968 586	995 574
	12 116 712	12 835 568
Correction value of assets subject to hedge operations		
Other loans	(107)	(1)
Overdue loans and interests		
Below 90 days	37 298	81 350
Above 90 days	913 885	1 146 222
	951 183	1 227 572
	13 067 788	14 063 139
Impairment for credit risks	(944 576)	(1 033 821)
	12 123 212	13 029 318

As at 31 December 2018, the balance Loans and advances to customers includes de amount of Euro 2,728,028 thousand (31 December 2017: Euro 2,726,854 thousand) related to the issue of covered bonds held by the Group, as referred in note 38.

As at 31 December 2018, loans and advances, guarantees and irrevocable credit facilities (excluding interbank and money market transactions) that the Group granted to institutional capital owners and to related parties, amounted to Euro 63,004 thousand (31 December 2017: Euro 35,591 thousand), as referred in note 52. The conclusion of businesses between the Group and institutional capital owners or individual or collective persons related to them, according to article 20 of the Portuguese Securities Code, regardless the value, it's always submitted to deliberation and examination of the Board of Directors and the Audit Committee, as proposed by the commercial network, supported by analysis and opinion about the compliance with the limit established in article 109 of the General Law on Credit Institutions and Financial Companies General Law issued by the Risk Division. The impairment amount for credit risks related with these contracts amounts to Euro 362 thousand as at 31 December 2018 (31 December 2017: Euro 335 thousand).

During 2018, Banco Montepio performed a sale operation of a customer loan portfolio, recorded on and off-balance sheet, which was in default. The exposure of this loan portfolio amounted to Euro 239,144 thousand and generated a loss in the amount of Euro 4,904 thousand, as referred in note 9.

During 2017, Banco Montepio performed a sale operation of two customer loan portfolios which were in default. The capital gains amounted to: (i) Euro 2,783 thousand related to the sale operation of a customer loan portfolio that was in default recorded off-balance sheet, with a nominal value of Euro 215,288 thousand, as described in note 9, which took place in the first half of 2017, and (ii) Euro 13,424 thousand related to the sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 23.

It should be note that the latter disposed portfolio included other rights not recorded either on or off-balance sheet in the amount of Euro 105,590 thousand. In addition, and within this transaction, Banco Montepio acquired all the Class A notes of the vehicle that purchased this portfolio and recorded the amount of Euro 121,329 thousand in the portfolio of financial assets held for trading, as mentioned in note 23.

As at 31 December 2018, Loans and advances to customers includes the amount of Euro 2,513,976 thousand (31 December 2017: Euro 3,623,040 thousand) related to loans object of securitization and, in accordance with the accounting policy outlined in note 1 g), were not subject to derecognition, as described in note 53.

In the balance Correction value of assets subject to hedge operations is accounted the fair value of the portfolio that is hedged. The valuation is accounted for in the income statement, in accordance with the accounting policy described in note 1 e). The Group evaluates on an ongoing basis the effectiveness of the existing hedge operations.

Loans and advances to customers include loans recorded at fair value through profit or loss in the amount of Euro 15,139 thousand (31 December 2017: Euro 24,633 thousand). The fair value adjustment amounted to Euro 107 thousand (31 December 2017: Euro 1 thousand), and the impact on income was negative in the amount of Euro 107 thousand (31 December 2017: negative in Euro 535 thousand), according to note 23.

The fair value of the loan portfolio is disclosed in note 49.

The analysis of Loans and advances to customers, by type of interest rate as at 31 December 2018 and 2017, is as follows:

(Thousands of Euro)

	2018	2017
Variable interest rate contract	11 321 912	12 653 940
Fixed interest rate contract	1 745 876	1 409 199
	13 067 788	14 063 139

The analysis of Overdue loans and interest, by type of credit, is as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Asset-backed loans	608 484	820 659
Other guarantee loans	180 302	225 529
Financial leases	14 045	37 472
Secured loans	33 000	4 300
Other loans	115 352	139 612
	951 183	1 227 572

The analysis of loans and advances to customers, by maturity and by type of credit, as at 31 December 2018, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	172 912	585 755	8 438 490	608 484	9 805 641
Other guarantee loans	500 201	236 550	346 019	180 302	1 263 072
Financial leases	52 787	212 663	242 615	14 045	522 110
Secured loans	277 787	-	-	33 000	310 787
Loans represented by securities - Bonds	30 293	124 956	14 673	-	169 922
Other loans	107 572	302 569	470 763	115 352	996 256
	1 141 552	1 462 493	9 512 560	951 183	13 067 788

The analysis of loans and advances to customers, by maturity and by type of credit, as at 31 December 2017, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	192 197	924 891	8 463 915	820 659	10 401 662
Other guarantee loans	516 732	323 947	514 491	225 529	1 580 699
Financial leases	37 024	238 550	255 623	37 472	568 669
Secured loans	252 357	-	-	4 300	256 657
Loans represented by securities - Bonds	109 917	122 215	10 256	-	242 388
Other loans	273 113	123 620	476 719	139 612	1 013 064
	1 381 340	1 733 223	9 721 004	1 227 572	14 063 139

The balance Financial leases, by maturity as at 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	68 948	228 187	134 045	431 180
Outstanding interests	(10 578)	(34 110)	(26 282)	(70 970)
Residual values	40 013	59 432	48 410	147 855
	98 383	253 509	156 173	508 065

The balance Financial leases, by maturity as at 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	69 804	244 578	145 835	460 217
Outstanding interests	(11 871)	(37 819)	(26 122)	(75 812)
Residual values	23 870	73 377	49 545	146 792
	81 803	280 136	169 258	531 197

Towards the Operating lease, the Group does not present significant contracts as a Lessor.

The analysis of Overdue loans and interest, by type of customer and purpose, is as follows:

(Thousands of Euro)

	2018	2017
Corporate		
Construction/ Production	197 762	267 222
Investment	347 800	490 234
Treasury	187 479	212 935
Other loans	36 039	47 514
Retail		
Mortgage loans	81 558	92 744
Consumer credit	46 664	59 444
Other loans	53 880	57 479
	951 183	1 227 572

Changes in impairment for credit risks are analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Balance on 1 January	1 033 821	1 179 617
IFRS 9 transition adjustment	144 189	-
Charge for the period net of reversals		
Continuing operations	84 891	164 291
Discontinuing operations	8 132	5 985
Impairment charged-off	(304 044)	(310 087)
Transfers related to discontinuing operations	(22 413)	(5 985)
Balance on 31 December	944 576	1 033 821

As mentioned, during 2018, Banco Montepio performed a sale operation of a customer loans portfolio which was in default, recorded on and off-balance sheet, and charged-off the impairment for credit risk in the amount of Euro 139,849 thousand.

Also, during 2017, Banco Montepio performed a sale operation of two customer loan portfolios which were in default, recorded off-balance sheet, and charged-off the impairment for credit risk in the amount of Euro 249,299 thousand.

If the impairment loss decreases in a subsequent period to its initial accounting and this decrease can be objectively associated to an event that occurred after the recognition of the loss, the impairment in excess is reversed through profit and loss.

In compliance with note 1 c), loans and advances to customers are charged-off when there are no expectations, from an economic point of view, of recovering the loan amount and for collateralised loans, when the funds arising from the execution of the respective collaterals were already received.

The impairment for credit risks, by type of credit, is as follows:

	(Thousands of Euro)	
	2018	**2017**
Asset-backed loans	619 215	650 939
Other secured loans	204 232	256 777
Unsecured loans	121 129	126 105
	944 576	1 033 821

The analysis of the loans impairment charged-off, by type of credit, is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Asset-backed loans	105 334	124 380
Other secured loans	113 663	44 082
Unsecured loans	85 047	141 625
	304 044	310 087

The total recovered loans and overdue interest, booked on 31 December 2018, amounted to Euro 11,164 thousand (31 December 2017: Euro 3,580 thousand), as described in note 14.

In addition, the loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 949,942 thousand (31 December 2017: Euro 1,162,359 thousand) which have an impairment of Euro 387,396 thousand (31 December 2017: Euro 390,088 thousand).

The Group has adopted forbearance measures and practices, according to the risk, in order to adjust the disposable income or the financial capacity of customers to its debt service. On this basis, were adopted the recommendations legislated within the non-compliance regimes (Decree-Law No. 227/2012) and in the companies (SIREVE, PER), widely disclosed in the institutional website, in internal rules and communications to disclosure and implementation within customers who show evidence of financial difficulties.

Regarding the forbearance measures and in accordance with the Implementing Regulation (EU) 2015/227 of 9 January 2015, contractual changes were considered (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The restructuring operations that were performed during 2018 and 2017 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate.

The analysis of restructured loans, performed in 2018 and 2017, by type of credit, is as follows:

(Thousands of Euro)

	2018	2017
Corporate		
Loans not represented by securities		
Loans	55 254	109 768
Commercial lines of credit	21 288	3 787
Financial leases	6 587	9 275
Other loans	3 627	39 184
Retail		
Mortgage loans	9 397	11 448
Consumer credit and other loans	4 992	4 500
	101 145	177 962

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering the new collaterals.

In respect of restructured loans, the impairment associated to these operations amounts to Euro 25,342 thousand (31 December 2017: Euro 28,892 thousand).

The Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility.

Most of the physical collaterals are revaluated at least once a year.

23 Financial assets and liabilities held-for-trading

The balance financial assets and liabilities held for trading is analysed as follows:

(Thousand of Euro)	2018	2017
Financial assets held-for-trading		
Securities		
Shares	-	6 734
Bonds	-	149 622
Investment units	-	3 167
	-	159 523
Derivative instruments		
Derivative financial instruments with positive fair value	23 739	24 553
	23 739	184 076
Financial liabilities held-for-trading		
Securities		
Short sale	-	901
Derivative instruments		
Derivative financial instruments with negative fair value	13 496	15 270
	13 496	16 171

As at 31 December 2017, the balance Financial assets held for trading – Securities – Bonds includes the amount of Euro 121,329 thousand relating to a class A asset securitisation transaction which was acquired within a sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 22.

As at 31 December 2017, within an assets assignment operation (loans and real estate), in the amount of Euro 288,232 thousand, Banco Montepio acquired the right to return of a set of parameters of assigned assets, which amounted to Euro 12,000 thousand. As at 31 December 2018, this transaction amounted to Euro 12,214 thousand (31 December 2017: Euro 11,204 thousand) and is recorded under the caption Financial instruments with positive fair value.

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation, described in note 49, as follows:

(Thousands of Euro)

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets held-for-trading				
Derivative instruments				
Derivative financial instruments with positive fair value	-	11 525	12 214	23 739
	-	11 525	12 214	23 739
Financial liabilities held-for-trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	13 496	-	13 496
	-	13 496	-	13 496

(Thousands of Euro)

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets held-for-trading				
Securities				
Shares	6 734	-	-	6 734
Bonds	28 293	-	121 329	149 622
Investment units	3 167	-	-	3 167
	38 194	-	121 329	159 523
Derivative instruments				
Derivative financial instruments with positive fair value	-	24 553	-	24 553
	38 194	24 553	121 329	184 076
Financial liabilities held-for-trading				
Securities				
Short sales	901	-	-	901
Derivative instruments				
Derivative financial instruments with negative fair value	-	15 270	-	15 270
	901	15 270	-	16 171

The trading portfolio is recorded at fair value through profit and loss, in accordance with the accounting policy described in note 1 c). As referred in this note, assets held for trading are those which were acquired with the purpose of sale or re-acquisition on the short term regardless of its maturity.

The analysis of the securities portfolio held for trading by maturity, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Due within 3 months	3 to 12 months	1 to 5 years	Above 5 years	Undetermined	Total
Fixed income securities						
Bonds						
Portuguese	372	372	1 065	133 564	-	135 373
Foreign	-	80	11 129	3 040	-	14 249
Variable income securities						
Shares						
Portuguese	-	-	-	-	1 092	1 092
Foreign	-	-	-	-	5 642	5 642
Investment units	-	-	-	-	3 167	3 167
	372	452	12 194	136 604	9 901	159 523

The balance of Derivatives financial instruments as at 31 December 2018, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		2018						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in fair value in the period[1]	Fair value	Changes in fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	3 300	301	(113)	78	(185)	3 460	3 300
Interest rate swap	Deposits from customers	14 850	(32)	75	11	(22)	14 597	14 597
Interest rate swap	Loans and advances to customers	15 257	123	168	(107)	(107)	15 139	15 120
Interest rate swap	Others	3 324 917	(2 093)	395	-	-	-	-
Currency Swap (Short)	-	38 811	(38)	(329)	-	-	-	-
Currency Swap (Long)	-	38 740						
Future options (Short)	-	-	-	(9)	-	-	-	-
Future options (Long)	-	-						
Forwards (Short)	-	1 373	-	-	-	-	-	-
Forwards (Long)	-	1 373						
Options (Short)	-	50 865	11 982	773	-	-	-	-
Options (Long)	-	353 859						
		3 843 345	10 243	960	(18)	(314)	33 196	33 017

[1] Includes the result of derivatives disclosed in note 6.

The balance of Derivatives financial instruments as at 31 December 2017, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		2017						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in fair value in the period(1)	Fair value	Changes in fair value in the period	Book value	Reimbursement amout at maturity date
Interest rate swap	Debt securities issued and other subordinated debt	3 300	414	(526)	263	1 271	3 460	3 300
Interest rate swap	Deposits from customers	15 100	(107)	(59)	33	21	14 789	14 789
Interest rate swap	Deposits from other credit institutions	-	-	(2 576)	-	(3)	-	-
Interest rate swap	Covered bonds	-	-	2 380	-	-	-	-
Interest rate swap	Loans and advances to customers	24 562	(45)	671	(1)	(535)	24 633	24 562
Interest rate swap	Other	3 669 577	(2 488)	1 735	-	-	-	-
Currency swap (Short)	-	50 481	291	(88)	-	-	-	-
Currency swap (Long)	-	50 744						
Future option (Short)	-	2 978	9	9	-	-	-	-
Future option (Long)	-	-						
Forwards (Short)	-	3 044	-	(4)	-	-	-	-
Forwards (Long)	-	3 051						
Options (Short)	-	54 809	11 209	(797)	-	-	-	-
Options (Long)	-	358 131						
		4 235 777	9 283	745	295	754	42 882	42 651

(1) Includes the result of derivatives disclosed in note 6.

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2018, is presented as follows:

(Thousands of Euro)

	2018					
	Notional with remaining term				Fair value	
	Below 3 months	3 to 12 months	Above 1 year	Total	Asset	Liability
Interest rate contracts						
Interest swap contracts	5 000	24 192	3 329 132	3 358 324	11 570	13 271
Options	4 892	40 942	55 808	101 642	(76)	157
Exchange rate contracts						
Currency swaps	76 443	1 108	-	77 551	25	63
Forwards	2 746	-	-	2 746	-	-
Index / Share contracts						
Options	5 000	9 850	-	14 850	5	5
Credit contracts						
Options	-	-	288 232	288 232	12 215	-
	94 081	76 092	3 673 172	3 843 345	23 739	13 496

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2017, is presented as follows:

(Thousands of Euro)

	2017					
	Notional with remaining term				Fair value	
	Below 3 months	3 to 12 months	Above 1 year	Total	Asset	Liability
Interest rate contracts						
Interest rate swaps	250	17 850	3 694 439	3 712 539	12 779	15 005
Options	213	800	108 595	109 608	52	51
Futures	-	-	-	-	-	-
Exchange rate contracts						
Currency swaps	101 225	-	-	101 225	292	1
Forwards	4 487	1 608	-	6 095	-	-
Index / Share contracts						
Futures	2 978	-	-	2 978	9	-
Options	250	-	14 850	15 100	217	213
Credit contracts						
Options	-	-	288 232	288 232	11 204	-
	109 403	20 258	4 106 116	4 235 777	24 553	15 270

As at 31 December 2017, the amount of the loan obtained from EIB is collateralised by Portuguese bonds at the nominal value of Euro 10,000 thousand, provided as collateral and recorded under the caption Financial assets held-for-trading, as described in note 36.

24 Financial assets not held for trading mandatorily at fair value through profit or loss

(Thousands of Euro)

	2018	2017
Variable income securities		
Investment units	464 502	-
Loans and advances to customers at fair value		
Loans not represented by securities	28 092	-
	492 594	-

As part of the IFRS 9 adoption, the Group's investment units held until 31 December 2017 in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 25 and 45.

On 31 December 2018, the assets included in level 3, under Variable income securities – Investment units include investment units in real estate investment funds, specialised credit recovery funds and venture capital funds that are valued according to the amount disclosed over the Net Asset Value of the Fund (NAVF), determined by the management company, in the amount of Euro 457,946 thousand, of which Euro

296,550 thousand are related to real estate investment funds. The assets of specialised credit recovery funds result from a diversified set of assets and liabilities, which are valued at the respective funds' accounts at fair value through internal methodologies used by the management entity.

The assets of the real estate investment funds are valued by the management company based on evaluation reports prepared by real estate experts registered at CMVM.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 45,795 thousand was calculated on 31 December 2018.

As mentioned in Note 58, the caption Variable income securities – Investment units includes, as at 31 December 2018, the amount of Euro 94,892 thousand related to investment units in specialised credit funds acquired with the transfer of loans and advances to customers.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 49. Financial assets included in this balance were classified under levels 1 and 3.

(Thousands of Euro)

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Variable income securities				
Investment units	6 556	-	457 946	464 502
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	28 092	28 092
	6 556	-	486 038	492 594

Changes occurred in financial assets not held for trading mandatorily at fair value through profit or loss recorded under level 3, are analysed as follows:

(Thousands of Euro)

	2018	**2017**
Balance on 1 January	374 560	-
Deconsolidation impact of Valor Prime	82 140	-
Acquisitions	1 313	-
Remeasurements	(10)	-
Disposals	(57)	-
Balance on 31 December	457 946	-

25 Financial assets at fair value through other comprehensive income

This balance is analysed as follows:

(Thousands of Euro)

	2018				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	11 201	863	-	(26)	12 038
Foreign	210 263	157	(5 166)	(433)	204 821
Bonds issued by other entities					
Domestic	45 791	390	(1 719)	(154)	44 308
Foreign	50 987	358	(942)	(58)	50 345
Variable income securities					
Shares					
Domestic	74 233	6 439	(4 340)	-	76 332
Foreign	71 532	2 693	(17 996)	-	56 229
	464 007	10 900	(30,163)	(671)	444 073

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

(Thousands of Euro)

	2017				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	714 117	2 444	(1 112)	-	715 449
Foreign	862 310	1 057	(5 131)	-	858 236
Bonds issued by other entities					
Domestic	69 958	1 237	(76)	(29 251)	41 868
Foreign	49 251	691	(86)	(7 000)	42 856
Variable income securities					
Shares					
Domestic	76 158	12 112	(1 625)	(1 920)	84 725
Foreign	73 142	10 327	(7 718)	(48)	75 703
Investment units	402 535	20 488	(260)	(40 707)	382 056
	2 247 471	48 356	(16 008)	(78 926)	2 200 893

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

As part of the IFRS 9 adoption, the investment units were reclassified to Financial assets not held for trading mandatorily at fair value through profit and loss, as described in note 24.

The main assumptions in the evaluation of shares whose book value is determined based on Banco Montepio's internal models are as follows:

Almina

The evaluation of Almina with reference to 31 December 2018 was carried out based on Almina Holding Group business plan, as well as other information provided by Almina's management.

The two relevant businesses for Almina's evaluation correspond to ore exploitation: zinc and copper. The main assumptions that have been used were: use of a discount rate between 8% and 9.8% and the determination of ore market prices based on international indexes.

As at 31 December 2018 and 2017, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Thousands of Euro)

	2018				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	12 038	-	-	-	12 038
Foreign	204 821	-	-	-	204 821
Bonds issued by other entities					
Domestic	35 540	4 184	4 584	-	44 308
Foreign	37 350	12 995	-	-	50 345
	289 749	17 179	4 584	-	311 512
Variable income securities					
Shares					
Domestic	-	-	74 161	2 171	76 332
Foreign	47 310	-	8 481	438	56 229
	47 310	-	82 642	2 609	132 561
	337 059	17 179	87 226	2 609	444 073

(Thousands of Euro)

	2017				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	715 449	-	-	-	715 449
Foreign	858 236	-	-	-	858 236
Bonds issued by other entities					
Domestic	6 967	29 221	5 680	-	41 868
Foreign	28 771	14 085	-	-	42 856
	1 609 423	43 306	5 680	-	1 658 409
Variable income securities					
Shares					
Domestic	-	-	79 836	4 889	84 725
Foreign	1 693	-	73 672	338	75 703
Investment units	7 500	-	374 556	-	382 056
	9 193	-	528 064	5 227	542 484
	1 618 616	43 306	533 744	5 227	2 200 893

As referred in IFRS 13, financial instruments are measured according to the valuation levels described in note 49.

As part of the IFRS 9 adoption, Banco Montepio’s investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, according to note 24.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 8,723 thousand was calculated on 31 December 2018 (31 December 2017: Euro 53,374 thousand).

Instruments classified under level 3 have associated unrealised gains and losses in the positive amount of Euro 3,235 thousand (31 December 2017: positive amount of Euro 32,362 thousand) recognised in fair value reserves.

On 31 December 2018, the impairment amount recorded for these securities amounted to Euro 74 thousand (31 December 2017: Euro 75,814 thousand).

The movements occurred in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

(Thousands of Euro)

	2018	**2017**
Balance on 1 January	533 744	554 484
Acquisitions	-	4 722
Revaluations	(13 815)	(19 293)
Disposals	-	(6 169)
Transfers from level 3 to level 1	(66 673)	-
Trasfers to level 3	8 530	-
Transfers to financial assets not held for trading mandatorily at fair value though profit or loss	(374 560)	-
Balance on 31 December	87 226	533 744

The revaluation of Visa Inc preference shares (Series C), as at 31 December 2018, resulted in the recognition of a positive fair value reserve in the amount of Euro 2,065 thousand (31 December 2017: Euro 1,205 thousand).

The movements occurred in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	78 926	98 276
IFRS 9 transition adjustment	(39 377)	-
Charge for the period		
Continuing operations	1 303	9 117
Discontinuing operations	-	1
Write-back for the period		
Continuing operations	(1 117)	(1 351)
Discontinuing operations	-	(3)
Impairment charged-off	(39 064)	(27 116)
Transfers related to discontinuing operations	-	2
Balance on 31 December	671	78 926

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2018, is as follows:

(Thousands of Euro)

	2018					
	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years	Undetermined	Total
Fixed income securities						
Issued by public entities						
Domestic	-	-	12 038	-	-	12 038
Foreign	-	-	204 821	-	-	204 821
Issued by other entities						
Domestic	-	243	36 827	6 363	875	44 308
Foreign	-	1 015	29 754	19 576	-	50 345
	-	1 258	283 440	25 939	875	311 512
Variable income securities						
Shares						
Domestic	-	-	-	-	76 332	76 332
Foreign	-	-	-	-	56 229	56 229
Investment units	-	-	-	-		-
	-	-	-	-	132 561	132 561
	-	1 258	283 440	25 939	133 436	444 073

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Below 3 months	3 to 12 months	1 to 5 years	Above 5 years	Undetermined	Total
Fixed income securities						
Issued by public entities						
Domestic	2 715	132 607	510 378	69 749	-	715 449
Foreign	781	66 438	659 963	131 054	-	858 236
Issued by other entities						
Domestic	193	826	30 998	8 451	1 400	41 868
Foreign	54	1 119	15 593	26 090	-	42 856
	3 743	200 990	1 216 932	235 344	1 400	1 658 409
Variable income securities						
Shares						
Domestic	-	-	-	-	84 725	84 725
Foreign	-	-	-	-	75 703	75 703
Investment units	-	-	-	-	382 056	382 056
	-	-	-	-	542 484	542 484
	3 743	200 990	1 216 932	235 344	543 884	2 200 893

Securities pledged as collateral recorded in financial assets at fair value through other comprehensive income, are presented as follows:

- The market value of the assets pledged as collateral to the European Central Bank under liquidity providing operations amounts to Euro 1,927,666 thousand at 31 December 2018 after hair cut (31 December 2017: Euro 2,557,271 thousand), as described in note 35;
- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousand at 31 December 2018 and 2017;
- The amount of the EIB loan obtained is collateralised by securities of Portuguese, Spanish and Italian states in the nominal amount of Euro 152,000 thousand (31 December 2017: 507,939 thousand), as described in note 36; and
- Securities pledged as collateral to the Deposit Guarantee Fund in the nominal amount of Euro 22,200 thousand at 31 December 2018 (31 December 2017: Euro 23,500 thousand), as mentioned in note 48.

These financial assets pledged as collateral can be executed in case of default of contractual obligations assumed by the Group under the terms and conditions of signed contracts, as referred in notes 35 and 36.

26 Hedging derivatives

This balance is analysed as follows:

	(Thousands of Euro)	
	2018	2017
Assets		
Interest rate swaps	5 666	-
Liabilities		
Interest rate swaps	-	1 663

Banco Montepio contracted an interest rate swap to hedge its interest rate risks. The accounting method depends on the nature of the hedged risk, namely if the Group is exposed to fair value changes, cash flows changes or probable forecast transactions.

The Group performs periodical effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2018 and 2017 is as follows:

(Thousands of Euro)

	2018							
	Notional by maturity date				Fair value			
	Due within 3 months	3 to 12 months	Above 1 year	Total	Due within 3 months	3 to 12 months	Above 1 year	Total
Fair value hedge derivative with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	5 666	5 666
	-	-	750 000	750 000	-	-	5 666	5 666

(Thousands of Euro)

	2017							
	Notional by maturity date				Fair value			
	Due within 3 months	3 to 12 months	Above 1 year	Total	Due within 3 months	3 to 12 months	Above 1 year	Total
Fair value hedge derivative with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	1 663	1 663
	-	-	750 000	750 000	-	-	1 663	1 663

As at 31 December 2018 and 2017, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	2018						
Derivative	Hedged item	Hedged risk	Notional	Fair value[1]	Changes in fair value of the derivative in the period	Hedged item fair value[2]	Changes in fair value of the hedged item in the period[2]
Interest rate swaps	Liabilities represented by securities	Interest rate	750 000	5 666	7 329	(4 417)	6 790
			750 000	5 666	7 329	(4 417)	6 790

[1] Includes accrued interest.
[2] Attributable to the hedged risk.

(Thousands of Euro)

Derivative	Hedged item	Hedged risk	Notional	Fair value[1]	Changes in fair value of the derivative in the period	Hedged item fair value[2]	Changes in fair value of the hedged item in the period[2]
	2017						
Interest rate swap	Liabilities represented by securities	Interest rate	750 000	(1 663)	(1 663)	2 373	2 373
			750 000	(1 663)	(1 663)	2 373	2 373

[1] Includes accrued interest.
[2] Attributable to the hedged risk.

27 Other financial assets at amortised cost

This balance is analysed as follows:

(Thousands of Euro)

	Book value
Fixed income securities	
Bonds issued by public entities	
Domestic	1 037 815
Foreign	220 386
	1 258 201
Impairment for other financial assets at amortised cost	(2 550)
	1 255 651

The fair value of the portfolio of Other financial assets at amortised cost is disclosed in note 49.

Other financial assets at amortised cost, as at 31 December 2018, can be analysed as follows:

Securities	Issue date	Maturity date	Interest rate	Book value
BTP 0.10 15-APR-2019	15 April 2016	15 April 2019	0.100%	18 970
OT APR21	23 February 2005	15 April 2021	3.850%	133 639
BONOS 0,750% 30JUL2021	08 March 2016	30 July 2021	0.750%	35 769
OT 2,200% 17-OCT-2022	09 September 2015	17 October 2022	2.200%	228 343
BONOS 0,350% 30JUL2023	22 May 2018	30 July 2023	0.350%	165 648
OT 4,95% 25-OCT-2023	10 June 2008	25 October 2023	4.950%	205 711
OT 5.65% 15-FEV-2024	14 May 2013	15 February 2024	5.650%	306 198
OT 2,875% 15-OCT-2025	20 January 2015	15 October 2025	2.875%	72 140
OT 2,875% 21JUL2026	21 January 2016	21 July 2026	2.875%	28 128
OT 4,125% 14APR2027	18 January 2017	14 April 2027	4.125%	43 224
OT 2,125% 17OCT2028	17 January 2018	17 October 2028	2.125%	20 431
				1 258 201

Other financial assets at amortised cost are recognised in accordance with the accounting policy described in note 1 d).

As at 31 December 2018, the amount of loan obtained from EIB is collateralised by bonds of the Portuguese, Spanish and Italian State at the nominal value of Euro 253,211 thousand, provided as collateral and recorded under the caption Other financial assets at amortised cost, as disclosed in note 36.

As at 31 December 2018, the nominal amount of the assets pledged as collaterals to the European Central Bank within the liquidity-providing operations amounts to EUR 675,747 thousand after haircut.

Impairment movements for other financial assets at amortised cost are analysed as follows:

	(Thousands of Euro)
	2018
Balance on 1 January	-
Charge for the period	2 679
Charge-off	(129)
Balance on 31 December	2 550

28 Investments in associates

This balance is analysed as follows:

	2018	2017
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 584	3 399
Montepio - Gestão de Activos Imobiliários, ACE	698	698
Naviser – Transportes Marítimos Internacionais, S.A.	150	150
	4 432	4 247
Impairment of investments in associated companies	(150)	(150)
	4 282	4 097

(Thousands of Euro)

The subsidiaries and associated companies included in the Group's consolidation perimeter are presented in note 61.

The financial information concerning associated companies is presented in the following tables:

(Thousands of Euro)

	Assets	Liabilities	Equity	Income	Net profit/ (loss)	Acquisition cost
31 December 2018						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	36 156	18 236	17 920	10 296	1 563	3 584
Montepio - Gestão de Ativos Imobiliários, ACE	5 010	2 560	2 450	4 659	-	698
CESource, ACE	-	-	-	-	-	-
31 December 2017						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	37 789	20 796	16 993	10 427	1 304	3 399
Montepio - Gestão de Ativos Imobiliários, ACE	3 726	1 276	2 450	4 949	-	698

	Percentage held		Book value		Associated companies net	
	2018	2017	2018	2017	2018	2017
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.00%	20.00%	3 584	3 399	252	166
Montepio - Gestão de Activos Imobiliários, ACE	28.50%	28.50%	698	698	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20.00%	20.00%	-	-	-	-
Cesource, ACE	18.00%	18.00%	-	-	-	-

The movement for this balance is analysed as follows:

(Thousands of Euro)	2018	2017
Balance on 1 January	4 247	4 192
Disposals	-	-
Share of profit of associated companies	252	166
Other reserves and retained earnings	(217)	(111)
Balance on 31 December	4 282	4 247

The Group analyses, on a regular basis, the impairment related to its investments in associated companies.

The evolution of the Group's associated companies is disclosed in note 61.

29 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)	2018	2017
Properties and other assets resulting from the resolution of customer loan agreements	876 762	885 210
Impairment for non-current assets held for sale	(138 825)	(142 989)
	737 937	742 221

The assets included in this balance are accounted for in accordance with the accounting policy described in note 1 j).

The balance Investments arising from recovered loans includes the amount of Euro 1,874 thousand (31 December 2017: Euro 2,177 thousand) related with other non-current assets held for sale resulting from the foreclosure of loans to customers' contracts, which have an associated impairment in the amount of Euro 1,769 thousand (31 December 2017: Euro 2,059 thousand).

The foreclosure of loans to customers' contracts, is originated by (i) delivery of the assets, with repurchase or leasing option, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer on behalf of the Group; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment pro-solvency).

The Group has implemented a plan to sale immediately the non-current assets held for sale. According to Group's expectation, these assets are available for sale in a period below 1 year and the Group has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline. This balance includes buildings and other assets for which the Group has already established contracts for the sale in the amount of Euro 19,692 thousand (31 December 2017: Euro 32,729 thousand).

The movements, in the end of 2018 and 2017, for non-current assets held for sale are analysed as follows:

(thousands of Euro)

	2018	2017
Balance at the beginning of the period	885 210	908 615
Acquisitions	108 456	133 805
Disposals	(117 313)	(156 952)
Other movements	409	(258)
Balance at the end of the period	876 762	885 210

The movement in impairment for non-current assets held for sale balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	142 989	148 411
Charge for the period	15 579	12 985
Reversal for the period	(8 827)	(2 844)
Charge-off	(10 916)	(15 563)
Balance on 31 December	138 825	142 989

In addition to the impairment losses, as at 31 December 2018, the Group recognised in profit or loss, gains on real estate arising from its disposal in the amount of Euro 15,072 thousand (31 December 2017: Euro 6,328 thousand), as mentioned in note 9.

30 Investment properties

The balance Investment properties considers the real estate properties owned by "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto" which are fully consolidated, according to the accounting policy described in note 1 b) and the real estate held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. The real estate properties are measured in accordance with the accounting policy described in note 1 q), based on independent evaluations performed by experts registered in CMVM and in compliance with legal requirements.

The amount of income received related to investment properties amounts to Euro 6,500 thousand (31 December 2017: Euro 15,211 thousand) and maintenance costs of leased and not leased properties amounts to Euro 5,718 thousand (31 December 2017: Euro 10,180 thousand).

The movements in this balance are analysed as follows:

(Thousands of Euro)

	2018	**2017**
Balance at the beginning of the period	538 625	607 968
Acquisitions	95	3 545
Revaluations	(3 240)	5 646
Disposals	(51 724)	(78 534)
Change in the consolidation perimeter	(230 659)	-
Balance at the end of the period	253 097	538 625

During 2018, Fundo Valor Prime was deconsolidated, according to note 61.

31 Property, plant and equipment

This balance is analysed as follows:

	2018	2017
	(Thousands of Euro)	
Investments		
Land and buildings		
For own use	217 948	218 292
Leasehold improvements in rented buildings	40 067	40 347
Equipment		
IT equipment	92 970	91 639
Interior installations	29 600	25 456
Furniture	18 917	19 036
Security equipment	7 589	7 387
Machinery and tools	2 701	2 684
Transportation	1 546	1 620
Other equipment	5	5
Works of art	2 870	2 870
Assets in operating lease	109	323
Other property, plant and equipment	1 123	3 402
Work in progress	2 099	2 101
	417 544	415 162
Accumulated depreciation		
Charge for the period	11 765	10 947
Accumulated charge in previous periods	176 180	169 748
	187 945	180 695
Impairment for property, plant and equipment	-	1 155
	229 599	233 312

The movements in Property, plant and equipment, during 2018, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals/ Write-offs	Adjustments/ Transfers	Balance on 31 December
Investments					
Land and buildings					
For own service	218 292	2 408	2 752	-	217 948
Leasehold improvements in rented build	40 347	46	326	-	40 067
Equipment					
IT equipment	91 639	2 658	1 327	-	92 970
Interior installations	25 456	357	-	3 789	29 602
Furniture	19 036	105	224	-	18 917
Transportation	1 620	486	561	-	1 545
Security equipment	7 387	211	9	-	7 589
Machinery and tools	2 684	48	31	-	2 701
Other equipment	5	-	-	-	5
Assets in operating lease	323	-	214	-	109
Works of art	2 870	-	-	-	2 870
Other property, plant and equipment	2 101	-	2	-	2 099
Work in progress	3 402	1 509	-	(3 789)	1 122
	415 162	7 828	5 446	-	417 544
Accumulated depreciation					
Land and buildings					
Fow own use	19 548	5 593	2 322	-	22 819
Leasehold improvements in rented build	25 574	1 181	265	-	26 490
Equipment					
IT equipment	85 896	3 003	1 323	-	87 576
Interior installations	18 520	1 327	-	-	19 847
Furniture	18 120	350	224	-	18 246
Transportation	959	110	180	-	889
Security equipment	7 079	181	7	-	7 253
Machinery and tools	2 661	11	29	-	2 643
Other equipment	5	-	-	-	5
Assets in operating lease	265	8	164	-	109
Other property, plant and equipment	2 068	1	1	-	2 068
	180 695	11 765	4 515	-	187 945
Impairment	1 155	(1 155)	-	-	-
	233 312				229 599

The movements in Property, plant and equipment, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals/ Write-offs	Adjustments/ Transfer	Balance on 31 December
Investments					
Land and buildings					
For own service	219 194	-	-	(902)	218 292
Leasehold improvements in rented build	41 545	50	1 434	186	40 347
Equipment					
IT equipment	89 098	2 570	37	8	91 639
Interior installations	20 767	288	-	4 401	25 456
Furniture	18 849	229	43	1	19 036
Transportation	2 007	380	766	(1)	1 620
Security equipment	7 242	155	10	-	7 387
Machinery and tools	2 677	7	-	-	2 684
Outro equipamento	5	-	-	-	5
Assets in operating lease	534	-	211	-	323
Works of art	2 870	-	-	-	2 870
Other property, plant and equipment	2 101	-	-	-	2 101
Work in progress	4 515	3 515	33	(4 595)	3 402
	411 404	7 194	2 534	(902)	415 162
Accumulated depreciation					
Land and buildings					
For own service	16 249	4 718	-	(1 419)	19 548
Leasehold improvements in rented build	25 150	1 589	1 194	29	25 574
Equipment					
IT equipment	83 172	2 762	37	(1)	85 896
Interior installations	17 468	1 052	-	-	18 520
Furniture	17 761	401	43	1	18 120
Transportation	1 147	134	321	(1)	959
Security equipment	6 846	243	10	-	7 079
Machinery and tools	2 650	11	-	-	2 661
Other equipment	5	-	-	-	5
Assets in operating lease	394	34	163	-	265
Other property, plant and equipment	2 065	3	-	-	2 068
	172 907	10 947	1 768	(1 391)	180 695
Impairment	1 400	(245)	-	-	1 155
	237 097				233 312

The movements in the balance Impairment for property, plant and equipment are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	1 155	1 400
Charge for the period	-	-
Charge-off	(1 155)	(245)
Balance on 31 December	-	1 155

32 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Investment		
Software	124 900	108 569
Work in progress	4 150	5 732
Other property, plant and equipment	-	1 067
	129 050	115 368
Accumulated depreciation		
Charge for the period	14 132	13 862
Accumulated charge in previous periods	82 592	70 135
	32 326	31 371

The movements in Intangible assets, during 2018, are analysed as follows:

(Thousands of Euro)

	2018				
	Balance on 1 January	Acquisitions/ Charges	Disposals/ Write-offs	Adjustments/ Transfers	Balance on 31 December
Cost					
Software	108 569	353	338	16 317	124 901
Other property, plant and equipment	1 067	-	-	(1 067)	-
Work in progress	5 732	14 733	-	(16 316)	4 149
	115 368	15 086	338	(1 066)	129 050
Accumulated depreciation					
Software	83 997	14 132	338	(1 067)	96 724
	31 371	954	-	1	32 326

The movements in Intangible assets, during 2017, are analysed as follows:

(Thousands of Euro)

	2017				
	Balance on 1 January	**Acquisitions/ Charges**	**Disposals/ Write-offs**	**Adjustments/ Transfers**	**Balance on 31 December**
Cost					
Software	97 546	-	6	11 029	108 569
Revaluation and consolidation differences (Goodwill)	-	-	-		-
Other property, plant and equipment	1 644	-	61	(516)	1 067
Work in progress	5 921	10 831	-	(11 020)	5 732
	105 111	10 831	67	(507)	115 368
Accumulated depreciation					
Software	70 140	13 862	5	-	83 997
	70 140	13 862	5	-	83 997
Impairment	60	-	60	-	-
	34 911				31 371

Impairment movements for intangible assets are analysed as follows:

(Thousands of Euro)

	2018	**2017**
Balance on 1 January	-	60
Charge for the period		
Discontinuing operations	-	-
Charge-off	-	(60)
Transfers related to discontinuing operations	-	-
Balance on 31 December	-	-

33 Taxes

Deferred tax assets and liabilities as at 31 December 2018 and 2017 are analysed as follows:

(Thousands of Euro)

	Assets		**Liabilities**		**Net**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 625	64 200	-	-	42 625	64 200
Benefits to employees	21 114	27 055	-	-	21 114	27 055
	63 739	91 255	-	-	63 739	91 255
Deferred taxes dependent on future profitability						
Financial instruments	(1 606)	4 087	(1 171)	(10 657)	(2 777)	(6 570)
Provisions / Impairment						
Impairment on loans granted	173 285	139 665	-	-	173 285	139 665
Other risks and charges	8 053	7 611	-	-	8 053	7 611
Impairment in securities and non-financial assets	8 413	37 325	-	-	8 413	37 325
Impairment in financial assets	2 235	-	-	-	2 235	-
Benefits to employees	35 237	15 343	-	-	35 237	15 343
Other	1 936	2 049	(45)	(109)	1 891	1 940
Taxes losses carried forward	170 192	179 431	-	-	170 192	179 431
Net deferred tax assets/ (liabilities)	461 484	476 766	(1 216)	(10 766)	460 268	466 000

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of Banco Montepio was held, approving the admission to the special regime applicable to deferred tax assets, approved by Law No. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in annual accounts for the last tax period prior to that date and to the part of the expenditure and related negative equity changes. In accordance with Law No. 23/2016, of 19 August, this special regime is not applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor it is to related deferred tax assets.

Law No. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. negative net result in individual annual accounts or in settlement accounts by voluntary winding-up, insolvency decided by law or authorisation withdrawal), there will be a conversion into tax credits of deferred tax assets that resulted from the non deduction of expenses and deductions of assets resulting from credit impairment losses and post-employment benefits or long-term employee benefits. In such case, a special reserve corresponding to 110% of its amount shall be established, requiring the simultaneous conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State in the same amount. Tax credits may be offset against tax debts of the beneficiaries (or from an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law No. 61/2014, of 26 August, is not dependent on future profits.

The aforementioned legal framework was densified by Ordinance No. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance No. 293-A / 2016, of 18 November, determining the conditions and procedures for the acquisition of those State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after that date and the issuing bank shall deposit on the State's behalf the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be recovered when and to the extent that the State rights are acquired by the shareholders, or exercised by the State.

Deferred taxes are calculated using tax rates that are expected to be in force on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the balance sheet date.

The balance Benefits to employees includes, on 31 December 2018, the amount of Euro 8,230 thousand (31 December 2017: Euro 10,793 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. As at 31 December 2018, this balance also includes the amount of Euro 5,659 thousand (31 December 2017: Euro 3,235 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the General Social Security System.

The negative equity variation due to the change in the accounting policy performed in 2011 is deductible for tax purposes in equal parts, for a 10-year period starting on 1 January 2012. The expense generated with the transfer of liabilities with pensioners to the General Social Security System is deductible for tax purposes in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of pensioners whose responsibilities were transferred (20 years in the Group's case).

As at 31 December 2018, deferred taxes associated with Employee benefits include the amount of Euro 21,853 thousand (31 December 2017: 13,781 thousand) related with employee benefits in excess when compared with the existing limits.

As at 31 December 2018, and due to (i) tax rates effective after 1 January 2018 and ii) the expectation underlying the conversion into costs and tax-deductible profits and the estimation of tax profit or tax losses in each one of the subsequent periods, the Group changed the rate (base rate and surcharges) used for calculating deferred taxes, from 30% and 21% to 30.5% and 21%, respectively, depending on specific cases associated with temporary differences or tax losses carried forward.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to losses carried forward are recognised only if the existence of future taxable profits is probable. The uncertainty of the recoverability of the tax losses carried forward is considered in the deferred tax assets calculation.

As referred in the accounting policy described in note 1 w) and in accordance with the requirements set in IAS 12, the deferred tax assets recognised in the Group's financial statements have an underlying high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared on the 2018 budget, assuming a pre-tax income growth assumption between 2019 and 2026.

Thus, the recoverability of deferred tax assets, namely related to tax losses carried forward, is supported in the Group's forecasted financial statements, prepared under the aforementioned budget, which considered the macroeconomic and competitive environment where the Group operates as well as the strategic priorities established in the Strategic Plan for the period 2018-2023.

The recovery of profitability, liquidity and capital levels recommended in the Transformation Plan for the period 2019-2023 is fundamentally supported by favorable impacts related to:

(i) Evolution of the commercial network business, which incorporates the ambition to increase in credit and deposit portfolios. The projected growth in the performing portfolio of loans to customers is based, for private companies, on mortgage loans and consumer loans, and, as far as companies are concerned, on the favorable performance of Banco de Empresas Montepio, by offering an integrated value proposal. The increase in the deposit portfolio translates the objective of strengthening customer deposits as the main source of financing for the activity, through the gradual reduction of the cost of deposits, namely through the mix between demand and term deposits. Thus, the strategy outlined reflects a favorable effect on the level of net interest income, as well as on commissions, the latter showing the impacts of a continued management of the price list by adjusting it to the Montepio's value proposal for each segment, being defined in line with its life cycle and financial profile, as well as with the growth of the first bank's share, leading to the progressive increase of the customer base with greater transactionality and enforceability.

(ii) De-leveraging of non-strategic assets, either through the sustained decline of non-performing credit, based on the improvement of credit recovery processes and the sale of portfolios, or through the reduction of real estate for trading, reflecting the maintenance of an adequate pace of sales provided by the favorable sectorial framework of the real estate activity and by the stabilization of real estate inflows associated with the improvement of the credit recovery processes through payment in kind.

(iii) Improvement in efficiency and in cost-to-income ratio supported by the growth in banking income, associated to the increase in business volume, and the strengthening of operating costs control, based on the implementation of a set of measures aimed at rationalization of expenditure.

Following this assessment, and as at 31 December 2018 and 2017, the Group recognised all deferred tax assets, thus, there are no deferred tax assets to be recognised.

In addition, a sensitivity analysis was carried out considering a scenario in which profit and loss before tax evolved at a 10% rate lower than those considered in the aforementioned projections, and no impact on deferred taxes was determined.

The expiry date of recognised tax losses carried forward is presented as follows:

(Thbousands of Euro)

Expiry Date	2018	2017
2022	36 333	4 751
2027	128 306	51 639
2028	5 553	123 041
	170 192	179 431

Tax recognised in the income statement and reserves during the years of 2018 and 2017 is analysed as follows:

(Thousands of Euro)

	2018		2017	
	Charged to net income/ (loss)	Charged to reserves and retained earnings	Charged to net income/ (loss)	Charged to reserves and retained earnings
Financial instruments	(8 050)	11 843	-	(18 829)
Provisions / Impairment	(68 828)	55 657	(38 102)	-
Employee benefits	10 068	3 885	(1 104)	(2 365)
Other	(50)	-	(41)	-
Tax losses carried forward	21 069	(30 308)	3 356	1 369
Deferred taxes/ recognised as profit/ (losses)	(45 791)	41 077	(35 891)	(19 825)
Current taxes	963	(7 123)	(6 470)	-
	(44 828)	33 954	(42 361)	(19 825)

The reconciliation of the effective tax rate is analysed as follows:

(Thousands of Euro)

	2018		2017	
	%	Value	%	Value
Profit before income tax		24 489		46 062
Income tax based on the current nominal tax rate	(29,5)	(7 224)	(29,5)	(13 588)
Tax gains and losses	(12,3)	(3 023)	-	-
Equity contribution for the banking sector	(9,2)	(2 255)	(8,1)	(3 749)
Post-employement benefits and Pension Fund	(6,0)	(1 463)	1,7	801
Tax benefits	(0,0)	(4)	(0,1)	(51)
Taxable priovisions / impairment	(83,3)	(20 406)	-	-
Autonomous taxation	(3,2)	(777)	(2,6)	(1 179)
Other	17,7	4 338	(7,9)	(3 640)
Deferred taxes previously not recognised	-	-	-	(111)
Corrections to previous periods	(14,4)	(3 515)	-	811
Effect of differences in income tax for the period	25,7	6 287	-	4 316
Deductions / (Accruals) for taxable profit purposes (*)	(68,5)	(16 786)	(56,4)	(25 971)
Income tax for the period	(183,1)	(44 828)	(92,0)	(42 361)

*Corresponds to the losses established by investment funds included in the perimeter and other consolidation adjustments.

The Tax Authority may review Banco Montepio's taxable income during a period of four years, except in the case of tax losses carried forward, as well as any other deduction or tax credit, in which the period is the period of exercise of that right.

Banco Montepio was object of a Tax Authority's inspection up to and including the 2015 period.

In 2018, Banco Montepio became the dominant company of the Tax Group subject to corporate income tax under the Regime for Taxation of Group Companies (RETGS), whose former dominant company was Montepio Holding, S.G.P.S., S.A.

In this context, the Group considers that the effects for the calculation of the taxable income according to RETGS are reflected in the calculation of the current tax of the period of each entity, including the effect in the calculation of the current tax of the period for using tax loss generated by another entity of the Group.

34 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Other debtors	87 799	90 072
Other amounts receivable	4 162	3 563
Recoverable grants receivable from the Portuguese Government	4 907	4 991
Deferred costs	3 759	1 454
Sundry debtors	15 912	127 882
	116 539	227 962
Impairment for other assets	(32 109)	(35 689)
	84 430	192 273

As at 31 December 2018 and 2017, the balance Other debtors is analysed as follows:

(Thousands of Euro)

	2018	2017
SilverEquation	29 909	29 909
Supplementary capital contributions	14 910	14 910
Public entities	6 429	6 667
Other	36 551	38 586
	87 799	90 072

The balance Supplementary capital contributions includes the value of supplementary capital contributions subscribed within a sale of credits operation in the amount of Euro 14,910 thousand, which are fully provided.

As at 31 December 2017, the balance Public Entities includes the amounts related to receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

The balance Recoverable grants receivable from the Portuguese Government corresponds to recoverable grants referring to mortgage and PME’s loans, in accordance with the legal provisions applicable to low-interest loan. These amounts do not bear interest and are claimed monthly.

As at 31 December 2018 and 2017, the balance Recoverable grants receivable from the Portuguese Government are presented as follows:

(Thousands of Euro)	2018	2017
Overdue grants unclaimed	3 278	3 224
Unsettled recoverable grants from the Portuguese Government	1 516	1 631
Unclaimed grants	113	136
	4 907	4 991

As at 31 December 2018, the balance Sundry debtors includes the amount of Euro 106,182 thousand related to outstanding securities transactions.

The movements in Impairment for other assets are analysed as follows:

(Thousands of Euro)	2018	2017
Balance on 1 January	35 689	37 848
IFRS 9 transition adjustment	4 498	-
Charge for the period	10 312	9 381
Reversal for the period	(3 033)	(6 727)
Charge-off	(7 762)	(4 813)
Change in the consolidation perimeter	(7 595)	-
Balance on 31 December	32 109	35 689

35 Deposits from central banks

As at 31 December 2018 and 2017, this balance includes deposits obtained in the European System of Central Banks, which are pledged by securities from the portfolio of financial assets at fair value through other comprehensive income and the portfolio of other financial assets at amortised cost, as described in notes 25 and 27.

As at 31 December 2018 and 2017, the analysis of Deposits from central banks by maturity is as follows:

(Thousands of Euro)	2018	2017
Over 6 months	1 395 320	1 557 840
	1 395 320	1 557 840

The operations are remunerated at the rates of Bank of Portugal in force at the contract date.

36 Deposits from other credit institutions

This balance is analysed as follows:

(Thousands of Euro)

	2018			2017		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	4 383	-	4 383	4 480	-	4 480
Term deposits	-	836	836	-	7 995	7 995
OIC loans	-	8	8	-	8	8
Other deposits	-	2	2	1	-	1
	4 383	846	5 229	4 481	8 003	12 484
Deposits from credit institutions abroad						
BEI loan	-	350 407	350 407	-	460 433	460 433
Deposits repayable on demand	10 073	-	10 073	19 679	-	19 679
Term deposits	-	7 839	7 839	-	4 270	4 270
Sales operations with repurchase agreement	-	850 317	850 317	-	1 275 552	1 275 552
CSA's		-	-	50	-	50
Repos collaterals	-	17 499	17 499	-	13 405	13 405
Other deposits	4 071	-	4 071	844	-	844
	14 144	1 226 062	1 240 206	20 573	1 753 660	1 774 233
	18 527	1 226 908	1 245 435	25 054	1 761 663	1 786 717

The balance Deposits from other credit institutions, analysed by maturity, is as follows:

(Thousands of Euro)

	2018	2017
Below 3 months	111 910	142 919
3 to 6 months	121 679	65 982
6 months to 1 year	661 440	415 169
1 to 5 years	350 406	891 708
Above 5 years	-	270 939
	1 245 435	1 786 717

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA has, on 31 December 2017, the amount of Euro 50 thousand of deposits from other credit institutions received as collateral for these operations, according to note 21.

The funds obtained under CSA with international financial institutions, are remunerated at EONIA rate. However, because these rates have shown negative values, these funds have not been remunerated.

The amount of the EIB loan is collateralised by Portuguese, Spanish and Italian states securities in the amount of Euro 405,211 thousand (31 December 2017: Euro 517,939 thousand), recorded in the balance Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost, as described in notes 23, 25 and 27, respectively.

The balance Repos refers to the Margin Maintenance of the Repos in accordance with the Global Master Repurchase Agreement.

37 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	2018			2017		
	Non-interest bearing	Interest-bearing	Total	Non-interest bearing	Interest-bearing	Total
Deposits repayable on demand	3 576 334	398 347	3 974 681	3 207 994	277 437	3 485 431
Term deposits	-	8 457 777	8 457 777	-	8 539 258	8 539 258
Saving accounts	-	118 918	118 918	-	113 044	113 044
Other deposits	23 837	-	23 837	23 274	400 000	423 274
Adjustments arising from fair value option operations	11	-	11	33	-	33
	3 600 182	8 975 042	12 575 224	3 231 301	9 329 739	12 561 040

In the terms of Ordinance no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined by Regulation 11/94 of the Bank of Portugal, of 29 December.

As at 31 December 2018, the caption Term deposits includes deposits at fair value through profit and loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand (31 December 2017: Euro 14,789 thousand). Thus, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 c), having been recognised a loss, at 31 December 2018, in the amount of Euro 22 thousand (31 December 2017: Euro 21 thousand) related to fair-value variations.

The balance Deposits from customers, analysed by maturity, is as follows:

(Thousands of Euro)

	2018	2017
Deposits repayable on demand	3 974 681	3 485 431
Term deposits and saving accounts		
Below 3 months	733 173	808 442
3 to 6 months	2 965 784	3 514 898
6 months to 1 year	1 843 723	2 287 697
1 to 5 years	2 982 672	1 989 784
Above 5 years	51 343	51 481
	12 551 376	12 137 733
Other deposits		
Below 3 months	23 837	423 274
	12 575 213	12 561 007
Adjustments arising from fair value option operations	11	33
	12 575 224	12 561 040

As at 31 December 2018, Deposits from customers were remunerated at the average rate of 0.45% (31 December 2017: 0.70%).

38 Debt securities issued

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Cash bonds	124 719	375 300
Covered bonds	753 612	746 238
Securitisations	215 603	422 516
	1 093 934	1 544 054

The fair value of the debt securities issued is presented in note 49.

The balance Debt securities issued includes issues at fair value through profit or loss, in the amount of Euro 6,776 thousand (31 December 2017: Euro 7,904 thousand), measured in accordance with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the evaluation sources, as referred in IFRS 13, these instruments are classified in Level 2.

As at 31 December 2018 and 2017, the analysis of Debt securities issued outstanding by maturity is as follows:

(Thousands of Euro)

	2018	2017
Below 6 months	97 172	174 237
6 months to 1 year	21 701	80 578
1 to 5 years	754 818	868 525
Above 5 years	215 603	422 516
	1 089 294	1 545 856
Adjustments arising from hedging operations	4 640	(1 802)
	1 093 934	1 544 054

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, the Group issued a total of Euro 2,300,000 thousand at nominal value.

As at 31 December 2018, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 141	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 6S	300 000	300 209	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 8S	500 000	500 115	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/AA-/A
Covered bonds - 9S	250 000	250 145	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A3/AA-/A
Covered bonds - 10S	750 000	753 612	Ocotber 2017	October 2022	Annual	Fixed at 0.875%	A3/AA-/A
	2 300 000	2 304 222					

As at 31 December 2017, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 132	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 6S	300 000	300 204	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 8S	500 000	500 103	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/A+/A
Covered bonds - 9S	250 000	250 148	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A3/A+/A
Covered bonds - 10S	750 000	746 238	October 2017	October 2022	Annual	Fixed at 0.875%	A3/A+/A
	2 300 000	2 296 825					

The covered bonds are guaranteed by cover pool assets, comprised of mortgage loans which are segregated as an autonomous asset in the Group's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these obligations is set out in Decree-Law no. 59/2006, Regulations no. 5/2006, of 20 June, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October, of Bank of Portugal and Instruction no.13/2006, of 15 November, of Bank of Portugal.

As at 31 December 2018, the amount of credits that collateralise these issues amounted to Euro 2,728,028 thousand (31 December 2017: EUR 2,726,854 thousand), according with note 22.

The movements in Debt securities issued in the period ended 31 December 2018 are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
Cash bonds	375 300	-	(242 669)	-	(7 912)	124 719
Covered bonds	746 238	-	-	-	7 374	753 612
Securitisations	422 516	-	(188 372)	(18 541)	-	215 603
	1 544 054	-	(431 041)	(18 541)	(538)	1 093 934

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variation.

The movements in Debt securities issued in the period ended 31 December 2017 are analysed as follows:

Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements[(a)]	Balance on 31 December
Cash bonds	1 040 534	-	(265 185)	(384 350)	(15 699)	375 300
Covered bonds	265 028	750 000	(265 000)	-	(3 790)	746 238
Securitisations	574 560	154 055	(306 099)	-	-	422 516
Euro Medium Term Notes (EMTN)	39 913	-	(39 750)	-	(163)	-
	1 920 035	904 055	(876 034)	(384 350)	(19 652)	1 544 054

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variation.

In 2017, under the Covered Bond Programm of Banco Montepio, the Group issued an amount of Euro 750.000 thousand at 5 years and an interest rate of 0.875% and reimbursed an amount of Euro 265.000 thousand.

In accordance with the account policy described in note 1 d), the purchase of debt securities issued by the Group is withdrawn from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

As at 31 December 2018, Debt securities issued bear postponed and anticipated interest at an effective interest rate ranging between 0.00% and 8.3% (31 December 2017: 0.00% and 7.48%).

As at 31 December 2018, the balance Debt securities issued includes the following issues:

(Thousands of Euro)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGAÇÕES CAIXA-MG TAXA FIXA SETEMBRO 2010-2020	09-09-2010	09-09-2020	Annual fixed rate of 4%	100
OBRIGAÇÕES CAIXA-CRPC-2012-2020-1.SERIE	30-03-2012	31-03-2020	Annual fixed rate of 5.25% (4th year: 6% and 5th year: 6.75%; 6th, 7th and 8th coupon Max[6.25% and Min (IPC+2%;9.15%)]	3 300
OBRIGAÇÕES CAIXA-MONTEPIO CAPITAL CERTO 2012-2020-2ªSERIE	31-05-2012	01-06-2020	Annual fixed rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% and 8th year: 11.1583%)	600
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2021-1.SERIE	28-02-2013	01-03-2021	Annual fixed rate: 5.15% (3rd year rate: 5.30%; 4th year rate: 5.30%; 5th year Rate: 5.90%; 6th coupon Max[5.95%; Min (IPC+2%;8.25%)];7th coupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th coupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2021-2.SERIE	28-06-2013	29-06-2021	Annual fixed rate of 4.9% (3rd year rate: 5.1%, 4th year rate: 5.1%, 5th year rate: 5.65% and 6th to 8th rate: Max(5.95%;Min(IPC+2%;8.15%))	812
MONTEPIO CAPITAL CERTO 2014/2019 1S	31-01-2014	01-02-2019	Annual fixed rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	27 400
MONTEPIO CAPITAL CERTO 2014/2019 2S	28-02-2014	01-03-2019	Annual fixed rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	33 050
CEMG CAP CERTO 2014/2019 3 SERIE	28-03-2014	29-03-2019	Annual fixed rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	33 400
CEMG CAP CERTO 2014/2019 9S	30-09-2014	01-10-2019	Annual fixed rate of 2.75% (3rd year rate: 3.00%, 4th year rate: 3.10%, 5th year rate: 3.35%)	17 900
MONTEPIO CAP CERTO 2014/2029 12S	02-01-2015	31-12-2019	Annual fixed rate of 2.90% (2nd to 4th year rate: 2.95%, 5th year rate: 3.25%)	2 250
OBRIGAÇÕES HIPOTECÁRIAS - 10S	17-11-2017	17-11-2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30-03-2007	15-09-2054	Euribor 3M + 0.13%	61 343
AQUA FINANCE n.º 4 A	11-07-2017	23-06-2035	Euribor 3M + 1.05%	139 343
AQUA FINANCE n.º 4 B	11-07-2017	23-06-2035	Euribor 3M + 2.65%	14 917
			Debt securities issued	1 086 563
			Amounts corrected by hedge operations	4 640
			Accruals, expenses and deferred income	2 731
				1 093 934

39 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Provisions for guarantess and commitments	14 438	16 147
Provisions for other risks and charges	16 642	10 949
	31 080	27 096

The movements in provisions for guarantees and commitments assumed in 2018 and 2017 are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	16 147	13 857
IFRS 9 transition adjustment	944	-
Charge for the period		
Continuing operations	11 343	16 558
Discontinuing operations	287	961
Write-back for the period		
Continuing operations	(13 156)	(14 268)
Discontinuing operations	(368)	(834)
Transfers related to discontinuing operations	(759)	(127)
Balance on 31 December	14 438	16 147

The movements in provisions for other risk and charges are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	10 949	7 963
Charge for the period		
Continuing operations	11 135	10 193
Discontinuing operations	138	1
Write-back for the period		
Continuing operations	(5 088)	(2 160)
Discontinuing operations	-	(142)
Charge-off	(354)	(5 047)
Transfers related to discontinuing operations	(138)	141
Balance on 31 December	16 642	10 949

These provisions are accounted in accordance with the probability of occurrence of certain contingencies related with the Group's activity and are revised in each reporting date in order to reflect the loss best estimate of the amount.

40 Other subordinated debt

As at 31 December 2018, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Book value
MONTEPIO EMTN SUB 2018/2028	Dec 2018	Dec 2028	50 000	8.0% the first 5 years and at EurSwap Rate of 5y + 7.77% for the remaining years	50 044
					50 044

As at 31 December 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 321
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 169
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 200
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 503
					236 193

(i) - Remuneration paid on a half-yearly basis

Coupon	Interest rate/ range
1st coupon	6.50% (annual rate)
Between the 2nd and the 10th coupon	Euribor 6M + 1.50% (annual rate)
Between the 11th and subsequent	Euribor 6M + 1.75% (annual rate)

As at 31 December 2018 and 2017, the movement under Other subordinated debt was as follows:

(Thousands of Euro)

	Balance on 1 January 2018	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December 2018
CEMG/08 1st series	111 321	-	(110 848)	(473)	-
CEMG/08 2nd series	113 169	-	(112 556)	(613)	-
CEMG/08 3rd series	4 200	-	(4 168)	(32)	-
FNB 08/18 1st/2nd series	7 503	-	(7 500)	(3)	-
MONTEPIO EMTN SUB 2018/2028	-	50 000	-	44	50 044
	236 193	50 000	(235 072)	(1 077)	50 044

(a) Includes the accrued interest on the balance sheet.

(Thousands of Euro)

	Balance on 1 January 2017	Reimbursements	Net purchass	Other movements (a)	Balance on 31 December 2017
CEMG/08 1st series	111 348	-	-	(27)	111 321
CEMG/08 2nd series	113 216	-	-	(47)	113 169
CEMG/08 3rd series	4 202	-	-	(2)	4 200
FNB 08/18 1st/2nd Series	7 504	-	-	(1)	7 503
Ob. Cx Subordinadas Finicrédito	15 814	(15 814)	-	-	-
	252 084	(15 814)	-	(77)	236 193

(a) Includes the accrued interest on the balance sheet.

On 31 December 2018, under the Euro Medium Term Note Program (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 50,000 thousand, with a 10-year maturity term, at rate of 8.0% in the first five years and a call option at par in the 5th year. During 2018, Banco Montepio repayed Euro 235,072 thousand.

41 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Domestic and foreign operations pending settlement	96 696	200 666
Charges with staff expenses	23 546	22 999
Other expenses	14 159	18 506
Administrative public sector	11 168	11 239
Suppliers	7 556	9 760
Deferred income	1 603	4 975
Other sundry liabilities	50 178	102 575
	204 906	370 720

As at 31 December 2018, the balance Charges with staff expenses includes the amount of Euro 19,869 thousand (31 December 2017: Euro 20,188 thousand), related to holidays and holiday subsidies. Additionally, as at 31 December 2018, this balance also includes the amount of Euro 1,152 thousand (31 December 2017: Euro 479 thousand) related to seniority bonus.

42 Share capital

Banco Montepio's share capital, which is fully paid, amounts to Euro 2,420,000 thousand.

In December 2018, MGAM sold 158,920 shares of Banco Montepio's share capital, being divided as follows:

	2018	
	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 841 080	99,9934%
Other shareholders	158 920	0,0066%
	2 420 000 000	100,0%

As at 14 September 2017, CEMG was transformed into a public limited company with CEMG's Participation Fund, in the amount of Euro 400,000 thousand, becoming extinct, by conversion into share capital and its mutual funds were converted into common shares.

At 30 June 2017, the Group performed a capital increase subscribed by Montepio Geral Associação Mutualista, in accordance with the statutory resolutions of MGAM General Meeting, the General and Supervisory Council and the Board of Directors of CEMG.

The referred capital increase was materialised by MGAM, fully paid-up in cash, through the realization of institutional capital in the amount of Euro 250,000 thousand.

43 Other equity instruments

This caption includes the issuance of Euro 15,000 thousand occurred in the first quarter of 2010 of Perpetual Subordinated Securities Interest conditioners made by Montepio Investimento, S.A. (previously designated as Finibanco, S.A.), and in connection with the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated as Finibanco Holding, S.G.P.S., S.A.), and its subsidiaries, was integrated in CEMG equity, as described in note 1 a).

In case of purchase of subordinated perpetual securities, these are cancelled from equity and the difference between the purchase value and its book value is recognised in equity.

As at 31 December 2018 and 2017, the Group repurchased perpetual subordinated instruments in the amount of Euro 8,677 thousand. With this operation, the balance Other equity instruments amounted to Euro 6,323 thousand.

Payment

Banco Montepio is prevented from proceeding to the interest payment if, in the Board of Directors' or Bank of Portugal's opinion, this payment endanger compliance with the Regulatory equity requirements regulation.

During 2018, the Group proceeded to the interest payment for this emission in the amount of Euro 332 thousand (31 December 2017: Euro 318 thousand).

Reimbursement

These values are perpetual securities and are only refundable under the terms of early repayment provided below.

By agreement of Bank of Portugal, the issuer may reimburse, in whole or in part, from the 10th date of payment of interest, including (5th year).

As at 31 December 2018 and 2017, these securities are considered as a positive element of Own Funds (Tier 2) of Banco Montepio, complying with the requirements of Regulation No. 575/2013 of the European Union.

44 Legal reserve

In accordance with Article No. 97º of Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), approved by the Decree-Law No. 298/92, of 31 December, and amended by the Decree-Law No. 201/2002, CEMG should reinforce annualy the legal reserve with, at least, 10% of annual net profits, until to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher. This reserve can not, normally, be distributed.

The variation of the legal reserve is analysed in note 45.

45 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Fair value reserves		
Fair value reserve		
Financial assets at fair value		
through other comprehensive income		
Debt instruments	(6 059)	(976)
Equity instruments	(13 204)	33 324
Loans and advances to customers	1 491	2 146
Own credit risk	145	-
	(17 627)	34 494
Taxes		
Financial assets at fair value		
through other comprehensive income	(628)	(5 937)
Loans and advances to customers	(455)	(633)
	(1 083)	(6 570)
Fair value reserve net of taxes	(18 710)	27 924
Other reserves and retained earnings		
Legal reserve	191 767	186 000
Consolidation exachange reserves	(66 761)	(29 049)
Other reserves and retained earnings	(1023 749)	(887 549)
	(898 743)	(730 598)

Fair value reserves regarding financial assets at fair value through other comprehensive income represent the potential gains and losses on the portfolio of financial assets at fair value through other comprehensive income.

The balance Loans and advances to customers refers to the amount, of the fair value reserve, regarding the credit portfolio reclassified from Financial assets at fair value through other comprehensive income to Loans and advances to customers.

The balance Other reserves and retained earnings includes the impact of Euro 118,434 thousand related to the IFRS 9 transition adjustment, according to note 59. This caption also includes the negative value of Euro 37 thousand related to realised gains on financial assets recorded at fair value through other comprehensive income.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during 2018, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	IFRS 9 adjustment	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities							
Bonds issued by Portuguese public entities	1 332	1 849	(1 837)	-	(455)	(26)	863
Bonds issued by foreign public entities	(4 074)	2 684	(5 311)	(537)	2 662	(433)	(5 009)
Bonds issued by other entities:							
Domestic	1 161	(1 666)	(3 492)	(95)	(34)	2 797	(1 329)
Foreign	605	49	(589)	(533)	(58)	(58)	(584)
	(976)	2 916	(11 229)	(1 165)	2 115	2 280	(6 059)
Variable income securities							
Shares							
Domestic	10 487	-	(9 476)	1 088	-	-	2 099
Foreign	2 609	-	(17 883)	-	(29)	-	(15 303)
	13 096	-	(27 359)	1 088	(29)	-	(13 204)
	12 120	2 916	(38 588)	(77)	2 086	2 280	(19 263)

As part of the IFRS 9 adoption, the Group's investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 24 and 25.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised for the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	(59 940)	1 042	455	59 775	-	1 332
Bonds issued by foreign public entities	(7 210)	1 029	(3 834)	5 941	-	(4 074)
Bonds issued by other entities:						
Domestic	469	661	27	4	-	1 161
Foreign	973	(27 439)	275	(845)	27 641	605
	(65 708)	(24 707)	(3 077)	64 875	27 641	(976)
Variable income securities						
Shares						
Domestic	8 189	2 298	-	-	-	10 487
Foreign	14 722	(12 005)	48	(185)	29	2 609
Investment units	21 201	9 098	24	(1 775)	(8 320)	20 228
	44 112	(609)	72	(1 960)	(8 291)	33 324
	(21 596)	(25 316)	(3 005)	62 915	19 350	32 348

Fair value reserves on financial assets at fair value through other comprehensive income, are detailed as follows:

	(Thousands of Euro)	
	2018	**2017**
Amortised cost of financial assets at fair value through other comprehensive income	464 007	2 247 471
Recognised accumulated impairment	(671)	(78 926)
Amortised cost of financial assets at fair value through other comprehensive income net of impairment	463 336	2 168 545
Market value of financial assets at fair value through other comprehensive income	444 073	2 200 893
Potential realised gains/ (Losses) recognised in the fair value reserve	(19 263)	32 348

46 Distribution of profits

As at 31 December 2018 and 2017, Banco Montepio did not distributed profits.

47 Non-controlling interests

This balance is analysed as follows:

				(Thousands of Euro)
	Balance Sheet		**Income Statement**	
	2018	**2017**	**2018**	**2017**
Finibanco Angola, S.A.	15 551	20 955	3 560	1 327
Banco Terra, S.A.	-	11 880	(255)	49
	15 551	32 835	3 305	1 376

The movements of this balance are analysed as follows:

(Thousands of Euro)

	2018	2017
Opening balance	32 835	23 201
IFRS 9 transition adjustment	(150)	-
Foreign exchange differences	(11 462)	687
Other reserves	1 258	-
Dividends	(1 123)	(1 202)
Impact of the IAS 29 adoption	1 970	8 580
Change in the consolidation perimeter	(11 082)	193
	12 246	31 459
Net income attributable to non-controlling interests	3 305	1 376
	15 551	32 835

			Percentage held by non-controlling interests	
Name	**Head office**	**Segment**	**2018**	**2017**
Finibanco Angola, S.A.	Luanda	Banking	19.78%	18.63%
Banco Terra, S.A.	Maputo	Banking	-	54.22%

The summary of the financial information for the Institutions mentioned above, prepared in accordance with the IFRS, is disclosed in note 62.

In accordance with IFRS 5, these entities are classified as to be discontinued.

48 Guarantees and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Guarantees granted	464 929	500 063
Commitments to third parties	1 238 676	1 287 516
Deposit and custody of securities	7 353 294	8 439 037
	9 056 899	10 226 616

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

(Thousands of Euro)

	2018	2017
Garantees granted		
Guarantees	411 783	444 564
Documentary credits	53 146	55 499
	464 929	500 063
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	553 073	609 515
Securities subscription	12 280	-
Term liability to the Guarantee Deposits Fund	22 768	22 768
Potential liability with the Investor's Indemnity System	1 533	1 499
Revocable commitments		
Revocable credit facilities	649 022	653 734
	1 238 676	1 287 516

Bank guarantees granted are financial operations that do not necessarily result into mobilisation on Funds by the Group.

The balances Guarantees granted and Commitments to third parties - Irrevocable commitments – irrevocable credit facilities include the amount of Euro 38,087 thousand (31 December 2017: Euro 53,008 thousand) regarding Finibanco Angola, S.A. and Banco Terra, S.A., both entities classified as discontinued, as described in note 62.

Documentary credits correspond to irrevocable commitments on behalf of the Group's customer, which ensure the payment of a determined amount to the customer's suppliers, within a fixed term, against the presentation of the documentation confirming the shipment of goods or the rendering of services. The irrevocable condition arises from the fact that the commitment is not cancellable without the agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the Group's customers (for example unused credit facilities). These agreements are generally, contracted for fixed periods of time or with other expiring requirements, and usually require the payment of a commission. Substantially, all credit commitments require that customers maintain certain conditions verified at the time the credit was granted.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying customer and business, being that the Group requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having been used, the indicated amounts do not represent necessarily future cash flow needs.

As at 31 December 2018 and 2017, the balance Term liability to the the Guarantee Deposits Fund is related with the irrevocable commitment assumed by the Group and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

As at 31 December 2018 and 2017, under the Deposit Guarantee Fund, the Group granted as pledge treasury bonds (OT 4.95% 25/10/2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 22,200 thousand (31 December 2017: Euro 23,500 thousand), as described in note 25.

As at 31 December 2018 and 2017, the balance Potential liability with the Investors' Indemnity System refers to the irrevocable obligation that the Group assumed, under the applicable law, to deliver to that system, in case needed, the required amount to pay its share of the indemnities to be paid to investors.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in note 1 c). The maximum credit exposure is represented by the nominal value that could be lost related to guarantees and commitments undertaken by the Group in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

49 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy of the Group.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution. Under these conditions, the values presented cannot be understood as an estimate of the economic value of the Group.

The main methods and assumptions used in estimating the fair value for the financial assets and liabilities are presented as follows:

- *Cash and deposits at central banks and Loans and advances to credit institutions repayable on demand*

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Deposits from central banks, Deposits from other credit institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated term. The rate of return of funding with the European Central Bank is negative by 0.4% for the operations negotiated at December 2018.

Regarding loans and advances not measured at fair value, the discount rate used reflects the current conditions applied by the Group on identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (rates from monetary market or from interest rate swap market, at the end of the period). In 2018, the average discount rate was 0.23% (31 December 2017: 0.36%) for Repos and 0.07% (31 December 2017: 0.30%) for the remaining deposits.

For Loans and advances to the other credit instituions investments a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term options was applied. Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives), Financial assets at fair value through other comprehensive income, Financial assets not held for trading mandatorily at fair value through profit or loss and Other financial Assets at fair value through profit or loss*

These financial instruments are accounted at fair value. Fair value is based on market prices (Bid-price), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

When optionality is involved, the standard models (Black-Scholes, Black, Ho and others) considering the volatility surfaces applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

- *Other financial assets at amortised cost*

  These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the respective market conditions and terms.

- *Hedging and trading derivatives*

  All derivatives are recorded at fair value.

  In case of those who are quoted in organised markets their market price is used. As for derivatives traded "over the counter", the numerical methods based on techniques of discounted cash flow and options valuation models, considering market variables namely the market interest rates applicable to the instruments concerned, and where necessary, their volatility, shall apply.

  Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

- *Loans and advances to customers without defined maturity date and Deposits from customers repayable on demand*

  Considering the short maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Loans and advances to customers with defined maturity date*

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans in default, the net impairment value of these operations is a reasonable estimate of its fair value, considering the economic valuation performed in the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity dates (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the reporting date, which was calculated from the average of production for the last quarter. The average discount rate was 2.88% for mortgage loans (31 December 2017: 3.06%), 6.27% for individual credit (31 December 2017: 6.32%) and 4.89% for the remaining loans (31 December 2017: 3.69%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

- *Deposits from customers*

  The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by the Group in identical instruments with a similar maturity. The discount rate includes the market rates of the residual maturity dates (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of the Group at the reporting date, which was calculated from the average production of the last quarter of 2018. The average discount rate at 31 December 2018 was of 0.36% (31 December 2017: 0.84%).

- *Debt securities issued and Other subordinated debt*

  For these financial instruments, fair value was calculated for the components that are not yet reflected on the balance sheet. For the fixed interest rate instruments for which the Group applies a hedge-accounting policy, the fair value regarding the interest rate risk is already accounted for.

  In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of the Group.

  As original reference, the Group applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

  In case of issues of covered bonds, the fair value is determined based on quotations disseminated by financial content provider Bloomberg.

  In respect of subordinated issues the discount rate was of 7.91% (31 December 2017: 3.99%). The average discount rate calculated for senior issues placed on the retail market was 0.47% (31 December 2017: 0.72%).

  The change in the discount rate for the subordinated issue reflects the issuance conditions for 2018 and 2017. It should be noted that the Group issued subordinated debt in 2018.

  Issues placed in the institutional market were revalued at the market value available on 31 December 2018 and 2017.

As at 31 December 2018, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	**United States Dollar**	**Serling Pound**	**Swiss Franc**	**Japanese Yen**
1 day	-0,37300	2,48000	0,75000	-0,83000	-0,08667
7 days	-0,37300	2,41588	0,75000	-0,83000	-0,08667
1 month	-0,36300	2,70000	0,89500	-0,63000	-0,40000
2 months	-0,33693	2,76000	0,97000	-0,79000	-0,35000
3 months	-0,30900	2,87000	0,97000	-0,75000	-0,38000
6 months	-0,23700	2,95000	1,06000	-0,64000	-0,33000
9 months	-0,17700	3,03000	1,14500	-0,66500	-0,20000
1 year	-0,11700	3,10000	1,24500	-0,57500	-0,23000
2 years	-0,17150	2,67700	1,14500	-0,57300	-0,02250
3 years	-0,06500	2,62600	1,21600	-0,46800	-0,02250
5 years	0,20100	2,63500	1,30700	-0,26500	-0,00880
7 years	0,46900	2,68100	1,36600	-0,01900	0,04000
10 years	0,81500	2,76600	1,44400	0,29300	0,14750
15 years	1,16900	2,85200	1,52600	0,61600	0,34000
20 years	1,34500	2,82400	1,52600	0,61600	0,34000
30 years	1,40500	2,81900	1,52600	0,61600	0,34000

As at 31 December 2017, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0,45000	1,50500	0,50000	-0,84500	-0,17000
7 days	-0,37800	1,48038	0,50000	-0,79500	-0,03376
1 month	-0,36800	1,65000	0,50500	-0,75000	-0,26000
2 months	-0,34000	1,69000	0,51000	-0,75000	-0,22000
3 months	-0,32900	1,76000	0,51000	-0,75000	-0,22000
6 months	-0,27100	1,91000	0,55000	-0,72000	-0,20000
9 months	-0,21700	2,02000	0,66000	-0,68000	-0,15000
1 year	-0,18600	2,18000	0,74000	-0,62000	-0,15000
2 years	-0,15000	2,07700	0,78600	-0,48200	0,01750
3 years	0,01100	2,16800	0,88700	-0,35400	0,03500
5 years	0,31300	2,25600	1,03700	-0,13900	0,09000
7 years	0,56100	2,32100	1,14600	0,03800	0,16250
10 years	0,88000	2,40500	1,27700	0,27100	0,29750
15 years	1,24400	2,49600	1,41000	0,53800	0,52500
20 years	1,41880	2,53130	1,41000	0,53800	0,52500
30 years	1,50130	2,53880	1,41000	0,53800	0,52500

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the Money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2018**	**2017**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1450	1.1993	7.418	7.450	7.600	7.725	7.800
EUR/GBP	0.8945	0.8872	11.250	11.800	11.305	11.155	10.800
EUR/CHF	1.1269	1.1702	5.755	5.975	6.363	6.450	6.550
EUR/JPY	125.85	135.01	9.373	9.685	9.837	10.025	10.030

Concerning the exchange rates, the Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of the Group, at 31 December 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

	2018				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 610 635	1 610 635	1 610 635
Loans and advances to credit institutions repayable on demand	-	-	78 088	78 088	78 088
Other loans and advances to credit institutions	-	-	209 932	209 932	209 932
Loans and advances to customers	24 633	-	12 098 579	12 123 212	12 190 304
Financial assets held for trading	23 739	-	-	23 739	23 739
Financial assets not held for trading mandatorily at fair value through profit or loss	492 594	-	-	492 594	492 594
Financial assets at fair value through other comprehensive income	-	444 073	-	444 073	444 073
Hedging derivatives	5 666	-	-	5 666	5 666
Other financial assets at amortised cost	-	-	1 255 651	1 255 651	1 267 168
	546 632	444 073	15 252 885	16 243 590	16 322 199
Financial liabilities					
Deposits from central banks	-	-	1 395 320	1 395 320	1 395 320
Deposits from other credit insitutions	-	-	1 245 435	1 245 435	1 234 760
Deposits from customers	14 597	-	12 560 627	12 575 224	12 579 361
Debt securities issued	6 776	-	1 087 158	1 093 934	1 090 942
Financial liabilities held for trading	13 496	-	-	13 496	13 496
Other subordinated debt	-	-	50 044	50 044	50 342
	34 869	-	16 338 584	16 373 453	16 364 221

(Thousands of Euro)

	Dec 2017				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 733 628	1 733 628	1 733 628
Loans and advances to credit institutions repayable on demand	-	-	50 205	50 205	50 205
Other loans and advances to credit institutions	-	-	312 203	312 203	310 088
Loans and advances to customers	24 633	-	13 004 685	13 029 318	12 954 403
Financial assets held for trading	184 076	-	-	184 076	184 076
Financial assets at fair value through other comprehensive income	-	2 200 893	-	2 200 893	2 200 893
	208 709	2 200 893	15 100 721	17 510 323	17 433 293
Financial liabilities					
Deposits from central banks	-	-	1 557 840	1 557 840	1 557 840
Deposits from other credit institutions	-	-	1 786 717	1 786 717	1 788 676
Deposits from customers	14 789	-	12 546 251	12 561 040	12 570 211
Debt securities issued	7 094	-	1 536 960	1 544 054	1 553 288
Financial liabilities held for trading	16 171	-	-	16 171	16 171
Hedging derivatives	1 663	-	-	1 663	1 663
Other subordinated debt	-	-	236 193	236 193	234 006
	39 717	-	17 663 961	17 703 678	17 721 855

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2018:

(Thousands of Euro)

	2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 610 635	-	-	-	1 610 635
Loans and advances to credit institutions repayable on demand	78 088	-	-	-	78 088
Other loans and advances to credit institutions	-	-	209 932	-	209 932
Loans and advances to customers	-	15 139	12 175 165	-	12 190 304
Financial assets held for trading	-	11 525	12 214	-	23 739
Financial assets not held for trading mandatorily at fair value through profit or loss	6 556	-	486 038	-	492 594
Financial assets at fair value through other comprehensive income	337 059	17 179	87 226	2 609	444 073
Hedging derivatives	-	5 666	-	-	5 666
Other financial assets at amortised cost	1 267 168	-	-	-	1 267 168
	3 299 506	49 509	12 970 575	2 609	16 322 199
Financial liabilities					
Deposits from central banks	1 395 320	-	-	-	1 395 320
Deposits from other credit insitutions	-	-	1 234 760	-	1 234 760
Deposits from customers	-	14 597	12 564 764	-	12 579 361
Debt securities issued	-	6 776	1 084 166	-	1 090 942
Financial liabilities held for trading	-	13 496	-	-	13 496
Other subordinated debt	-	-	50 342	-	50 342
	1 395 320	34 869	14 934 032	-	16 364 221

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2017:

(Thousands of Euro)

	2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 733 628	-	-	-	1 733 628
Loans and advances to credit institutions repayable on demand	50 205	-	-	-	50 205
Other loans and advances to credit institutions	-	-	310 088	-	310 088
Loans and advances to customers	-	24 633	12 929 770	-	12 954 403
Financial assets held for trading	38 194	24 553	121 329	-	184 076
Financial assets at fair value through other comprehensive income	1 618 616	43 306	533 744	5 227	2 200 893
	3 440 643	92 492	13 894 931	5 227	17 433 293
Financial liabilities					
Deposits from central banks	1 557 840	-	-	-	1 557 840
Deposits from other credit institutions	-	-	1 788 676	-	1 788 676
Deposits from customers	-	14 789	12 555 422	-	12 570 211
Debt securities issued	-	7 094	1 546 194	-	1 553 288
Financial liabilities held for trading	901	15 270	-	-	16 171
Hedging derivatives	-	1 663	-	-	1 663
Other subordinated debt	-	-	234 006	-	234 006
	1 558 741	38 816	16 124 298	-	17 721 855

The Group uses the following hierarchy for fair value with 3 levels in the evaluation of financial instruments (assets and liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters used in determining the fair value measurement of the instrument, as referred in IFRS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving identical instruments to the ones being valued. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the main market of the instrument, or most advantageous market for which there is access.
- Level 2: Fair value is determined based on evaluation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and evaluation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.
- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the evaluation technique used and inputs used and review processes to test the accuracy of the values obtained.

The Group considers an active market where transactions of particular financial instruments occur with frequency and business volumes sufficient for providing information over prices continuously. The following minimum conditions should verify:

- Existence of frequent daily prices trading in the last year;
- The above quotations are exchanged regularly; and
- There are executable quotes from more than one entity.

A parameter used in a valuation technique is considered observable in the market, if the following conditions are met:

- If its value is determined in an active market;
- Or, if there is an OTC market and it is reasonable to assume that the conditions of an active market are met, except for the condition of trading volumes; and
- Or, the parameter value can be obtained by the inverse calculation of prices of financial instruments or derivatives where the remaining parameters required for initial assessment are observable in a liquid market or an OTC market that comply with the preceding paragraphs.

50 Post-Employment and long-term employment benefits

The Group assumed the responsibility to pay to their employees' seniority and disability retirement pensions and others benefits, in accordance with the accounting policy described in note 1 v). In addition, and in accordance with the same policy, the Group calculates on an annual basis, as of 31 December of each year, pension liabilities and other benefits. Therefore, the amounts presented in this note only reflect current service cost.

The general pension plan for the employees refers to liabilities for retirement benefits provided for in the Collective Labour Agreement for the banking sector and is a complementary plan of the public social security scheme.

Under the Collective Labour Agreement ("ACT") for the banking sector, the employees hired after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria for determining the amount of pension that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and retribution.

The benefits provided by this pension plan are as follows:

- Retirement by presumable disability (old age);

- Retirement by disability;

- Survivor's pension.

All social benefits are granted to beneficiaries, according to the terms, conditions and values included in the pension plan, as employees of the Group at their retirement date, as well as those who have belonged to their effective board and on retirement meet all the requirements defined in the pension plan.

The pension provided by the fund corresponds to the employee level in reform and seniority, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund or the National Pensions Centre, the latter will be reduced to the pension guaranteed by this plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survivor's pension of 40% of the remuneration to which the employee would be entitled if achieved the situation of retirement or the pension he would receive, respectively.

The Group’s former employees, when placed in the old-age pension or disability status, are entitled to payment by the fund of a pension calculated in the previous terms, in proportion to the time of service provided to the Group.

Additionally, the pension plan guarantees the costs of Social-Medical Assistance Services (SAMS) and the death grant under the ACT.

The Group has no other mechanisms to ensure the coverage of liabilities assumed towards old-age pensions, disability, survivors, health benefits and death benefits of its employees.

In December 2016, the Group issued a new Collective Labor Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career premium which replaced the extinguished seniority award.

In addition to the change in the benefit plan, there were also a number of special temporary provisions which impact on the calculation of the current liabilities value, in particular the freezing of salary increases for 2016 and 2017 and the freeze on automatic career promotions. As a result of the amendment to the ACT, contributions to SAMS were made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the current value of liabilities are as follows:

	Assumptions	
	2018	2017
Financial assumptions		
Wage growth rate	1.00%	1.00%
Pensio growth rate	0.50%	0.50%
Rate of return of plan assets	2.25%	2.10%
Discount rate	2.25%	2.10%
Revaluation rate		
Wage growth rate - Social Security	1.50%	1.50%
Pension growth rate	1.00%	1.00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial valuation method	UCP	UCP

The assumptions used in calculating the present value of liabilities, in accordance with the requirements of IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices regarding high quality corporate brands and (ii) duration of the responsibilities.

As at 31 December 2018, the duration of liabilities amounts to 19.7 years (31 December 2017: 20.80 years).

The number of persons covered by the pension plan is as follows:

	2018	2017
Active	3 431	3 593
Retirees and survivors	1 315	1 249
	4 746	4 842

Based on the accounting policy described in note 1 v), post-employment benefits, other benefits and respective coverage levels are presented as follows:

	2018	2017
	(Thousands of Euro)	
Net assets / (liabilities) recognised in the balance sheet		
Liabilities with pension benefits		
Pensioners	(286 971)	(272 594)
Active	(396 395)	(409 406)
	(683 366)	(682 000)
Liabilities with healthcare benefits		
Pensioners	(21 684)	(20 354)
Active	(34 440)	(35 205)
	(56 124)	(55 559)
Liabilities with death benefits		
Pensioners	(1 677)	(1 593)
Active	(1 329)	(1 605)
	(3 006)	(3 198)
Total liabilities	(742 496)	(740 757)
Coverages		
Pension Fund value	725 797	733 850
Net assets / (liabilities) in the balance sheet	(16 699)	(6 907)
Accumulated actuarial losses recognised in other comprehensive income	223 048	187 637

Changes in the defined benefit obligation can be analysed as follows:

(Thousands of Euro)

	2018				2017			
	Pension benefits	Health-care benefits	Death benefits	Total	Pension benefits	Health-care benefits	Death benefits	Total
Liabilities at the beginning of the period	682 000	55 559	3 198	740 757	657 255	51 658	3 105	712 018
Current service cost	5 212	1 891	55	7 158	(1 859)	1 866	57	64
Interest cost	14 323	1 166	68	15 557	13 145	1 033	63	14 241
Actuarial gains/ (losses)								
- Changes in assumptions	(18 691)	(1 710)	(108)	(20 509)	28 148	31	(2)	28 177
- Not related to changes in assumptions	18 147	(782)	(207)	17 158	3 255	785	(2)	4 038
Pensions paid by the Fund	(17 062)	-	-	(17 062)	(16 629)	-	-	(16 629)
Pensions paid by CEMG	(4 725)	-	-	(4 725)	(4 781)	-	-	(4 781)
Early retirement, mutually agreed termination and others	1 802	-	-	1 802	1 155	186	(23)	1 318
Participant contributions	2 360	-	-	2 360	2 311	-	-	2 311
Liabilities at the end of the period	683 366	56 124	3 006	742 496	682 000	55 559	3 198	740 757

As mentioned, Banco Montepio amended the ACT, and changed the retirement age. This represents a cut in employees' benefits, in accordance with IAS 19, and its impact was recorded against the income statement.

The evolution of the Pension fund's value in the periods ended 31 December 2018 and 2017 is analysed as follows:

(Thousands of Euros

	2018	2017
Balance of the Fund at the beginning of the period	733 850	698 718
Expected return	15 410	13 975
Actuarial losses	(38 761)	35 475
Group contributions	30 000	-
Participan contributions	2 360	2 311
Pensions paid by the Fund	(17 062)	(16 629)
Balance of the Fund at the end of the period	725 797	733 850

As at 31 December 2018 and 2017, the assets of the Pension Fund, divided between quoted and unquoted, can be analysed as follows:

(Thousands of Euro)

	2018			2017		
	Assets of the Fund	Quoted	Unquoted	Assets of the Fund	Quoted	Unquoted
Variable income securities						
Shares	59 142	59 142	-	73 029	73 029	-
Shares investment fund	83 999	9 742	74 257	107 302	-	107 302
Bonds	486 044	452 685	33 359	500 124	452 355	47 769
Real estate	5 595	-	5 595	6 603	-	6 603
Real estate investment fund	24 017	684	23 333	24 914	475	24 439
Venture capital fund	9 479	-	9 479	10 652	-	10 652
Hedge funds - Uncorrelated investments	-	-	-	14	-	14
Investments in banks and other	57 522	-	57 522	11 212	-	11 212
Total	725 798	522 253	203 545	733 850	525 859	207 991

The assets of the pension fund used by the Group or representative of securities issued by other Group entities are analysed as follows:

(Thousands of Euro)

	2018	2017
Investments in banks and other	57 522	11 212
Real estate	5 595	6 603
Bonds	2 283	2 234
	65 400	20 049

The changes in the actuarial gains/ (losses) are analysed as follows:

(Thousands of Euro)

	2018	2017
Actuarial gains/ (losses) at the beginning of the period	187 637	190 897
Actuarial gains/ (losses) for the period		
Changes in assumption	(20 509)	28 177
Experience adjustments	55 920	(31 437)
Actuarial gains/ (losses) in other comprehensive income	223 048	187 637

The actuarial losses recorded in 2018 under Changes in assumptions, include the positive amount of Euro 20,509 thousand resulting from the change in the discount rate.

The costs with pensions, healthcare and death benefits are analysed as follows:

(Thousands of Euro)

	2018	2017
Current service cost	7 158	64
Net interest income/ (expense) in the liabilities coverage balance	147	266
Costs with early retirement, mutually agreed termination and others	1 802	1 318
Costs for the period	9 107	1 648

As at 31 December 2018 and 2017, the evolution of net assets/ (liabilities) in the balance sheet is analysed as follows:

(Thousands of Euro)

	2018	2017
At the beginning of the period	(6 907)	(13 300)
Group contribution	30 000	-
Current service cost	(7 158)	(64)
Net interest income/ (expense) in the liabilities coverage balance	(147)	(266)
Actuarial gains/ (losses)	3 351	(32 215)
Financial gains/ (losses)	(38 761)	35 475
Change of the retirement age	-	-
Pensions paid by CEMG	4 725	4 781
Early retirement, mutually agreed terminations and other	(1 802)	(1 318)
At the end of the period	(16 699)	(6 907)

The actuarial assumptions have a significant impact in the pension liabilities and other benefits. Considering, this impact, the Group proceeded to a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the impact in the value of pension liabilities, whose impact is analysed as follows:

(Thousands of Euro)

	2018		2017	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(31 206)	33 302	(40 740)	40 485
Wage growth rate (0.25% change)	23 143	(21 378)	26 156	(23 285)
Pension growth rate (0.25% change)	29 085	(27 814)	25 467	(23 371)
SAMS contribution (0.25% change)	3 288	(3 288)	3 664	(3 510)
Future mortality (1 year change)	(22 486)	22 452	(20 788)	20 134

As a result of the ACT's change, as at 31 December 2018, the cost associated with the final career award amounted to Euro 674 thousand (31 December 2017: Euro 458 thousand), which replaced the extinguished seniority premium.

As at 31 December 2017, the SAMS cost associated to the defined contribution plan amounts to Euro 543 thousand.

51 Assets under management

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non-fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2018 and 2017, the amount of the investment funds managed by Group companies is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Securities investment fund	137 984	169 202
Real estate investment fund	513 344	292 058
Pension fund	227 963	220 773
Bank and insurance	22 072	26 913
	901 363	708 946

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

52 Transactions with related parties

As defined in IAS 24, are considered related parties of the Group the companies detailed in note 61, the Pension Fund, the members of the Board of Directors, General and Supervisory Board and the key management personnel. In addition to the members of the Board of Directors, General and Supervisory Board and key management personnel, are also considered related parties their family and entities controlled by them or those whose management have significant influence.

According to Portuguese law, in particular under Articles No. 85 and 109 of the General Law for Credit Institutions and Financial Companies (“RGICSF”), are also considered related parties the members of the Supervisory Board and the shareholders of Banco Montepio, as well as individuals related to these categories and entities controlled by them or whose management have significant influence.

The Group’s first-line directors are considered in Other key management personnel.

On this basis, the list of related parties considered by the Group is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors (after 20 March 2018)
Chairman of the Board of Directors
Carlos Manuel Tavares da Silva
Non-executive Members
Luís Eduardo Henriques Guimarães
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Rui Pedro Brás de Matos Heitor
Pedro Jorge Gouveia Alves
Carlos Francisco Ferreira Alves
Executive Committee
Chairman of the Executive Committee
Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Executive Members
Nuno Cardoso Correia da Mota Pinto
José Carlos Sequeira Mateus
Pedro Miguel Nunes Ventaneira
Carlos Miguel López Leiria Pinto
Helena Catarina Gomes Soares de Moura Costa Pina
Leandro Rodrigues da Graça Silva
Audit Committee
Chairman of the Audit Committee
Luís Eduardo Henriques Guimarães
Members
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Carlos Francisco Ferreira Alves

Executive Board of Directors (until 20 March 2018)
José Manuel Félix Morgado (Chariman)
João Carlos Martins da Cunha Neves
Luís Gabriel Moreira Maia Almeida
Fernando Ferreira Santo
João Belard da Fonseca Lopes Raimundo
Jorge Manuel Viana de Azevedo Pinto Bravo
Luís Miguel Resende de Jesus

General and Supervisory Board (until 20 March 2018)
Álvaro João Duarte Pinto Correia (Chairman)
António Fernando Menezes Rodrigues
José António de Arez Romão
Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Brás Matos Heitor
Eugénio Óscar Garcia Rosa

Other Related Parties'
Board of Directors
Alfredo Jorge Alves Gomes de Sá
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
António Manuel Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Carlos Vicente Morais Beato
Eduardo José da Silva Farinha
Fernanda Maria da Costa Simões Brázia
Fernando Dias Nogueira
Fernando Ferreira Santo
Fernando Paulo Pereira Magalhães
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco José Gonçalves Simões
Idália Maria Marques Salvador Serrão
Isabel Maria Loureiro Alves Brito
João Andrade Lopes
João António Morais da Costa Pinto
João António Truta Pinto Rabaça
João Carlos Carvalho das Neves

Other Related Parties'
Board of Directors
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
João Luís Ignez Jorge de Ramirez Cordeiro
Joaquim Manuel Marques Cardoso
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
José Miguel Gonçalves Marques Mendes
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida
Luís Miguel Marques Ferreira Cardoso
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Margarida Carrusca Pontes Rosário Ribeiro de Andrade
Maria Rosa Almas Rodrigues
Mário José de Matos Valadas
Miguel Alexandre Teixeira Coelho
Nelson Filipe Mendes Machado
Norberto da Cunha Junqueira Fernandes Félix Pilar
Nuno Henrique Serra Mendes
Paulo José Martins Jorge da Silva
Pedro Manuel Gaspar de Vasconcelos Carrasco
Pedro Miguel Moura Líbano Monteiro
Pedro Miguel Rodrigues Crespo
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other Key Management Personnel
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Ponciano
Ana Maria Guerreiro Almeida
Ana Maria Sousa Capelão Teixeira Fernandes Mendonça Neves
António Fernando Figueiredo Lopes
António josé Boavista Coelho
António José Miranda Lopes Coutinho
Armando José Lemos Cardoso
Carla Pereira Jiva Silva
Carlos Alberto Figueiral Azevedo
Fernando Emanuel Mendes Teixeira
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Helder Ferreira Reis
Jaquelina Maria Almeida Rodrigues Miguens
João Tiago Maia Barros Silva Teixeira
Joaquim António Canhoto Gonçalves Silva
Luis Filipe Pereira Cruz Nunes
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Manuel Fernando Caixado Castanho
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Paulo Miguel Ferreira Trindade
Pedro Jorge Ponte Araújo
Pedro Maria Corte Real Alarcão Judice
Pedro Nuno Coelho Pires
Ricardo Artur Silva Ribeiro
Rui Luís Magalhães Moura
Rui Sérgio Carvalho Santos Calheiros Gama
Vasco Francisco Coelho Almeida
Vítor António Santos Ventura
Vitor Fernando Santos Cunha

Other related parties

Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
CESource, ACE
Clínica CUF Belém, S.A
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.
In Posterum, A.C.E.
Leacock - Prestação de Serviços, LDA.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Residências para Estudantes, S.A.
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.
Montepio Gestão de Ativos Imobiliários, ACE
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Seguros, S.G.P.S., S.A.
N Seguros, S.A.
NAVISER - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
Nova Câmbios - Instituição de Pagamento, S.A.
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Valor Prime - Fundo de Investimento Imobiliário Aberto

As at 31 December 2018, assets held by the Group regarding related parties, under Article No. 109, represented or not by securities, included in the balances Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2018							
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Board of Directors (after 20 March 2018)	337	-	-	-	-	-	-	337
Audit Committee (after 20 March 2018)	163	-	-	-	-	-	-	163
Executive Board of Directorso (until 20 March 2018)	132	-	-	-	-	-	-	132
General and Supervisory Board (until 20 March 2018)	2 034	26	-	-	-	470	11	2 530
Other Related Parties' Board of Directors	2 582	3	-	-	-	8	-	2 593
Other key management personnel	2 969	6	-	-	-	-	-	2 975
Bolsimo - Gestão de Activos, S.A.	-	-	-	-	-	-	-	-
CESource, ACE	-	-	-	-	117	-	-	117
Fuuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	-	-	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	11 330	92	-	-	-	731	1	12 153
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	2 500	3	2 500
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	1	-	943	68	-	46	-	1 058
Moçambique Companhia de Seguros, S.A.R.L.	-	-	415	-	-	-	-	415
Montepio Geral Associação Mutualista	5	-	-	-	1 258	91	-	1 354
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-		-	-	-	-	-
Montepio Imóveis – Sociedade Imobiliária, S.A.	7 543	60	-	-	-	-	-	7 603
NovaCâmbios - Instituição de Pagamento, S.A.	486	9	-	-	-	1 209	5	1 704
Residências Montepio, Serviços de Saúde, S.A.	362	2	-	-	-	-	-	364
Valor Prime - Fundo de Investimento Imobiliário Aberto	25 003	165	-	-	-	5 000	6	30 168
	52 949	363	1 358	68	1 375	10 055	26	66 168

As at 31 December 2017, assets held by the Group regarding related parties, under Article No. 109, represented or not by securities, included in the balances Loans and advances to customers (Gross), Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2017						
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Total
Executive Board of Directors (until 20 March 2018)	134	-	-	-	-	-	134
Board of Directors (after 20 March 2018)	141	-	-	-	-	-	141
General and Supervisory Board	2 323	24	-	-	-	282	2 581
Other Related Parties' Board of Directors	1 108	-	-	-	-	-	1 108
Other key management personnel	3 042	-	-	-	-	8	3 050
Clínica de Serviços Médicos Computorizados de Belém, S.A.	3	-	-	-	-	-	3
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	2	-	-	-	-	-	2
Germont – Empreendimentos Imobiliários, S.A.	11 330	207	-	-	-	731	11 854
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	3 500	3 500
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	1	-	3 207	1 807	-	-	1 401
Montepio Geral Associação Mutualista	62	23	-	-	945	72	1 056
Montepio Imóveis – Sociedade Imobiliária, S.A.	10 240	69	-	-	-	-	10 171
Nova Câmbios - Instituição de Pagamento, S.A.	501	7	-	-	-	1 559	2 053
Residências Montepio, Serviços de Saúde, S.A.	551	5	-	-	-	-	546
	29 439	335	3 207	1 807	945	6 152	37 601

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes as of 31 December 2018, the Group's liabilities on related parties under Article No. 109 included in the balances Loans and advances to customers, Debt securities issued and Other subordinated debt are analysed as follows.

The engagement with Banco Montepio should be included in the current Governing Bodies.

As at 31 December 2018, the Group's liabilities with related parties, under Article No. 109, included in the balances Deposits from customers, Deb securities issued and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

	2018		
Companies	Deposits from customers	Debt securies issued and Other subordinated debt	Total
Board of Directors (after 20 March 2018)	594	-	594
Audit Committee (after 20 March 2018)	946	-	946
Executive Board of Directors (until 20 March 2018)	865	-	865
General and Supervisory Board (until 20 March 2018)	572	-	572
Other Related Parties' Board of Directors	6 124	-	6 124
Other key management personnel	1 511	-	1 511
Bolsimo - Gestão de Activos, S.A.	3 552	-	3 552
Clínica CUF Belém, S.A.	26	-	26
Clínica de Serviços Médicos Computorizados de Belém, S.A.	5	-	5
Empresa Gestora de Imóveis da Rua do Prior S.A	62	-	62
Fundação Montepio Geral	810	-	810
Fundo de Pensões - Montepio Geral	59 694	2 300	61 994
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	4 546	-	4 546
Germont – Empreendimentos Imobiliários, S.A.	229	-	229
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	37	-	37
Lusitania Vida, Companhia de Seguros, S.A.	15 000	-	15 000
Lusitania, Companhia de Seguros, S.A.	13 515	-	13 515
Montepio Geral Associação Mutualista	138 176	174 604	312 780
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	1 177	-	1 177
Montepio Gestão de Activos Imobiliários, ACE	2 105	-	2 105
Montepio Imóveis – Sociedade Imobiliária, S.A.	89	-	89
Montepio Residências para Estudantes, S.A:	401	-	401
Montepio Seguros, S.G.P.S., S.A.	17	-	17
N Seguros, S.A.	804	-	804
NovaCâmbios - Instituição de Pagamento, S.A.	745	-	745
Residências Montepio, Serviços de Saúde, S.A.	283	-	283
SAGIES - Segurança e Higiene no Trabalho, S.A.	80	-	80
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 769	-	2 769
Sociedade Portuguesa de Administrações, S.A.	211	-	211
Valor Pime - Fundo de Investimento Imobiliário Aberto	3 298	-	3 298
	258 243	176 904	435 147

As at 31 December 2017, the Group's liabilities with related parties, under Article No. 109, included in the balances Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Companies	2017		
	Deposits from customers	Debt securities issued and Other subordinated debt	Total
Board of Directors (after 20 March 2018)	914	55	969
Executive Board of Directors (until 20 March 2018)	947	-	947
General and Supervisory Board (until 20 March 2018)	524	-	524
Other Related Parties' Board of Directors	2 962	125	3 087
Other key management personnel	1 541	20	1 561
Bolsimo - Gestão de Activos, S.A.	850	-	850
Clínica CUF Belém, S.A.	29	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	8	-	8
Empresa Gestora de Imóveis da Rua do Prior S.A	5	-	5
Fundação Montepio Geral	882	-	882
Fundo de Pensões - Montepio Geral	13 671	2 250	15 921
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	4 063	-	4 063
Germont – Empreendimentos Imobiliários, S.A.	612	-	612
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	44	-	44
Lusitania Vida, Companhia de Seguros, S.A.	10 819	21 250	32 069
Lusitania, Companhia de Seguros, S.A.	3 386	13 000	16 386
Montepio Geral Associação Mutualista	217 230	386 344	603 574
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	2 451	-	2 451
Montepio Gestão de Activos Imobiliários, ACE	2 182	-	2 182
Montepio Imóveis – Sociedade Imobiliária, S.A.	3 030	-	3 030
Montepio Seguros, S.G.P.S., S.A.	479	-	479
N Seguros, S.A.	442	-	442
Nova Câmbios - Instituição de Pagamento, S.A.	472	-	472
Residências Montepio, Serviços de Saúde, S.A.	225	-	225
SAGIES - Segurança e Higiene no Trabalho, S.A.	77	-	77
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 674	-	2 674
Sociedade Portuguesa de Administrações, S.A.	243	-	243
	270 762	423 044	693 806

As at 31 December 2018, the Group's income and expenses with related parties, under Article No. 109, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	2018					
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Staff costs	Other operating income	General and administrative expenses
Board of Directors (after 20 March 2018)	-	-	1	-	-	-
Audit Committee (after 20 March 2018)	-	3	-	-	-	-
Executive Board of Directors (until 20 March 2018)	-	1	-	-	-	-
General and Supervisory Board (until 20 March 2018)	1	-	-	-	-	-
Other Related Parties' Board of Directors	7	16	5	-	-	-
Other key management personnel	15	8	2	-	-	-
Bolsimo -Gestão de Activos, S.A.	-	-	1	-	-	-
CESource, ACE	-	-	-	-	597	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	50	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	2 438	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	344	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	21	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	228	3 828	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	89	3 648	-	9	-
Montepio Geral Associação Mutualista	3	10 537	5	(9 276)	1	2 351
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	10	3	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	(2 563)	1	3 642
Montepio Imóveis – Sociedade Imobiliária, S.A.	2	2	-	-	-	-
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	37	-	-	-
N Seguros, S.A.	-	-	9	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	17	-	45	-	4	-
Residências Montepio, Serviços de Saúde, S.A.	22	-	29	-	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	15	-	-	-	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	269	1	49	-	-	245
	701	10 977	10 102	(11 839)	616	6 238

As at 31 December 2017, the Group's income and expenses with related parties, under Article No. 109, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	2017				
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	General and administrative expenses
Executive Board of Directors	-	7	-	-	-
General and Supervisory Board	4	2	-	-	-
Other Related Parties' Board of Directors	1	9	1	-	-
Other key management members	5	6	1	-	-
Fundo de Pensões - Montepio Geral	-	32	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	3	-	-
Germont – Empreendimentos Imobiliários, S.A.	162	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	11	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	229	235	-	-
Lusitania, Companhia de Seguros, S.A.	3	87	85	4	-
Montepio Geral Associação Mutualista	4	21 629	3	249	1 255
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	6	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 287	1 535
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	241	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	18	-	-
N Seguros, S.A.	-	1	15	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	5	-	15	1	-
Residências Montepio, Serviços de Saúde, S.A.	15	-	16	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	10	-	-	-
	451	22 035	394	1 545	2 790

Salaries and other expenses to the Board of Directors, Audit Committee, General and Supervisory Board and with Other key management members are detailed in note 11.

During 2018 and 2017, there were no transactions with the pension's fund of the Group.

53 Securitisation transactions

As at 31 December 2018, there are seven securitization transactions, six of which originated in the Group and one in Montepio Investimento, S.A., currently integrated into the Group, following the success of General and Voluntary Public Offering on the equity representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and transmission of almost all assets and liabilities (business acquisitions) for the Group, as mentioned in the accounting policy described in note 1 a).

The following paragraphs present some additional details of these securitisation transactions.

As at 30 March, 2007, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May 2008, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 9 December 2008, Montepio Investimento S.A. had settled a mortgage credit portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. in the amount of Euro 236,500 thousand (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 5 March 2012, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The transfer price by which the loans were transferred was their nominal value, including the initial selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédito celebrated with Tagus - Sociedade de Titularização, SA, a contract for the sale of consumer loans within a securitisation of credits (Pelican Finance No. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at their nominal value, including the initial selling costs which represented 0.1871% of Asset Backed Notes.

As at 11 July 2017, Montepio Crédito signed with Tagus - Sociedade de Titularização de Créditos, S.A., a securitisation contract for consumer loans Aqua Finance No. 4. The term of the operation is 18 years, with a revolving period of 18 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 200,200 thousand. The sale was made at par value, including the initial selling costs which represented 0.6991% of Asset Backed Notes.

The entity that guarantees the debt service (servicer) of these operations is Banco Montepio assuming the collection of credits sold and assigned amounts received by deposits, to Sociedades Gestoras de Fundos de Titularização de Créditos (Pelican Mortgages No. 1) and to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgages No. 1 and Pelican Finance No. 1). Montepio Crédito – Instituição Financeira de Crédito, S.A. assures the same functions for operation Pelican Finance No. 1.

During 2018, Pelican SME No 2 was reimbursed.

As at 31 December 2018, the securitsation operations executed by the Group are presented as follows:

(Thousands of Euro)

				Credit		Liabilities		
Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	198 329	762 375	202 235	61 343
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	556 515	1 028 600	584 078	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	106 184	236 500	102 335	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	556 280	1 027 500	578 463	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	730 645	1 107 000	784 952	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	191 217	308 700	201 703	-
Aqua Finance No. 4	July 2017	Euro	Consumer credit and other	200 200	174 806	200 200	45 200	154 260
				4 670 875	2 513 976	4 670 875	2 498 966	215 603

* Includes nominal value, accrued interest and other adjustments.

In December 2017, Banco Montepio settled Pelican Mortgages No.1 through the exercise of the existing call option.

As at 31 December 2017, the securitisation operations executed by the Group are presented as follows:

(Thousands of Euro)

				Credit		Liabilities		
Issue	Settlement date	Currency	Assets transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	222 997	762 375	227 114	90 178
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	615 516	1 028 600	642 411	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	120 699	236 500	115 566	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	613 297	1 027 500	636 245	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	812 326	1 107 000	863 990	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	286 927	308 700	299 342	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	759 583	1 124 300	817 141	178 283
Aqua Finance No. 4	July 2017	Euro	Consumer credit and other	200 200	191 695	200 200	200 200	154 055
				5 795 175	3 623 040	5 795 175	3 802 009	422 516

* Includes nominal value, accrrued interest and other adjustments.

Additionally, the detail of debt securities issued not derecognised, by securitisation operation and nature of the contracts, at 31 December 2018, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	Pelican Mortgage n.º 3	Pelican Mortgage n.º 4	Aqua Mortgage n.º 1	Pelican Mortgage n.º 5	Pelican Mortgage n.º 6	Pelican Finance n.º 1	Aqua Finance n.º 4	Total
Domestic credit								
Corporate								
Loans	-	-	-	-	-	-	-	-
Pledged current account	-	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	-	93 369	93 369
Retail								
Mortgage	197 170	553 448	101 734	553 090	716 929	-	-	2 122 371
Consumer credit and other	-	-	-	-	-	185 441	80 313	265 754
	197 170	553 448	101 734	553 090	716 929	185 441	173 682	2 481 494
Credit and overdue interest								
Below 90 days	74	931	781	908	3 422	332	213	6 661
Above 90 days	1 085	2 136	3 669	2 282	10 294	5 444	911	25 821
	1 159	3 067	4 450	3 190	13 716	5 776	1 124	32 482
	198 329	556 515	106 184	556 280	730 645	191 217	174 806	2 513 976

Additionally, the detail of debt securities issued not derecognised, by securitisation operation and nature of the contracts, at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions								
	Pelican Mortgage n.º 3	Pelican Mortgage n.º 4	Aqua Mortgage n.º 1	Pelican Mortgage n.º 5	Pelican Mortgage n.º 6	Pelican Finance n.º 1	Pelican SME n.º 2	Aqua Finance n.º 4	Total
Domestic credit									
Corporate									
Loans	-	-	-	-	-	-	589 601	-	589 601
Pledged current account	-	-	-	-	-	-	65 442	-	65 442
Other credits	-	-	-	-	-	-	32 422	108 932	141 354
Retail									
Mortgage	221 813	612 642	116 676	610 494	801 579	-	-	-	2 363 204
Consumer credit and other	-	-	-	-	-	282 643	55 149	82 413	420 205
	221 813	612 642	116 676	610 494	801 579	282 643	742 614	191 345	3 579 806
Credit and overdue interests									
Below 90 days	53	1 153	670	815	3 210	419	1 046	286	7 652
Above 90 days	1 131	1 721	3 353	1 988	7 537	3 865	15 923	64	35 582
	1 184	2 874	4 023	2 803	10 747	4 284	16 969	350	43 234
	222 997	615 516	120 699	613 297	812 326	286 927	759 583	191 695	3 623 040

As at 31 December 2018, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	CEMG's interest held (nominal amount) Euro	Maturity date	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	187 053 150	125 710 929	2054	AAA	Aaa	AAA	n.a.	BBB-	A2	BBB-	n.a.
	Class B	14 250 000	4 829 447	4 829 447	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	4 066 903	4 066 903	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	2 160 542	2 160 542	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	438 086 780	438 086 780	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	38 781 082	38 781 082	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	41 925 494	41 925 494	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	17 468 958	17 468 956	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	19 215 852	19 215 852	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	27 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	383 336 834	383 336 834	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	134 258 801	134 258 801	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	18 933 933	18 933 933	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	18 933 933	18 933 933	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	429 751 537	429 751 537	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	75 110 665	75 110 665	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	23 724 131	23 724 131	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	116 042 221	116 042 221	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	70 960 970	70 960 970	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqu Finance n.º 4	Class A	140 000 000	140 000 000	-	2043	n.a.	A3	n.a.	A (lo)	n.a.	A1	n.a.	A (lo)
	Class B	15 000 000	15 000 000	-	2043	n.a.	Ba2	n.a.	BBB (lo)	n.a.	Baa3	n.a.	BBB (lo)
	Class C	45 200 000	45 200 000	45 200 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2017, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	CEMG's interest held (nominal amount) Euro	Maturity date	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	210 543 589	120 365 825	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 435 937	5 435 937	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 577 631	4 577 631	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 431 867	2 431 867	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	484 091 607	484 091 607	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	42 853 602	42 853 602	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	46 328 218	46 328 218	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	19 303 424	19 303 424	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	21 233 767	21 233 767	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	423 213 189	423 213 189	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	148 224 982	148 224 982	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	20 903 523	20 903 523	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	20 903 523	20 903 523	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	508 789 579	508 789 579	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	85 732 409	85 732 409	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	26 333 982	26 333 982	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	193 541 835	193 541 835	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	91 100 000	91 100 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	233 840 775	55 558 072	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Finance n.º 4	Class A	140 000 000	139 146 000	-	2035	n.a.	A3	n.a.	A(lo)	n.a.	A3	n.a.	A(lo)
	Class B	15 000 000	14 909 000	-	2035	n.a.	Ba2	n.a.	BBB(lo)	n.a.	Ba2	n.a.	BBB(lo)
	Class C	45 200 000	45 200 000	45 200 000	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

54 Indicators of the balance sheet and income statement by operating segments

The segmental reporting is presented in accordance with IFRS 8. In compliance with the Group's management model, the disclosed segments correspond to the segments used for management purposes by the Board of Directors. Banco Montepio Group develops banking activities and financial services in Portugal and abroad, with a special focus in the domestic market through an approach to the following business segments: Retail, Corporate and Institutional, Social Economy and Investment Banking.

Products and services include the entire offer implicit to financial activity, such as deposit captation, credit concession and provision of financial services and custody to companies and private, and also the trading of investment funds and life and non-life insurances. Additionally, Banco Montepio Group executes short and long-term investments in the capital or monetary market as a way of taking advantage of the price variations or as a mean to capitalise its available financial resources.

As at 31 December 2018, Banco Montepio Group had a network of 324 branches in Portugal, a local bank in Cape Verde and one financial institution in Angola with 24 branches.

When evaluating the performance by business area, Banco Montepio Group considers the following operating segments:

1) Retail, which includes the sub segments of Private, Individual Managers, medium and small companies allocated to this segment and Micro business;
2) Corporate and Institutional, which includes big sized companies, medium and small companies allocated to this segment and Financial Institutions;
3) Social Economy, which incorporates the customers allocated to social economy and public sector business areas;
4) Specialized credit, which includes the consumer credit business mainly developed by the subsidiary Montepio Crédito;
5) Asset Management, which reflects the activity of Montepio Valor;
6) Investment Banking, which includes the activities presently developed by Montepio Investimento, which will be integrated in the future activities of Banco de Empresas Montepio (Banco BEM);
7) International Activity, which incorporates the contribution of Montepio Geral Cabo Verde, Finibanco Angola and BTM, being these last two presented in the financial statements as discontinuing operations;
8) Markets, which includes the operations related to the Securities' own Portfolio, the Deposits in Credit Institutions and Wholesale Funding; and
9) Other segments, which includes all the entities that are not included in the other segments, namely the operations related to the management of real estate for trading and of non-performing loans. Each segment comprises the Group's structures that are directly or indirectly dedicated, as well as autonomous units of the Group which activity is also connected.

Despite the fact that the Group has its activity in Portugal, geographically, the international activity of the Group is developed by: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. and (iii) Banco Terra, S.A., the last of the three being sold in December 2018, and therefore being excluded from the consolidation perimeter as of 31 December 2018.

Segments description

In a consolidated basis, each of the segments includes income and costs related to the following activities, products, customers and structures of the Group:

Retail Bank

This operating segment corresponds to all activity developed by the Group in Portugal with private customers, individual managers, medium and small companies allocated to this segment and microbusiness, commercially designated by Individuals and Small Businesses segment fundamentally originated by the branches network, agent network and electronic channels. The financial information of these segment includes, among other products and related services such as mortgage loans, consumer credit, financing the customers' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

Corporate and Institutional

This operating segment includes the activity developed by the Group with small, medium and big companies, through the commercial structure dedicated to this segment. It also includes the institutional customers' business, mostly from the financial sector. Among the products and services provided it is emphasized the ones related with cash and investments loans, commercial discount, leasing, factoring, renting, foreign operations, documentaries loans, checks, deposits, received or paid services, credit and debit cards, as well as custodian services.

The Corporate and Institutional Banking business includes the Companies in Portugal segment which operates in the cross-selling Group's strategy, as a distribution channel of products and services from other companies of the Group.

Social Economy

This operating segment reinforces the role of CEMG as a reference agent of the Social Economy, in the market and with the different stakeholders, incorporating the activity related to the Social Economy and Public Sector business areas.

Specialised Credit

This operating segment highlights one of the cornerstones of the Transformation Plan, reflecting the focus on consumer credit. This segment reflects the activity developed by Montepio Crédito.

Asset Management

This operating segment incorporates the activity developed by the subsidiary Montepio Valor.

Investment Banking

This operating segment includes the activity developed by Montepio Investimento.

International Activity

This segment reflects the contribution of Montepio Geral Cabo Verde, Finibanco Angola and BTM, being these last two presented in the financial statements as Discontinuing Operations. BTM was sold in December 2018, being excluded from the consolidation perimeter as of 31 December 2018.

Markets

This segment includes the operations related to the Securities' own Portfolio, the Deposits in Credit Institutions and Wholesale Funding.

Other segments

This segment includes all the activity developed supporting the main activities that are the core business of the segments mentioned above, highlighting the operations related to the management of real estate for trading and of non-performing loans, the Group's global financial management activity. In this segment it is also included the impacts of the strategic decisions, the investments in minority financial participations, the activity related to interest and exchange rate risk management.

Allocation criteria of the activity and results to the operating segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analysed by the decision makers of the Group, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of the financial statements, which are described in note 1. The following principles were also adopted:

Measurement of profit or loss from operating segments

The Group uses net profit as the measure of profits or losses for evaluating the performance of each operating segment.

Autonomous Operating Segments

As mentioned above, each operating unit (branches MG Cabo Verde and associated entities) is evaluated separately, as these units are considered investment centers. Additionally, considering the characteristics of the business developed by these units, their assets, liabilities, income and expenses are included in the respective operating segments.

Group structures dedicated to the segment

The Group activity comprises most of its operating segments and therefore its activity is disaggregated.

To prepare the financial information, the following criteria are used:

(i) The origin of the operations is allocated to each business segment considering the commercial structure that originated it, even though, in a subsequent phase and as an example, it is decided to securitise some of these originated assets;

(ii) The calculation of the initial net interest income is performed considering the business negotiated with customers and other counterparties recognised in each one of the segments, and taking into account their interest rates;

(iii) The calculation of the final net interest income considers the impact of each product/segment assets and liabilities transfer to a pool, before its balancing and interest adjustment, using the market interest rates at each moment, namely, Euribor for the different dates;

(iv) The allocation of direct costs from the respective structures dedicated to each segment;

(v) The allocation of indirect costs (central support and IT services), according to criteria previously defined;

(vi) The allocation of credit risk is performed in accordance with the impairment model used by Banco Montepio Group.

(vii) The allocation of the tax burden to the operating segments results, with the exception of international activity, from the application of the marginal tax rate of 30.5% to profit before taxes, with the remainder of the tax amount recognised in the income statement being allocated to the other operating segments.

Transactions between the independent and autonomous units of the Group are made at market prices. The price of the services performed between each segment, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending). The remaining transactions are allocated to the segments in accordance with predefined criteria.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the segment Others Segments.

Interest and similar income/expense

Since the Group activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Investments consolidated under the equity method

Investments in associated companies consolidated under the equity method are included in Operations from other Segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. The Banco Montepio Group includes these assets on the segment in which these subsidiaries develop their business.

Post Employment Benefits

The factors that influence the amount of responsibilities and the amount of the funds' assets correspond, mainly, to variables external to the management of each segment; it is the Group policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: (i) Finibanco Angola, S.A., (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. and (iii) Banco Terra, S.A., the last of the three being sold in December 2018, and therefore being excluded from the consolidation perimeter as of 31 December 2018.

The patrimonial and financial elements related to the international area are presented in the financial statements of those units with the respective consolidation and elimination adjustments.

The report by operating segments as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	Consolidated Banco Montepio											
	Commercial Bank											
	Retail Bank	Corporate and Institutional	Social Economy	Specialised Credit	Asset Management	**Sub-total**	Banking and Investment	International Activity	Markets	Non-Core Segments	Other segments	**Total**
Interest and similar income	192 895	88 536	4 125	18 222	17	**303 795**	2 902	2 832	43 991	4 293	3 895	**361 708**
Interest and similar expense	33 547	14 977	913	5 438	-	**54 875**	9	2 604	54 833	-	1 283	**113 604**
NET INTEREST INCOME	**159 348**	**73 559**	**3 212**	**12 784**	**17**	**248 920**	**2 893**	**228**	**(10 842)**	**4 293**	**2 612**	**248 104**
Dividends from equity instruments	-	-	-	-	-	**-**	-	-	8 080	-	-	**8 080**
Net fee and commission income	98 481	19 768	1 200	3 584	4 108	**127 141**	1 022	-	-	(5 500)	(4 264)	**118 399**
Net gains/ (losses) arising from financing activities	-	-	-	143	-	**143**	(1 058)	8	14 880	-	(3 074)	**10 899**
Other operating income	8 128	514	435	(421)	196	**8 852**	(77)	2	-	10 346	(27 253)	**(8 130)**
TOTAL OPERATING INCOME	**265 957**	**93 841**	**4 847**	**16 090**	**4 321**	**385 056**	**2 780**	**239**	**12 118**	**9 139**	**(31 980)**	**377 352**
Staff costs	105 900	10 900	2 400	6 083	1 307	**126 590**	328	178	1 900	8 100	18 908	**156 004**
General and administrative expenses	47 300	5 700	1 400	4 933	2 016	**61 349**	422	584	500	6 012	8 859	**77 726**
Depreciation and amortisation	17 700	2 700	600	308	35	**21 343**	-	6	200	700	3 648	**25 897**
OPERATING EXPENSE	**170 900**	**19 300**	**4 400**	**11 324**	**3 358**	**209 282**	**750**	**767**	**2 600**	**14 812**	**31 416**	**259 627**
Total provisions and impairment	(6 700)	1 300	200	(6 322)	495	**(11 027)**	(350)	(97)	3 954	103 349	(2 341)	**93 488**
Share of profit of associates under the equity method	-	-	-	-	-	**-**	-	-	-	-	252	**252**
PROFIT/ (LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**101 757**	**73 241**	**247**	**11 088**	**468**	**186 801**	**2 380**	**(431)**	**5 564**	**(109 022)**	**(60 803)**	**24 489**
Taxes	31 036	22 339	75	3 382	143	**56 975**	726	-	1 697	(33 251)	18 945	**44 828**
Non-controlling interests	-	-	-	-	-	**-**	-	3 305	-	-	-	**3 305**
Profit/ (loss) from discontinuing operations	-	-	-	-	-	**-**	-	36 156	-	-	-	**36 156**
NET PROFIT/ LOSS	**70 721**	**50 902**	**172**	**7 706**	**325**	**129 826**	**1 654**	**32 552**	**3 867**	**(75 771)**	**(79 616)**	**12 512**
Assets	8 323 639	2 385 329	130 075	485 747	5 547	**11 330 337**	200 094	462 340	2 216 057	2 269 698	1 872 801	**18 351 327**
Liabilities	10 572 000	1 189 922	654 825	438 516	1 164	**12 856 427**	14 452	353 269	1 143 978	-	2 446 268	**16 814 394**
Investments in associates	-	-	-	-	-	**-**	-	-	4 282	-	-	**4 282**

Other segments - Discontinued Operations includes the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the various items of the Income Statement is disclosed in note 62.

Banco Montepio

Considering the approach defined in the Transformation Plan for the business segments in 2018, we have prepared, using the same criteria, the information by business segments for 2017 as follows:

(Thousands of Euro)

	Consolidated Banco Montepio											
	Commercial Banking											
	Retail Bank	Corporate and Institutional	Social Economy	Specialised Credit	Asset Management	**Sub-total**	Investment Banking	International Activtiy	Markets	Non-core segments	Other segments	**Total**
Interest and similar income	204 986	98 546	4 435	18 522	21	**326 510**	3 222	3 688	53 508	26 172	7 531	**420 631**
Interest and similar expense	61 674	8 232	171	4 586	-	**74 663**	7	3 287	71 994	(2)	4 456	**154 405**
NET INTEREST INCOME	**143 312**	**90 314**	**4 264**	**13 936**	**21**	**251 847**	**3 215**	**401**	**(18 486)**	**26 174**	**3 075**	**266 226**
Dividends from equity instruments	-	-	-	-	-	**-**	-	-	12 611	-	-	**12 611**
Net fee and commission income	99 703	24 136	1 060	2 731	3 982	**131 612**	559	-	-	(6 080)	(6 283)	**119 808**
Net gains/ (losses) arising from financing activities	-	-	-	(965)	-	**(965)**	433	146	71 076	-	47	**70 737**
Other operating income/ (expense)	10 820	734	380	(155)	241	**12 020**	1 602	(2)	13 104	12 305	(3 144)	**35 885**
TOTAL OPERATING INCOME	**253 835**	**115 184**	**5 704**	**15 547**	**4 244**	**394 514**	**5 809**	**545**	**78 305**	**32 399**	**(6 305)**	**505 267**
Staff costs	93 413	16 616	3 344	5 539	1 092	**120 004**	289	93	5 930	10 815	19 076	**156 207**
General and administrative expenses	38 544	4 804	1 407	4 835	2 221	**51 811**	679	539	1 807	23 508	8 661	**87 005**
Depreciation and amortisation	18 420	2 810	624	310	23	**22 187**	-	7	208	728	1 679	**24 809**
OPERATING EXPENSE	**150 377**	**24 230**	**5 375**	**10 684**	**3 336**	**194 002**	**968**	**639**	**7 945**	**35 051**	**29 416**	**268 021**
Total provisions and impairment	25 967	14 174	296	875	-	**41 312**	685	-	6 037	133 970	9 346	**191 350**
Share of profit of associates under the equity method	-	-	-	-	-	**-**	-	-	-	-	166	**166**
PROFIT/ (LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**77 491**	**76 780**	**33**	**3 988**	**908**	**159 200**	**4 156**	**(94)**	**64 323**	**(136 622)**	**(44 901)**	**46 062**
Taxes	23 635	23 417	10	1 216	277	**48 555**	1 267	-	19 619	(41 670)	14 590	**42 361**
Non-controlling interests	-	-	-	-	-	**-**	-	1 376	-	-	-	**1 376**
Profit/ (loss) from discontinuing operations	-	-	-	-	-	**-**	-	4 112	-	-	-	**4 112**
NET PROFIT/ (LOSS)	**53 856**	**53 363**	**23**	**2 772**	**631**	**110 645**	**2 889**	**2 671**	**44 704**	**(94 952)**	**(59 520)**	**6 437**
Assets	8 784 890	2 663 699	127 488	442 539	5 809	**12 024 425**	224 990	667 678	2 384 970	2 841 101	2 056 861	**20 200 024**
Liabilities	10 088 000	1 834 874	456 823	398 489	927	**12 779 113**	37 485	514 042	1 780 247	-	3 326 216	**18 437 103**
Investments in associates	-	-	-	-	-	**-**	-	-	4 097	-	-	**4 097**

Other segments - Discontinued Operations includes the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the various items of the Income Statement is disclosed in note 62.

As at 31 December 2018, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	Activity Domestic	Activity International	Total
Interest and similar income	358 876	2 832	361 708
Interest and similar expense	111 000	2 604	113 604
Net interest income	247 876	228	248 104
Dividends from equity instruments	8 080	-	8 080
Net fee and commission income	118 399	-	118 399
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	12 273	-	12 273
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	5 626	-	5 626
Net gains/ (losses) arising from foreign exchange differences	(7 008)	8	(7 000)
Net gains/ (losses) arising from sale of other financial assets	9 075	-	9 075
Other operating income/ (expense)	(17 207)	2	(17 205)
Total operating income	377 114	238	377 352
Staff costs	155 826	178	156 004
General and administrative expenses	77 142	584	77 726
Depreciation and amortisation	25 891	6	25 897
	258 859	768	259 627
Loans impairment	73 288	(97)	73 191
Other financial assets impariment	2 865	-	2 865
Other assets impairment	13 198	-	13 198
Other provisiosn	4 234	-	4 234
Operating profit	24 670	(433)	24 237
Share of profit of associates under the equity method	252	-	252
Income before taxes and non-controlling interests	24 922	(433)	24 489
Current taxes	(963)	-	(963)
Deferred taxes	45 791	-	45 791
Profit/ (loss) from discontinuing operations	-	36 156	36 156
Non-controlling interests	-	3 305	3 305
Consolidated net profit/(loss) for the period attributable to the Shareholder	(19 906)	32 418	12 512

The International Activity includes in the balance Income from discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 62.

As at 31 December 2018, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Balance Sheet	Activity - Domestic	Activity - International	Total
Cash and deposits at credit institutions	1 731 114	167 541	1 898 655
Loans and advances to customers	12 123 212	-	12 123 212
Invstments in financial assets and associated companies	2 226 005	-	2 226 005
Non-current assets held for sale	737 937	-	737 937
Invesment properties	253 097	-	253 097
Non-current assets held for sale - discontinuing operations	-	294 725	294 725
Other assets	817 622	74	817 696
Total Assets	17 888 987	462 340	18 351 327
Deposits from central banks and other credit institutions	2 640 755	-	2 640 755
Deposits from customers	12 416 747	158 477	12 575 224
Debt securities issued and other subordinated debt	1 143 977	1	1 143 978
Non-current liabilities held for sale - discontinuing operations	-	193 995	193 995
Other liabilities	259 646	796	260 442
Total Liabilities	16 461 125	353 269	16 814 394
Non-controlling interests	-	15 551	15 551
Total Equity attributable to the Shareholder	1 427 862	93 520	1 521 382
Total Equity	1 427 862	109 071	1 536 933
Total Liabilities and Equity	17 888 987	462 340	18 351 327

The International Activity includes in the balances Non-current assets and liabilities held for sale – discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Statement of Financial Position is disclosed in note 62.

As at 31 December 2017, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	Activity		
	Domestic	International	Total
Interest and similar income	416 943	3 688	420 631
Interest and similar expense	151 118	3 287	154 405
Net interest income	265 825	401	266 226
Dividends from equity instruments	12 611	-	12 611
Net fee and commission income	119 808	-	119 808
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	(14 807)	-	(14 807)
Net gains/ (losses) arising from financial assets available for sale	83 622	-	83 622
Net gains/ (losses) arising from foreign exchange differences	1 776	146	1 922
Net gains/ (losses) arising from sale of other financial assets	37 850	-	37 850
Other operating income/ (expense)	(1 963)	(2)	(1 965)
Total operating income	504 722	545	505 267
Staff costs	156 114	93	156 207
General and administrative expenses	86 466	539	87 005
Depreciation and amortisation	24 802	7	24 809
	267 382	639	268 021
Loans impairment	160 711	-	160 711
Other financial assets impairment	7 766	-	7 766
Other assets impairment	12 550	-	12 550
Other provisions	10 323	-	10 323
Operating profit	45 990	(94)	45 896
Share of profit of associates under the equity method	166	-	166
Income before taxes and non-controlling interests	46 156	(94)	46 062
Current taxes	(6 470)	-	(6 470)
Deferred taxes	(35 891)	-	(35 891)
Profit/ (loss) arising from discontinuing operations	-	4 112	4 112
Non-controlling interests	-	1 376	1 376
Consolidated net profit/ (loss) attributable the Shareholder	3 795	2 642	6 437

The International Activity includes in the balance Net gains/ (losses) arising from discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 62.

As at 31 December 2018, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Balance Sheet	Activity		
	Domestic	International	Total
Cash and deposits at credit institutions	1 902 913	193 123	2 096 036
Loans and advances to customers	13 029 318	-	13 029 318
Investments in financial assets and associated companies	2 389 066	-	2 389 066
Non-current assets held for sale	742 221	-	742 221
Investment propoerties	538 625	-	538 625
Non-current assets held for sale - discontinuing operations	-	474 475	474 475
Other assets	930 203	80	930 283
Total Assets	19 532 346	667 678	20 200 024
Deposits from central banks and other credit institutions	3 344 085	472	3 344 557
Deposits from customers	12 379 697	181 343	12 561 040
Debt securities issued and other subordinated debt	1 780 245	2	1 780 247
Non-current liabilities held for sale- discontinuing operations	-	330 392	330 392
Other liabilities	419 034	1 833	420 867
Total Liabilities	17 923 061	514 042	18 437 103
Non-controlling interests	-	32 835	32 835
Total Equity attributable to the Shareholder	1 609 285	120 801	1 730 086
Total Equity	1 609 285	153 636	1 762 921
Total Liabilities and Equity	19 532 346	667 678	20 200 024

The International Activity includes in the balances Non-current assets and liabilities held for sale – discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Statement of Financial Position is disclosed in note 62.

55 Risk management

Objectives of the Risk Management Policy

Banco Montepio is exposed to a number of risks, including credit, concentration, market, interest rate, currency, liquidity, real estate, operational and pension fund risks. Aditionally, the Group is subject to other risks of non-financial nature, namely the operating, reputation, strategy and business risks. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability regarding risk management measures that have been established in due course. For all risks identified as material, Banco Montepio has implemented a process for identification and review of them, being subject to regular monitoring and mitigation actions in order to reduce potential losses to Banco Montepio Group.

Control and efficient risk management have played a key role in the balanced and sustained development of Banco Montepio. In addition, it contributes to the optimisation of the profitability / risk binomial of the various lines of business, they also ensure the maintenance of a conservative risk profile in solvency and liquidity.

The monitoring of these risks is centralised in the Risk Department, the unit responsible for the risk management function of the Banco Montepio Group, which regularly informs the Board of Directors of the evolution of the risk profile and proposes action measures when necessary.

Banco Montepio's risk management policy is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plans, which is reviewed regularly. It is also the responsibility of the Board to ensure the existence of risk control suitable to the Group, namely through its supervisory boards. The Risk Committee is the non-executive body with the role of risk management supervisory, whose mission is to monitor the design and implementation of the risk strategy and risk appetite of Banco Montepio Group and to verify if these are aligned with the sustainable strategy in the medium and long term, providing advice to the Board of Directors and Supervisory Board in these areas.

The Board of Directors seeks to ensure sufficient capital to meet regulatory requirements to cover potential losses, with an optimised balance sheet structure that maintains a stable funding capacity and strong liquidity, allowing them to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Particularly, Banco Montepio Group has clear objectives, determined in its strategic plan, for capital ratios, ratio of transformation of deposits into credit and liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with risk appetite.

Risk appetite is based on certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning. CEMG analyzes the risks it faces in its activities and identifies those that are materially relevant. For these, objectives are set according to the desired level of return and strategy, tolerance levels, that is, ranges of risk variation that can lead to discussions and decisions about corrective measures, and limits that are exceeded can lead to immediate corrective measures.

The main concern of the Board of Directors in determining risk appetite is its alignment with other organisational components (business strategy and global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and which may affect risk exposure and its monitoring.

Banco Montepio's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, thus, monitoring and control of the main types of financial risk – credit, market, liquidity real estate and operational – to which Banco Montepio's business is subject are of particular importance.

In order to ensure an effective management of the risks associated with the Group's activities, the Risk Department is responsible for promoting that all Banco Montepio Group companies, including those located abroad, implement risk management systems that are consistent with each other and in accordance with the requirements set forth in the Internal Regulations of the Banco Montepio risk management function, in the Banco Montepio Group's Global Risk Policy and in other applicable internal policies and regulations, without prejudice to its legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of Banco Montepio's companies, on a consolidated and individual basis, ensuring the consistency of risk concepts used, the methodologies for risk identification, measurement and control, the supporting standards and respective risk profile monitoring processes, as well as compliance with applicable regulatory and prudential requirements, specially on a consolidated basis. These activities should be directly executed by the risk management functions of those entities, except in those cases where Banco Montepio's Board of Directors decides that the development of these responsibilities by Banco Montepio's Risk Department is more effective and efficient.

Credit risk

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, prepared on a set of tools supporting the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business customers and the rating for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modeling, based on the institution's experience in granting various types of credit facilities and, where possible, recovery.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior.

There are scoring models for credit to individual credit portfolios, namely to mortgage loans, individual loans and credit cards.

Individual Entrepreneurs (Empresários em nome individual - ENI) and Micro businesses are considered retail, and therefore the respective scoring models are applied.

There are also behavioral scoring models for retail portfolios, which are used to monitor the credit portfolio and to evaluate new credit proposals, and these are coupled with application scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by business sectors, such as the third sector, or by seniority of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, and this scale composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents and 19th to non-compliance, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to exceed the response of scoring systems, internal ratings and internal price lists, only by higher decision levels, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimise the risk of adverse selection, however there is always a risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the principle that higher hierarchical positions have to approve operations with higher exposures is highlighted. These limits are approved by the Board of Directors, and the highest decision scale corresponds to the Board of Directors. At intermediate stages, it is compulsory to intervene in a collegial system of at least two players, one belonging to the commercial network and the other to the Department of Credit Analysis (independent body of the commercial structure) as well as the Risk Department, which is responsible for the development of credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Risk analysis also involves regular internal reporting on key types of risk. Within credit risk, monthly internal reports are prepared, with the main risk indicators of credit portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system is in place for the main indicators of credit risk tightening (Early Warning Signs).

In July 2014, IASB released the final version of IFRS 9 which replaces IAS 39, which entered into force on 1 January 2018. IFRS 9 is based on three pillars:

- Classification and Measurement;
- Impairment; and
- Hedge accounting.

With respect to impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected loss of credit at one year, or the expected loss of credit until the maturity of the financial instrument (ECL lifetime).

The Expected Loss Model (IFRS9) replaces the Incurred Loss Model (IAS39).

According to this amendment, financial assets are classified into segments, based on the evolution of their credit risk:

- Stage 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since its initial recognition and which are not in default;
- Stage 2: Financial assets with a significant increase in credit risk since initial recognition, based on the criteria set out in internal regulations on the recognition of a significant increase in credit risk or other financial assets (in particular, Amounts receivable, Other debtors, Other receivables or Sundry debtors). It should be noted that credit restructured due to financial difficulties is considered a significant increase driver in credit risk, and therefore, the restructured credit portfolio is included in stage 2;
- Stage 3: Financial assets in default, based on default indicators which are defined in internal regulations on default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purposes of current requirements.

The calculation of expected losses (ECL) for homogeneous populations results from the product of the default probability (PD), the default loss (LGD) and the exposure at default (EAD), deducted from the contract's effective interest rate until the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages refers to PD's time horizon.

The probability of default (PD) is one of the main differences in the impairment calculation under IFRS9 (ECL), and two types of PD can be expected:

- ✓ 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to stage 1);

- ✓ Lifetime PD: it is the probability of a default occurring during the remaining life of the credit (for stage 2 contracts). In such case, lifetime parameters are used and forward looking information is considered;

- ✓ PD=100% to all stage 3 contracts.

In the group of individually significant customers, customer exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Customers is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows for the customer's various operations, updated according to the interest rates of each operation.

The following information is related to the exposure of the CEMG to the credit risk, where the most relevant item in terms of exposure is, so as in terms of the associated risk, is loans to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensinve income is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance componente of entities to the application of the IFRS 5, which correspond to the subsidiaries in Angola and Mozambique, which is recorded under the caption Non-current assets held for sale in discontinuing operations.

Criteria for the determination of impairment for individually significant loans

All customers or economic groups that meet the following conditions are subject to individual analysis:

1. Exposure above Euro 1 million and classified in stages 2 and 3;
2. Exposure above Euro 2.5 million and classified in stage 1;
3. Customers that currently do not meet the conditions of the previous points but have already been subject to individual analysis.

For the exposure of customers or economic groups, all active credit operations (on balance and off balance) are considered, excluding transactions subject to write-off.

The customers or economic groups that show the following triggers or indicators are considered as having objective signs of impairment:

1) In default situation (delays exceeding 90 days, contracts with capital and interest shortages, insolvent customer / bankruptcy and cross-default)
2) Contract with delay between 60 and 90 days at Banco Montepio;
3) Customer with delay above 30 days capital and interest shortage in Banco Montepio or with credit written-off at Banco Montepio;
4) Customer using overdrafts to pay principal and interest in the last two months at Banco Montepio or customer with rescission of checks use (RUC) or risk user (UTR);
5) Reestructured contracts or with free repayment with 0% rate;
6) Customer with reestructured contracts or with free repayment with 0% rate;
7) Customer in delay above 30 days or with credit written-off in the Commercial Registration Conservatory (CRC) or with restructured credit or with credit in judicial litigation in CRC;
8) Other indications, such as customers in PARI or PERSI situations or with debts to Social Security or to the Tax Authority.

The individual analysis is the responsibility of the Credit Analysis Department and in the evaluation of impairment losses the following factors are considered:

- Total exposure of each customer or economic group and the existence of signs of impairment;
- Economic and financial viability of the customer or economic group and the ability to generate future cash flows to pay the debt;
- Existence of collaterals associated with each credit and their respective evaluation;
- Customers' or guarantors' equity;
- Situation of bankruptcy or insolvency;

- Expectation of the term recovery.

The recoverable amount is determined by the sum of the expected cash flows, estimated in accordance with the contractual conditions in force and according to the underlying collection expectations, discounted at the original effective interest rate of the contract. Impairment adjustment is carried out when the expected cash flows are lower than contractual cash flows.

For the determination of the future cash flows of the customers or economic groups the following recovery strategies are used:

- In case of "going concern" a critical analysis is done to the company's business plans or other elements available for analysis, adjusting the assumptions and applying haircuts to the actual deviations towards the projected ones. For the calculation of the impairment of these customers, are considered the cash flows generated annually after adjustments and the application of the discount rate used.
- In the case of "gone concern", an exhaustive analysis of the collaterals, mortgages / pledges, evaluation date and application of haircuts according to the seniority of the evaluation, deadline for execution, deadline for sale, associated maintenance and sale costs. For the calculation of the impairment of these customers, are considered the cash flows generated annually after adjustments and the application of the discount rate.
- For specific cases it is possible to simultaneously use the two strategies, "going concern" and "gone concern", and also in the consideration of alternative scenarios.

The Group’s credit risk exposure can be analysed as follows:

(Thousands of Euro)

	2018	2017
Loans and advances to credit institutions repayable on demand	78 088	50 205
Other loans and advances to credit institutions	209 932	312 203
Loans and advances to customers	12 123 212	13 029 318
Financial assets held for trading	23 739	174 175
Financial assets not held for trading mandatorily at fair value through profit or loss	28 092	-
Financial assets at fair value through other comprehensive income	311 512	1 658 409
Hedging derivatives	5 666	-
Other financial assets at amortised cost	1 255 651	-
Investment in associates	4 282	4 097
Other assets	75 228	184 245
Guarantees granted	464 929	500 063
Irrevocable credit facilities	553 073	609 515
	15 133 404	16 522 230

The analysis of the credit risk exposure by sector of activity, for the period ended as at 31 December 2018, can be analysed as follows:

(Thousands of Euro)

Activity	2018															
	Loans and advances to other credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investment in associates	Guarantees granted	Irrevocable credir facilities	Provisions for off-balance sheet liabilities
	Book value	Book value	Impairment	Book value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book value	Off-balance sheet value	Book value	Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	80 867	3 571	-	-	-	-	-	-	-	-	1 049	3 866	114
Mining	-	-	-	13 664	445	-	-	-	-	-	-	-	-	1 411	1 474	130
Food, beverage and tobacco	-	-	-	202 639	10 367	-	-	-	-	-	-	-	-	3 009	31 924	108
Textiles	-	-	-	86 217	9 997	-	-	-	-	-	-	-	-	1 398	7 577	13
Shoes	-	-	-	42 994	4 518	-	-	-	-	-	-	-	-	3	5 708	1
Wood and cork	-	-	-	32 779	4 374	-	728	-	-	-	-	-	-	463	4 588	28
Printing and publishing	-	-	-	34 413	4 919	-	-	2 658	5	2 663	-	-	-	387	2 599	30
Petroleum refining	-	-	-	817	54	-	-	3 447	7	3 454	-	-	-	-	-	-
Chemicals and rubber	-	-	-	92 267	5 384	-	-	3 012	3	3 015	-	-	-	5 271	12 887	105
Non-metallic minerals	-	-	-	139 387	5 619	-	-	-	-	-	-	-	-	744	4 470	47
Basic metalurgic industries and metallic products	-	-	-	163 263	14 860	-	-	-	-	-	-	-	-	7 471	17 602	113
Production of machinery	-	-	-	42 213	3 347	-	623	-	-	-	-	-	-	1 438	4 281	117
Production of transport material	-	-	-	46 587	1 534	-	-			-	-	-	-	3 142	1 522	172
Other manufacturing industries	-	-	-	49 452	9 599	-	-	-	-	-	-	-	-	375	3 887	16
Energy, gas and water	-	-	-	114 747	2 560	-	10 106	18 423	20	18 443	-	-	-	3 175	10 717	95
Construction	-	-	-	775 325	273 030	-	250	-	-	-	-	-	-	113 525	78 969	5 992
Wholesale and retail	-	-	-	862 759	93 343	-	8 673	10 217	21	10 238	-	-	-	67 044	118 440	2 756
Tourism	-	-	-	432 088	13 955	-	-	-	-	-	-	-	3 584	8 737	15 305	274
Transport	-	-	-	410 429	38 129	-	-	-	-	-	-	-	-	11 242	13 765	778
Communication and information	-	-	-	74 230	6 365	-	-	3 018	3	3 021	-	-	-	5 911	24 929	68
Financial activities	78 088	210 331	399	582 229	54 026	23 739	149	15 881	81	15 962	-	-	-	134 815	24 941	382
Real estate activities	-	-	-	754 129	120 744	-	-	3 716	6	3 722	-	-	-	19 200	80 781	1 858
Services rendered to companies	-	-	-	394 877	24 124	-	3 001	27 996	58	28 054	-	-	698	31 039	41 639	808
Public services	-	-	-	73 172	3 365		4 424	217 318	459	217 777	1 258 201	(2 550)	-	381	2 749	14
Other collective activities	-	-	-	168 983	26 549	-	138	3 452	7	3 459	-	-	-	15 003	12 517	1 565
Other	-	-	-	12 998	450	-	-	-	-	-	-	-	-	29 125	3 106	(1 146)
Retail				-	-					-						
Mortgage loans	-	-	-	6 251 996	138 119	-	-	3 045	1	3 046	-	-	-	-	-	-
Other	-	-	-	1 132 267	71 229	-	-	-	-	-	-	-	-	-	22 830	-
	78 088	210 331	399	13 067 788	944 576	23 739	28 092	312 183	671	312 854	1 258 201	(2 550)	4 282	465 358	553 073	14 438

The analysis of the credit risk exposure by sector of activity, for the period ended as at 31 December 2017, can be analysed as follows:

(Thousands of Euro)

Activity	2017										
	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through other comprehensive income		Invesment in associates	Guarantees granted	Irrevocable credit facilities	Provisions for off-balance sheet liabilities
	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book value	Off-balance sheet value	Off-balance sheet value	Provisions
Agriculture, forestry and fishing	-	-	145 289	8 724	-	-	-	-	2 012	5 301	125
Mining	-	-	21 136	1 849	-	-	-	-	975	1 438	68
Food, beverage and tobacco	-	-	228 414	13 473	-	1 020	-	-	2 964	57 796	94
Textiles	-	-	89 048	10 120	-	-	-	-	1 218	8 688	2
Shoes	-	-	43 446	4 418	-	-	-	-	31	5 437	-
Wood and cork	-	-	34 965	4 338	-	-	-	-	476	4 624	39
Printing and publishing	-	-	44 155	7 889	-	907	-	-	426	3 667	36
Petroleum refining	-	-	501	45	-	2 489	-	-	-	-	-
Chemicals and rubber	-	-	88 731	5 438	-	-	-	-	4 681	18 305	95
Non-metallic minerals	-	-	142 817	5 017	-	-	-	-	1 985	5 440	140
Basic metalurgic industries and metallic products	-	-	172 151	18 497	-	-	-	-	10 325	21 695	99
Production of machinery	-	-	43 878	3 159	-	-	-	-	2 071	5 277	127
Production of transport material	-	-	44 188	1 517	-	1 037	-	-	3 109	3 723	190
Other transforming industries	-	-	48 013	5 315	-	-	-	-	514	4 481	3
Energy, gas and water	-	-	153 367	2 588	-	14 302	-	-	2 823	26 513	70
Construction	-	-	965 577	304 865	-	-	-	-	109 740	74 753	6 053
Wholesale and retail	-	-	1 062 786	121 547	-	10 142	-	-	72 651	130 969	3 082
Tourism	-	-	497 335	20 032	-	-	-	3 399	10 628	18 244	238
Tranports	-	-	475 750	64 268	-	-	-	-	10 580	17 748	327
Communication and information activities	-	-	89 760	6 984	-	2 864	-	-	4 954	21 799	275
Financial activities	50 205	312 203	640 830	75 643	24 553	24 816	9 307	-	157 813	40 313	714
Real estate activities	-	-	808 053	129 612	121 329	4 277	-	-	15 266	61 335	818
Services rendered to companies	-	-	630 039	41 075	-	27 963	-	698	35 304	44 325	237
Public services	-	-	143 085	3 927	28 293	1 573 685	-	-	527	3 551	11
Other activities of collective services	-	-	449 885	29 586	-	-	-	-	14 203	20 349	3 134
Mortgage loans	-	-	6 738 833	133 346	-	31 158	26 944	-	4 017	445	148
Other	-	-	261 107	10 549	-	-	-	-	30 770	3 299	22
	50 205	312 203	14 063 139	1 033 821	174 175	1 694 660	36 251	4 097	500 063	609 515	16 147

The Group's total loans portfolio, includes Loans and advances to customers (entities subject to the adoption of IFRS 5), and guarantees provided in the amount of Euro 464,929 thousand (31 December 2017: Euro 500,063 thousand) and irrevocable credit lines amounting to Euro 553,073 thousand (31 December 2017: Euro 609,515 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Thousands of Euro)

	2018		
Stage impacts	Gross value	Impairment	Net value
Collective analysis	**9 441 775**	**393 403**	**9 048 372**
Stage 1	6 513 590	6 835	6 506 755
Stage 2	2 255 628	36 310	2 219 318
Stage 3	672 557	350 258	322 299
Individual analysis	**4 644 015**	**565 611**	**4 078 404**
	14 085 790	**959 014**	**13 126 776**

As at 31 December 2018 and 2017, the fair value analysis of collaterals associated to the Banco Montepio's total portfolio, is as follows:

(Thousands of Euro)

2018			
Segment	**Gross value**	**Impairment**	**Net value**
Retail	**7 004 749**	**207 490**	**6 797 259**
Mortgage loans	6 237 220	134 854	6 102 366
Stage 1	4 416 811	405	4 416 406
Stage 2	1 550 924	16 713	1 534 211
Stage 3	269 485	117 736	151 749
Consumer credit	709 386	69 759	639 627
Stage 1	482 482	896	481 586
Stage 2	129 704	3 783	125 921
Stage 3	97 200	65 080	32 120
Credit cards	58 143	2 877	55 266
Stage 1	26 606	148	26 458
Stage 2	28 032	738	27 294
Stage 3	3 505	1 991	1 514
Corporate	**2 437 026**	**185 913**	**2 251 113**
Non Construction	2 199 957	142 716	2 057 241
Stage 1	1 469 694	4 876	1 464 818
Stage 2	493 727	13 870	479 857
Stage 3	236 536	123 970	112 566
Construction	237 069	43 197	193 872
Stage 1	117 997	510	117 487
Stage 2	53 241	1 206	52 035
Stage 3	65 831	41 481	24 350
	9 441 775	**393 403**	**9 048 372**

	(Thousands of Euro)
	2017
Total loans	15 119 708
Individually significant	
Gross value	4 948 126
Impairment	(643 356)
Net value	4 304 770
Collective analysis	
Loans with signs of impairment	
Gross value	1 503 842
Impairment	(393 134)
Net value	1 110 708
Loans without signs of impairment	8 667 740
Impairment (IBNR)	(13 477)
Net value	14 069 741

As at 31 December 2018 and 2017, impairment is detailed as follows:

(Thousands of Euro)

	2018						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 589 715	549 901	2 437 026	185 912	7 026 741	735 813	6 290 928
Mortgage loans	17 728	392	6 237 219	134 854	6 254 947	135 246	6 119 701
Other loans	36 572	15 318	767 530	72 637	804 102	87 955	716 147
	4 644 015	565 611	9 441 775	393 403	14 085 790	959 014	13 126 776

(Thousands of Euro)

	2017						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 896 424	628 961	2 690 531	253 499	7 586 955	882 460	6 704 495
Mortgage loans	18 140	818	6 676 715	72 914	6 694 855	73 732	6 621 123
Other loans	33 563	13 577	804 335	80 198	837 898	93 775	744 123
	4 948 127	643 356	10 171 581	406 611	15 119 708	1 049 967	14 069 741

As at 31 December 2018 and 2017, the fair value analysis of collaterals associated to the Group's total portfolio, is as follows:

(Thousands of Euro)

Fair value of collaterals	2018
Individual analysis	
Securities and other financial assets	*166 904*
Real Estate - Mortgage loans	*28 352*
Real Estate - Construction and CRE	*2 441 259*
Other real estate	*1 698 309*
Other guarantees	*528 051*
Collective analysis - Stage 1	
Securities and other financial assets	*201 624*
Real Estate - Mortgage loans	*9 461 860*
Real Estate - Construction and CRE	*249 138*
Other real estate	*631 702*
Other guarantees	*350 270*
Collective analysis - Stage 2	
Securities and other financial assets	*59 329*
Real Estate - Mortgage loans	*2 981 190*
Real Estate - Construction and CRE	*113 126*
Other real estate	*387 488*
Other guarantees	*17 055*
Collective analysis - Stage 3	
Securities and other financial assets	*5 137*
Real Estate - Mortgage loans	*346 613*
Real Estate - Construction and CRE	*124 892*
Other real estate	*111 949*
Other guarantees	*11 805*
	19 916 053

	(Thoousands of Euro)
	2017
Individual analysis	
Securities and other financial assets	165 407
Real Estate - Mortgage loans	29 290
Real Estate - Construction and CRE	2 548 752
Other real estate	1 613 007
Other guarantess	494 691
	4 851 147
Collective analysis with signs of impairment	
Securities and other financial assets	17 203
Real Estate - Mortgage loans	1 110 592
Real Estate - Construction and CRE	275 404
Other real estate	293 260
Other guarantess	26 612
	1 723 071
Collective analysis without signs of impairment	
Securities and other financial assets	263 485
Real Estate - Mortgage loans	12 099 298
Real Estate - Construction and CRE	364 851
Other real estate	961 873
Other guarantess	329 875
	14 019 382
	20 593 600

Banco Montepio Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

Banco Montepio's Group total loans portfolio, by segment and respective impairment, recorded in 2018 and 2017, is presented as follows:

(Thousands of Euro)

Segment	2018 Total exposure	2018 Total impairment	2017 Total exposure	2017 Total impairment
Corporate loans	4 876 053	315 778	5 271 773	421 957
Construction and CRE	2 150 688	420 035	2 315 182	460 503
Mortgage loans	6 254 947	135 246	6 694 855	73 732
Other loans	804 102	87 955	837 898	93 775
	14 085 790	959 014	15 119 708	1 049 967

The loans portfolio, by segment and by production year, in 2018, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Mortage loans			Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 768	99 031	12 224	1 093	177 261	83 494	52 364	1 720 785	47 435	37 458	22 928	4 278
2005	728	22 610	4 006	317	53 214	32 436	12 495	645 208	16 636	6 565	6 892	955
2006	845	40 001	5 696	394	88 726	40 459	15 135	796 634	22 436	9 569	22 958	6 465
2007	1 109	51 188	10 089	492	89 772	36 132	15 429	803 744	21 814	37 451	35 081	12 825
2008	3 377	61 050	8 610	828	42 706	10 499	7 975	416 860	12 127	48 256	30 938	5 376
2009	3 047	92 835	9 114	975	86 831	29 742	4 356	255 846	5 218	33 319	26 953	6 685
2010	3 260	169 217	22 591	805	65 337	22 448	4 504	295 223	4 021	14 133	23 221	10 380
2011	4 079	125 949	11 529	948	45 795	14 154	1 671	108 266	1 234	16 740	22 381	9 307
2012	4 345	162 680	18 953	819	46 643	12 862	1 066	69 625	939	9 522	19 892	6 356
2013	8 855	357 215	49 756	1 232	105 258	16 978	1 367	90 785	1 024	13 929	31 820	6 162
2014	13 061	560 844	33 927	3 207	194 277	29 944	1 643	111 180	629	21 622	61 413	7 724
2015	15 904	556 732	34 114	2 281	179 980	9 900	1 934	138 833	383	24 169	77 880	4 250
2016	15 150	807 374	38 501	3 203	274 694	40 025	2 658	213 629	560	32 927	114 929	3 436
2017	15 285	637 421	26 951	2 845	409 826	22 708	3 536	295 012	426	30 562	133 962	2 558
2018	22 657	1 131 906	29 717	4 110	290 366	18 254	3 587	293 317	364	40 009	172 854	1 198
	113 470	4 876 053	315 778	23 549	2 150 686	420 035	129 720	6 254 947	135 246	376 231	804 102	87 955

The loans portfolio, by segment and by production year, in 2017, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Mortage loans			Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 598	79 477	16 500	1 299	230 918	101 909	57 062	1 981 156	23 529	40 811	29 555	6 943
2005	523	29 153	4 793	352	71 822	35 012	13 371	717 741	8 388	4 892	8 291	1 511
2006	672	61 818	6 816	466	105 640	41 557	16 225	887 657	13 597	6 883	23 924	4 446
2007	1 033	88 252	11 503	605	114 853	38 944	16 419	887 473	12 363	37 843	39 186	13 912
2008	4 921	80 578	10 822	1 069	82 843	20 440	8 586	462 685	7 219	51 150	36 211	6 758
2009	4 105	127 641	16 936	1 194	107 176	31 851	4 689	287 817	2 997	36 646	34 059	8 108
2010	4 456	206 304	32 045	1 207	83 307	24 753	4 900	331 142	2 837	18 595	34 659	12 842
2011	5 657	219 133	59 977	1 292	72 890	20 338	1 834	123 740	556	19 390	33 081	10 929
2012	5 438	218 607	35 977	1 135	57 986	17 404	1 179	80 250	707	11 146	28 535	7 512
2013	12 240	605 203	91 266	1 653	125 558	25 337	1 514	105 868	735	16 881	45 987	6 796
2014	17 680	753 462	54 051	3 970	233 030	31 922	1 822	129 600	333	25 542	85 271	7 294
2015	17 575	750 926	39 174	2 647	212 154	9 920	2 113	159 667	158	28 458	109 209	3 320
2016	17 159	920 163	22 843	3 480	329 984	35 230	2 829	235 225	188	39 387	154 993	2 387
2017	23 272	1 131 056	19 254	4 084	487 021	25 886	3 695	304 834	125	37 690	174 937	1 017
	116 329	5 271 773	421 957	24 453	2 315 182	460 503	136 238	6 694 855	73 732	375 314	837 898	93 775

The loans gross exposure and impairment, individual and collective, by segment, in 2018 and 2017, is analysed as follows:

(Thousansd of Euro)

2018	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 929 281	190 749	1 660 434	359 152	17 728	392	36 572	15 318	4 644 015	565 611
Collective	1 946 772	125 029	490 254	60 883	6 237 219	134 854	767 530	72 637	9 441 775	393 403
	4 876 053	315 778	2 150 688	420 035	6 254 947	135 246	804 102	87 955	14 085 790	959 014

(Thousands of Euro)

2017	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 135 592	249 951	1 760 832	379 010	18 140	818	33 563	13 577	4 948 127	643 356
Collective	2 136 181	172 006	554 350	81 493	6 676 715	72 914	804 335	80 198	10 171 581	406 611
	5 271 773	421 957	2 315 182	460 503	6 694 855	73 732	837 898	93 775	15 119 708	1 049 967

The loans gross exposure and impairment, individual and collective, by business sector, in 2018 and 2017, is analysed as follows:

(Thousands of Euro)

2018	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	727 631	231 041	580 432	39 014	352 683	44 742	743 349	112 808	2 185 620	122 296	4 589 715	549 901
Collective	237 068	43 197	513 857	36 091	725 987	52 148	118 004	8 047	842 110	46 429	2 437 026	185 914
	964 699	274 238	1 094 289	75 105	1 078 670	96 890	861 353	120 855	3 027 730	168 725	7 026 741	735 815

(Thousands of Euro)

2017	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	816 276	251 653	581 217	34 930	355 471	37 998	784 348	117 793	2 359 112	186 587	4 896 424	628 961
Collective	278 473	53 468	588 945	47 638	809 218	81 097	128 871	11 432	885 024	59 864	2 690 531	253 499
	1 094 749	305 121	1 170 162	82 568	1 164 689	119 095	913 219	129 225	3 244 136	246 451	7 586 955	882 460

The loans gross exposure, performing and non-performing, in 2018 and 2017, is analysed as follows:

(Thousands of Euro)

2018	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing loans	of which non-performing	of which in default	of which impaired	of which forborne	on performing exposure	of which forborne	on non-performing exposure	of which forborne	on non-performing exposure	of which forborne
Loans represented by securities (a)	2 051 091	-	-	33 000	33 000	33 000	-	6 109	-	3 082	-	-	-
Other balance sheet credit exposures (b)	14 319 629	58 075	103 166	1 846 079	1 754 452	1 843 262	838 423	76 752	4 188	862 253	383 036	675 440	401 457
Off-balance sheet exposures (c)	1 667 025	2 207	2 650	187 924	170 377	187 924	32 744	3 133	7	11 304	165	-	-

(a) Includes Debt instruments of the Financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, Guarantees and Documentary credit provided.

(Thousands of Euro)

2017	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing loans	of which non-performing	of which in default	of which impaired	of which forborne	on performing exposure	of which forborne	on non-performing exposure	of which forborne	on non-performing exposure	of which forborne
Loans represented by securities (a)	2 192 561	-	-	4 300	4 300	4 300	-	36 387	-	1 806	-	-	-
Other balance sheet credit exposures (b)	15 587 390	71 678	122 416	2 300 459	2 300 459	2 257 078	1 036 712	46 858	4 433	983 877	397 897	970 986	582 138
Off-balance sheet exposures (c)	1 763 312	2 284	1 419	157 188	157 188	155 574	3 590	4 526	131	11 620	44	-	-

(a) Includes Debt instruments of the Financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	3 288	384 536	1 681	69 782	101 511	12 519 977	341	10 250
>= 0,5 M€ and <1M€	212	147 318	33	21 204	367	227 914	1	500
>= 1 M€ and <5M€	196	409 124	17	33 030	44	65 025	-	-
>= 5 M€ and <10M€	33	232 911	6	44 830	-	5 099	-	-
>= 10 M€ and <20M€	27	366 295	1	13 491	1	-	-	-
>= 20 M€ and <50M€	13	432 369	2	66 000	-	-	-	-
>= 50M€	5	955 862	-	-	-	-	-	-
	3 774	2 928 415	1 740	248 337	101 923	12 818 015	342	10 750

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair Value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 162	503 249	1 739	69 641	106 171	12 961 920	340	11 351
>= 0,5 M€ and <1M€	244	168 262	29	18 105	347	214 551	1	500
>= 1 M€ and <5M€	250	529 758	18	30 669	39	62 709	-	-
>= 5 M€ and <10M€	37	266 903	4	27 453	-	-	-	-
>= 10 M€ and <20M€	29	399 339	2	26 099	-	-	-	-
>= 20 M€ and <50M€	14	396 579	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 741	3 189 006	1 794	237 967	106 557	13 239 180	341	11 851

The LTV (loan to value) ratio of the Corporate, Construction and CRE and Mortgage segments, as of 31 December 2018 and 2017, is presented as follows:

(Thousands of Euro)

Segment/ Ratio	2018 No. of real estate	2018 Total exposure	2018 Impairment	2017 No. of real estate	2017 Total exposure	2017 Impairment
Corporate						
Without real estate (*)	-	3 795 844	216 254	-	4 146 160	312 618
< 60%	2 146	368 389	24 647	2 201	374 454	20 752
>= 60% and < 80%	820	466 678	27 331	984	412 304	20 961
>= 80% and < 100%	879	199 141	21 031	1 015	264 699	23 259
>= 100%	24	46 001	26 515	107	74 156	28 418
Construction and CRE						
Without real estate (*)	-	962 259	162 651	-	1 005 725	183 922
< 60%	1 401	511 869	109 767	1 784	479 582	74 311
>= 60% and < 80%	906	349 903	54 658	988	315 003	47 311
>= 80% and < 100%	1 068	216 969	40 695	1 387	327 548	44 686
>= 100%	399	109 687	52 264	582	187 325	105 079
Mortgage						
Without real estate (*)	-	533 930	34 675	-	585 242	22 868
< 60%	64 492	2 576 393	29 004	64 940	2 582 221	6 230
>= 60% and < 80%	26 024	2 121 153	24 825	27 096	2 208 224	8 255
>= 80% and < 100%	10 536	946 844	23 945	12 735	1 163 967	12 708
>= 100%	871	76 627	22 797	1 786	155 829	23 672

(*) Includes operations with other associated collaterals, namely financial collaterals.

The fair value and net value of real estate receivables, by type of asset, as of 31 December 2018 and 2017, are presented as follows:

(Thousands of Euro)

Assets	2018 No. of real estate	2018 Fair value	2018 Book value
Land	**1 961**	**392 150**	**348 312**
Urban	1 685	330 236	290 066
Rural	276	61 914	58 246
Buildings under construction	**679**	**122 593**	**111 057**
Commercial	71	6 518	5 194
Housing	514	115 423	105 233
Other	94	652	630
Constructed buildings	**2 618**	**314 629**	**278 568**
Commercial	957	133 776	116 456
Housing	1 133	173 392	155 806
Other	528	7 461	6 306
	5 258	829 372	737 937

(Thousands of Euro)

Assets	2017 No. of real estate	Fair value	Book value
Land	**2 018**	**406 480**	**357 622**
Urban	1 738	292 405	266 534
Rural	280	114 075	91 088
Buildings under construction	**698**	**99 167**	**89 599**
Commercial	86	7 267	6 527
Housing	486	90 442	81 687
Other	126	1 458	1 385
Constructed buildings	**2 827**	**333 351**	**294 882**
Commercial	920	128 474	113 019
Housing	1 395	187 965	167 379
Other	512	16 912	14 484
	5 543	838 998	742 103

The time lapse since the transfer / execution of properties received, as of 31 December 2018 and 2017, is presented as follows:

(Thousands of Euro)

	2018				
Elapsed time since transfer/ execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**10 218**	**105 942**	**78 695**	**153 457**	**348 312**
Urban	6 592	94 881	66 025	122 568	290 066
Rural	3 626	11 061	12 670	30 889	58 246
Buildings under construction	**32 979**	**20 260**	**33 897**	**23 921**	**111 057**
Commercial	146	1 413	1 974	1 661	5 194
Housing	32 740	18 847	31 894	21 752	105 233
Other	93	-	29	508	630
Constructed buildings	**30 597**	**54 330**	**86 876**	**106 765**	**278 568**
Commercial	11 329	20 386	36 792	47 949	116 456
Housing	18 945	31 418	48 591	56 852	155 806
Other	323	2 526	1 493	1 964	6 306
	73 794	180 532	199 468	284 143	737 937

(Thousands of Euro)

Elapsed time since transfer/ execution	2017				
	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**61 556**	**81 483**	**163 349**	**51 234**	**357 622**
Urban	63 844	57 167	101 551	43 972	266 534
Rural	(2,288)	24 316	61 798	7 262	91 088
Buildings under construction	**5 374**	**20 558**	**42 334**	**21 333**	**89 599**
Commercial	114	1 508	3 147	1 758	6 527
Housing	5 260	18 628	38 485	19 314	81 687
Other	-	422	702	261	1 385
Constructed buildings	**45 651**	**62 538**	**131 280**	**55 413**	**294 882**
Commercial	14 023	17 954	63 169	17 873	113 019
Housing	30 446	37 978	62 870	36 085	167 379
Other	1 182	6 606	5 241	1 455	14 484
	112 581	164 579	336 963	127 980	742 103

Concentration Risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or in the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing and maintaining this risk in suitable solvability levels. In Banco Montepio Group, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Concentration risk in credit is the most important risk to Banco Montepio Group and, as such, there are several procedures related to its identification, measurement and management. In order to control concentration risk of exposure to a related customer / group of customers, maximum exposure limits were set for the aggregate positions of credit and investment portfolios for the various Banco Montepio's entities.

In order to reduce concentration risk, Banco Montepio seeks to diversify, as far as possible, its areas of activity and sources of income, as well as to diversify its exposures and sources of financing.

The concentration risk management is carried out in a centralised way, with regular monitoring of the concentration indexes by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the individual concentration level and the degree of diversification of the quality of the portfolio of companies are regularly monitored by the Risk Department. Maximum exposure limits are established per customer / group of customers related to each other, as well as limits for the concentration of the largest depositors.

Market Risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and / or prices of the different financial instruments that comprise it, considering both existing correlations between them, and respective volatilities.

The Group calculates its own portfolios “VaR”, given a 10-day horizon and a 99% confidence interval, by the method of historical simulation. The types of risk considered in this methodology are the risk of interest rate, exchange rate risk, price risk, spread risk and commodities risk.

The Group's investment portfolio is mainly concentrated in bonds, and as of 31 December 2018 represented 72.5% (31 December 2017: 76.6%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese, Spanish and Italian Republics.

With regard to credit derivatives, Banco Montepio held no position in these instruments at 31 December 2018 and 2017.

Regarding the credit quality of debt securities, it is important to note the improvement of the Portuguese public debt rating (rated B-). In addition, we highlight the downgrade of the Italian public debt from BBB to BBB-. Concerning the composition of the portfolio, the major changes resulted from a reduction in exposure to Italian and Spanish sovereign debt and an increase in exposure to Portuguese sovereign debt.

The distribution of the bond portfolio, recognised under Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost (which excludes positions held by subsidiaries subject to the application of IFRS 5), is presented as follows:

(Thousands of Euro)

Rating	2018		2017		Change	
	Amount	%	Amount	%	Amount	%
AA+	1 091	0.1	-	-	1 091	-
AA	-	-	1 798	0.1	(1 798)	(100.0)
AA-	-	-	1 728	0.1	(1 728)	(100.0)
A+	1 718	0.1	1 528	0.1	190	12.4
A	1 031	0.1	2 086	0.1	(1 055)	(50.6)
A-	3 128	0.2	2 018	0.1	1 110	55.0
BBB+	212 081	12.6	297 348	15.1	(85 267)	(28.7)
BBB	15 666	0.9	577 539	29.3	(561 873)	(97.3)
BBB-	1 279 957	76.1	859 844	43.7	420 113	48.9
BB	234	-	-	-	234	-
B-	-	-	17 164	0.9	(17 164)	(100.0)
NR	52 257	3.1	46 978	2.3	5 279	11.2
Subtotal	1 567 163	93.2	1 808 031	91.8	(240 868)	(13.3)
Discontinuing subsidiaries	113 635	6.8	161 589	8.2	(47 954)	(29.7)
Total	1 680 798	100.0	1 969 620	100.0	(288 822)	(14.7)

As at 31 December 2018, the amount of Euro 1,680,798 thousand (31 December 2017: Euro 1,969,620 thousand) includes the amount of Euro 113,635 thousand (31 December 2017: Euro 161,589 thousand), which corresponds to the securities portfolio of Finibanco Angola and Banco Terra, which belong to the subsidiaries subject to the application of IFRS 5 and which are consequently recorded in discontinued operations.

The amount of securities recognised in the Financial assets at fair value through other comprehensive income portfolio amounts to Euro 311,512 thousand (31 December 2017: Euro 1,658,409 thousand) and the amount of securities recognised in Financial assets at amortised cost amounts to Euro 1,255,651 thousand. As at 31 December 2017, the amount of securities recognised in the trading portfolio amounted to Euro 149,622 thousand.

Regarding trading portfolio, which as at 31 December 2018 did not include open positions in equity securities and bonds, the main VaR indicators are as follows:

(Thousand of Euro)

	2018	Average	Minimum	Maximum	Dec 2017
Market VaR	5	586	5	1 213	2 857
Interest rate risk	5	168	5	1 039	121
Exchange risk	-	63	-	84	93
Price risk	-	513	-	448	479
Diversification risk	-	*(808)*	-	*(1,796)*	*(185)*

Bank Portfolio Interest Rate Risk

The assessment of interest rate risk caused by banking portfolio operations is performed by a sensitivity analysis to the risk, in a consolidated view for Banco Montepio's entities (including subsidiaries recognised in discontinuing operations).

Interest rate risk is measured according to the impact on net interest income, net worth and equity caused by changes in market interest rates. The main risk factors arise from the term adjustments of the interest rate reset and / or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indexes with the same term of repricing (basis risk) and the options associated with instruments enabling a different performance of the players/participants depending on the level of rates contracted and practiced at the moment (option risk).

Based on the financial characteristics of each contract, it is made its projection of expected cash flows, according to the dates of rate reset and any behavioral assumptions considered.

Aggregation, for each currency analysed the expected cash flows in each of the time intervals to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps, from a consolidated perspective, for 2018 and 2017:

(Thousands of Euro)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
31 December 2018					
Assets	8 917 958	3 022 618	752 899	1 391 625	959 267
Off-balance sheet	6 200	9 850	13 920	753 300	-
Total	8 924 158	3 032 468	766 819	2 144 925	959 267
Liabilities	2 955 967	1 717 108	1 963 660	5 323 769	51 245
Off-balance sheet	758 300	9 850	13 920	-	1 200
Total	3 714 267	1 726 958	1 977 580	5 323 769	52 445
GAP (Assets - Liabilities)	5 209 891	1 305 510	(1 210 761)	(3 178 844)	906 822
31 December 2017					
Assets	8 090 272	3 323 150	638 092	1 796 706	1 022 751
Off-balance sheet	9 990	-	-	782 972	-
Total	8 100 262	3 323 150	638 092	2 579 678	1 022 751
Liabilities	4 732 106	1 903 838	2 509 450	8 049 434	274 933
Off-balance sheet	758 550	9 850	9 740	14 822	-
Total	5 490 656	1 913 688	2 519 190	8 064 256	274 933
GAP (Assets - Liabilities)	2 609 606	1 409 462	(1 881 098)	(5 484 578)	747 818

(Thousands of Euro)

	2018				2017			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate gap	3 032 618	1 657 634	3 032 618	(1 033 527)	(2 598 790)	(2 071 755)	(1 544 721)	(2 598 790)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve.

As at 31 December 2018, based on interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a decrease in the economic value expected in the banking portfolio in Euro 18,966 thousand (31 December 2017: reduction of Euro 12,243 thousand).

The following table presents the average interests, in relation to the Group's major assets and liabilities categories for the years 2018 and 2017, as well as the average balances and income and expense for the year:

(Thousands of Euro)

	2018			2017		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Deposits at central banks and OCI	1 370 858	1,01	14 043	468 753	-	12
Loans and advances to OCI	323 513	0,78	2 558	414 059	0,94	3 966
Loans and advances to customers	13 709 270	2,26	313 856	14 738 284	2,43	363 701
Securities portfolio	1 732 981	0,67	11 764	2 470 694	1,46	36 477
Other (includes derivatives)	-	0,00	19 487	-	-	16 475
	17 136 622	**2,08**	**361 708**	**18 091 790**	**2,29**	**420 631**
Interest liabilities generators						
Deposits from ECB	1 539 715	0,32	5 001	2 322 365	0,04	1 003
Deposits from OCI	1 636 717	0,95	15 809	2 057 221	0,66	13 689
Deposits from customers	12 389 580	0,45	56 912	11 918 658	0,70	84 696
Senior debt	1 286 957	1,42	18 550	1 540 062	2,44	38 110
Subordinated debt	90 681	1,24	1 140	248 745	1,20	3 038
Other (includes derivatives)	-	0,00	16 192	-	-	13 869
	16 943 650	**0,66**	**113 604**	**18 087 051**	**0,84**	**154 405**
Net interest income		**1,43**	**248 104**		**1,45**	**266 226**

Currency Risk

Regarding currency risk, the procedure is the application of funds raised in various currencies through active money market and for terms not exceeding those of the resources. Thus, existing exchange rate gaps are essentially due to possible mismatches between the terms of the applications and of the resources.

The breakdown of assets and liabilities, by currency, as at 31 December 2018 and 2017, is analysed as follows:

(Thousands of Euro)

	2018							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Valor total
Assets by currency								
Cash and deposits at central banks	1 590 381	14 110	-	-	1 512	-	4 632	1 610 635
Loans and advances to credit institutions repayable on demand	24 384	37 249	5 647	-	5 570	-	5 238	78 088
Other loans and advances to credit institutions	180 433	3 198	-	-	3 676	-	22 625	209 932
Loans and advances to customers	12 007 287	114 837	-	-	1 069	-	19	12 123 212
Financial assets held for trading	23 727	12	-	-	-	-	-	23 739
Financial assets not help trading mandatorily at fair value through ptofit or loss	492 594	-	-	-	-	-	-	492 594
Financial assets a fair value through other comprehensive income	396 763	-	-	-	-	47 310	-	444 073
Hedging derivatives	5 666	-	-	-	-	-	-	5 666
Other financial assets at amortised cost	1 255 651	-	-	-	-	-	-	1 255 651
Investment in associates	4 282	-	-	-	-	-	-	4 282
Non-current assets held for sale	737 937	-	-	-	-	-	-	737 937
Non-current assets held for sale - - Discontinuing operations	39 921	117 171	137 534	-	1	-	98	294 725
Investment properties	253 097	-	-	-	-	-	-	253 097
Property, plant and equipment	229 599	-	-	-	-	-	-	229 599
Intangible assets	32 326	-	-	-	-	-	-	32 326
Current tax assets	11 073	-	-	-	-	-	-	11 073
Dferred tax assets	460 268	-	-	-	-	-	-	460 268
Other assets	83 281	990	-	-	1	-	158	84 430
Total Assets	**17 828 670**	**287 567**	**143 181**	**-**	**11 829**	**47 310**	**32 770**	**18 351 327**
Liabilities by currency								
Deposits from central banks	1 395 320	-	-	-	-	-	-	1 395 320
Deposits from other credit institutions	1 184 676	33 894	-	-	3 923	-	22 942	1 245 435
Deposits from customers	12 413 782	108 441	-	-	10 039	-	42 962	12 575 224
Debt securities issued	1 063 007	30 927	-	-	-	-	-	1 093 934
Financial liabilities held for trading	13 486	10	-	-	-	-	-	13 496
Financial liabilities held for sale - Discontinuing operations	46 171	52 384	95 431	-	7	-	2	193 995
Provisions	31 080	-	-	-	-	-	-	31 080
Current tax liabilities	10 960	-	-	-	-	-	-	10 960
Other subordinated debt	50 044	-	-	-	-	-	-	50 044
Other liabilities	189 349	13 390	-	-	296	-	1 871	204 906
Total Liabilities	**16 397 875**	**239 046**	**95 431**	**-**	**14 265**	**-**	**67 777**	**16 814 394**
Exchange forward transactions		(38 257)	-	-	2 236	-	35 779	71
Exchange gap		10 264	47 750	-	(200)	47 310	772	
Stress Test		**(2 053)**	**(9 550)**	**-**	**40**	**(9 462)**	**(155)**	

(Thousands of Euro)

	2017							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 715 640	11 761	-	-	1 473	102	4 652	1 733 628
Loans and advances to credit institutions repayable on demand	25 928	17 697	4 448	-	447	-	1 685	50 205
Other loans and advances to credit institutions	271 844	12 385	-	-	3 707	-	24 267	312 203
Loans and advances to customers	12 910 078	119 045	-	-	167	-	28	13 029 318
Financial assets held for trading	180 662	3 006	-	-	-	-	408	184 076
Financial assets at fair value though other compreehensive income	2 142 810	372	-	-	-	57 614	97	2 200 893
Investments in associated	4 097	-	-	-	-	-	-	4 097
Non-current assets held for sale	742 221	-	-	-	-	-	-	742 221
Non-current assets held for sale - discontinuing operations	6 373	132 202	287 430	48 138	1	-	331	474 475
Investment properties	538 625	-	-	-	-	-	-	538 625
Property, plant and equipment	233 312	-	-	-	-	-	-	233 312
Intangible assets	31 371	-	-	-	-	-	-	31 371
Current tax assets	7 327	-	-	-	-	-	-	7 327
Deferred tax assets	466 000	-	-	-	-	-	-	466 000
Other assets	192 011	259	-	-	3	-	-	192 273
Total Assets	**19 468 299**	**296 727**	**291 878**	**48 138**	**5 798**	**57 716**	**31 468**	**20 200 024**
Liabilities by currency								
Deposits from central banks	1 557 840	-	-	-	-	-	-	1 557 840
Deposits from other credit institutions	1 726 127	31 885	-	-	3 847	-	24 858	1 786 717
Deposits from customers	12 409 969	96 967	-	-	11 339	-	42 765	12 561 040
Debt securities issued	1 514 465	29 589	-	-	-	-	-	1 544 054
Financial liabilities held for trading	15 694	477	-	-	-	-	-	16 171
Hedging derivatives	1 663	-	-	-	-	-	-	1 663
Non-current liabilities held for sale - discontinuing operations	34 409	68 058	199 430	28 478	7	-	10	330 392
Provisions	27 096	-	-	-	-	-	-	27 096
Current tax liabilities	5 217	-	-	-	-	-	-	5 217
Other subordinated debt	236 193	-	-	-	-	-	-	236 193
Other liabilities	367 937	1 338	-	-	287	-	1 158	370 720
Total Liabilities	**17 896 610**	**228 314**	**199 430**	**28 478**	**15 480**	**-**	**68 791**	**18 437 103**
Exchange forward transactions		(49 974)	-	-	9 919	-	40 313	
Exchange gap		18 439	92 448	19 660	237	57 716	2 990	
Stress Test		**(3 688)**	**(18 490)**	**(3 932)**	**(47)**	**(11 543)**	**(598)**	

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring significant losses arising from a deterioration in financing conditions (financing risk) and / or the sale of its assets at lower values to market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which are defined exposure limits. This control is reinforced with weekly execution of stress tests, in order to characterize the risk profile of Banco Montepio and ensure that the Group fulfills its obligations in a liquidity crisis scenario. The calculation of the CRL prudential ratio is performed on a weekly basis.

As at 31 December 2018, the recorded amount in LCR was 160.5%. (31 December 2017: 153.2%).

As at 31 December 2018, Banco Montepio's financing structure was as follows:

(Thousands of Euro)

	2018	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 395 220	-	-	-	-	1 395 220
Deposits from other credit institutions	1 245 435	-	111 910	121 679	661 440	350 406
Deposits from customers	12 575 224	-	4 731 691	2 965 784	1 843 723	3 034 026
Debt securities issued	1 093 934	-	97 117	55	21 701	975 061
Financial liabilities held for trading	13 496	-	100	152	10	13 234
Financial liabilities held for sale - - Discontinuing operations	193 995	193 995	-	-	-	-
Other subordinated debt	50 044	-	-	-	44	50 000
Other liabilities	204 906	204 906	-	-	-	-
Total financing	**16 772 254**	**398 901**	**4 940 818**	**3 087 670**	**2 526 918**	**5 817 947**

As at 31 December 2017, Banco Montepio's financing structure was as follows:

(Thousands of Euro)

	2017	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 557 840	-	-	-	-	1 557 840
Deposits from other credit institutions	1 786 717	-	142 919	65 982	415 169	1 162 647
Deposits from customers	12 561 040	-	4 717 147	3 514 898	2 287 697	2 041 298
Debet securities issued	1 544 054	-	109 036	65 201	80 578	1 289 239
Financial liabilities held for trading	16 171	-	902	1	221	15 047
Hedging derivatives	1 663	-	-	-	-	1 663
Financial liabilities held for sale - - Discontinuing operations	330 392	330 392	-	-	-	-
Other subordinated debt	236 193	-	111 934	4 206	120 053	-
Other liabilities	370 720	370 720	-	-	-	-
Total financing	**18 404 790**	**701 112**	**5 081 938**	**3 650 288**	**2 903 718**	**6 067 734**

Within the instruction No. 28/2014 of Bank of Portugal, of 15 January 2015, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation by the European Systemic Risk Committee, we present the following information, as at 31 December 2018 and 2017, on the assets and related collaterals:

(Thousands of Euro)

Assets	2018 Carrying amount of encumbered assets	2018 Fair value of encumbered assets	2018 Carrying amounts of unencumbered assets	2018 Fair value of unencumbered assets
Assets from the reporting institution	3 996 499	-	14 354 829	-
Equity instruments	-	-	597 063	1 007 687
Debt securities	768 038	735 169	1 273 863	1 447 186
Other assets	-	-	2 331 739	-

(Thousands of Euro)

Assets	2017 Carrying amount of encumbered assets	2017 Fair value of encumbered assets	2017 Carrying amounts of unencumbered assets	2017 Fair value of unencumbered assets
Assets from the reporting institution	5 721 933	-	14 478 091	-
Equity instruments	-	-	552 385	636 068
Debt securities	1 177 559	1 173 674	1 126 431	3 086 521
Other assets	-	-	2 786 993	-

(Thousands of Euro)

Collateral received	2018 Fair value of encumbered collateral received or own debt securities issued	2018 Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institutions	46 398	-
Equity instruments	-	-
Debt securities	46 398	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	2017 Fair value of encumbered collateral received or own debt securities issued	2017 Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institutions	77 463	-
Equity instruments	-	-
Debt securities	77 463	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

Encumbered assets, encumbered collateral received and associated liabilities	(Thousands of Euro) 2018 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	2 609 154
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	4 015 260

Encumbered assets, encumbered collateral received and associated liabilities	(Thousands of Euro) 2017 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 709 616
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 711 477

The encumbered assets are mostly related to collateralise financing of Banco Montepio Group, in particular the ECB's, repo transactions, issuance of covered bonds and securitisation programs. The type of assets used as collateral of these financing transactions, whether placed outside the Group, whether to improve the pool of collateral with the ECB, are customer's loans contracts. Repo transactions in the money market are collaterised, mainly by covered bonds and securitisation programs in which Banco Montepio is the originator, and by debt securities issued operations.

The amounts presented previously correspond to the position as at 31 December 2018 and 2017 and reflect the high level of collateralisation of the wholesale funding of Banco Montepio Group. The buffer of eligible assets for the ECB, after haircuts, less net borrowing at the ECB, as at 31 december 2018 amounts to Euro 1,254,923 thousand (31 December 2017: Euro 1,036,095 thousand).

It should be noted that the total amount of collaterals available at the European Central Bank (BCE) on 31 December 2018 amounts to Euro 2,603,413 thousand (31 December 2017: Euro 2,557,271 thousand) with a usage of Euro 1,395,320 thousand (31 December 2017: Euro 1,557,840 thousand):

(Thousands of Euro)

	2018	2017
Total eligible collateral	**3 882 678**	**4 272 244**
Total collateral in the pool	2 603 413	2 557 271
Collateral outside the pool	1 279 265	1 714 973
Used collateral	**2 627 755**	**3 236 149**
Collateral used for ECB	1 395 320	1 557 840
Collateral committed to other financing operations	1 232 435	1 678 309
Collateral available for ECB	**1 208 093**	**999 431**
Total available collateral	**1 254 923**	**1 036 095**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate, whether from credit recovery processes or from real estate fund units held in securities portfolio. These exposures are monitored through scenario analyses that attempt to estimate potential impacts of changes in real estate markets in portfolios of these real estate assets and make available the information elements needed for the definition of the policy for real estate management.

As at 31 December 2018 and 2017, exposure to real estate and real estate investment units presented the following values:

	(Thousands of Euro)	
	2018	**2017**
Real estate received as loan guarantee	737 930	742 103
Investment properties	253 097	538 625
Real estate investment fund units	296 550	213 546
	1 287 577	1 494 274
Stress test	(128 758)	(149 427)

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% variation in values of real estate and real estate funds.

Operating Risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

Banco Montepio Group has the approval from Bank of Portugal for the use of the standard method for quantifying its own capital requirements for operating risk. An integrated continuing business plan is implanted, based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk.

The risk department has the corporate function of operational risk management of Banco Montepio Group which is supported by the existence of responsible employees in the different organic units that ensure the proper implementation of CEMG's operating risk management.

The operating risk profile assessment for new products, processes and systems and the consequent follow-up, on a regular basis, has allowed the prior identification and mitigation of operating risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the evaluation of the exposure to Operating Risk and the preparation of periodic reports on the profile of Operational risk of the Institution. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. An annual report is prepared annually, which includes the analysis of all operating risk management instruments.

Within the mitigation phase, Action Plans were suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, Banco Montepio has implemented a business continuity management process, supported by a set of evaluation, design, implementation and monitoring activities, integrated into a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing to ensure the continuity of operations in the event situations that cause the interruption of the activity, considering the established Recovery Time Objective (RTO).

Pension Fund Risk

The pension fund risk results from the potential devaluation of the fund's assets portfolio or the decrease in the expected returns, as well as the increase in the fund's liabilities as a result of the evolution of the different actuarial assumptions. In such scenarios, Banco Montepio will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular monitoring and analysis of Banco Montepio's Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the Pension Fund portfolio's market value and associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and different legal provisions, the control of these limits is monitored daily by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures that are performed may the limits be exceeded.

Subsequently, the Risk Department monitors the effect of the measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has decided to strengthen control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows monitoring the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on VaR calculation, with a confidence/reliability interval of 99.5% for one-year time horizon. Since VaR does not totally guarantees that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose to calculate the impact of several extreme scenarios on the value of the portfolio.

The shareholder liquidity level and bond component of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days to settle, considering the assets in the portfolio. This test consists of verifying the liquidity of the shareholder segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond segment, the cash receipts (positive cash-flows) resulting from bond coupon (interest) payments and amortisations or possible call exercises for one month are calculated. All these tests allow to assess the degree of liquidity in the short term and to monitor or act before a possible shortage of liquidity in a timely manner.

Other risks

With regard to other risks – reputation, compliance, strategy and business risk - these are also monitored by the Board of Directors, and risks are controlled and corrective measures taken based on the results obtained against the objectives / limits established in the risk appetite, namely the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees, and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral.

In terms of direct reduction of the exposure value, credit transactions collateralised by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market risk and foreign exchange risk of the assets is considered, and, when applicable, the value adjustment of the collateral is carried out.

Regarding real mortgage guarantees, Banco Montepio has defined valuation and revaluation models to be applied to properties that may constitute collateral for credit operations. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a structuring unit of the Institution, regardless of the commercial area. In accordance with (EU) Regulation No. 575/2013 (CRR), the requirements for the validation and reassessment of the asset's value, depending on the cases, either by statistical and computerised methods or by review or revaluation of the valuation value by the expert.

For credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided that does not originate credit derivatives on the portfolio exposure.

Banco Montepio Group does not usually use on-balance sheet and off-balance sheet processes, nor does it generate credit derivatives on exposure in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the total risk of operations or the partial or total sale of exposures to reduce exposure or cancel it completely.

With regard to banking portfolio, interest rate and foreign exchange risk mitigation techniques are the negotiation of hedging transactions with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of Banco Montepio Group are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR) adopted by the European Parliament and by the Council, and the Notice No. 6/2013 of Bank of Portugal. Own funds include own funds of level 1 (tier 1) and own funds of level 2 (tier 2). Tier 1 includes own funds core of level 1 (common equity tier 1 – CET1) and the additional own funds of level 1 with the following composition:

- Own Funds Core of Level 1 or Common Equity Tier 1 (CET1): this category includes the realised capital (with deduction of own funds), eligible reserves (including fair-value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover Banco Montepio Group's capital requirements attributable to minority shareholders. The balance value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, is deducted between the asset and the pension fund responsibility. The amount of the prudent valuation calculated in accordance with CRR Articles No. 34 and 105 is also deducted. The deferred tax assets related to tax losses are also deducted. Concerning financial investments on financial sector entities and deferred tax assets arising from temporary differences on which depends the future profitability, the values in these accounts are deducted when, individually, overcome 10% of CET1, or posteriorly 15% of CET1 when considered as aggregated (only on the non-deducted part on the first barrier of 10% and considering only significant participations). Non-deducted values will be subject to weight of 250% for the fullness of risk-weighted assets. Regarding investments in financial institutions, the eventual deduction is proportionally realised on the respective held capital levels. As part of the implementation of this new prudential regulation (EU No. 575/2013), a transition period will be set out that will allow to gradually acknowledge the majors impacts of this new regulation. This transition plan reached total recognition in 2018 (i.e. 100%) for almost all captions. For deferred tax assets, which do not depend on future profitability, the transitional cumulative recognition plan is maintained on a 10% annual basis, on the balance sheet as at 1 January 2014. In 2018 it will be of 40%;
- Own Funds of Level 1 or Tier 1 (T1): includes capital equivalent instruments, whose conditions are in accordance with Article No. 52 from Regulation No. 575/2013 and approved by Bank of Portugal. Non-controlled interests relating to additional own funds minimum requirements of the institutions for which the Banco Montepio Group does not hold full ownership are also eligible. The eventual detentions of capital T1 from financial institutions subjected to deduction are deducted from this capital.
- Own Funds of Level 2 or Tier 2 (T2): includes capital equivalent instruments, whose conditions are in accordance with the Article No. 63 and approved by Bank of Portugal. Non-controlled interests

relating to the minimum own fund’s requirements of the institutions for which Banco Montepio does not hold full ownership are also eligible. The eventual detentions of capital T2 from financial institutions subjected to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels previous referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risks requirements, a particular reference to the weighting of 250% of deferred tax assets from temporary differences that depend on future earnings and investments that are within the established limit for non-deduction to CET1. With respect to deferred tax assets arising from temporary differences that do not depend on future profitability, these are subject to a 100% weighting for capital requirements. CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2018, Banco Montepio recognises prudently only 5% of the impact related to the IFRS 9 adoption.

As referred in 2018, the effects of Basel III's new regulation will gradually being introduced. This process is usually named as Phasing-in. The full assumption of the new regulation, without considering transitory plans, is named as Full Implementation. Phasing-in process is currently in force, and it is on this basis that an entity verifies that has its own funds for an amount not below its own funds, thus certifying the adequacy of its capital. This relation is reflected on the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (formerly designated by solvability ratio, represented by the percentage of capital level correspondent to the amount of 12.5 times the own funds requirements).

For these ratios, regulatory minimums are indicated by CRD IV / CRR of 4.5% for CET1, 6% for Tier 1 and 8% for total Capital. However, on these regulatory minimums, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, the value of which is defined by Bank of Portugal. In 2018, Bank of Portugal defined a 0% Counter-cyclical Reserve. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transition plan set out in Article no. 160 of CRD IV, thus the value of this reserve in 2018 is 1.875% and 2.5% after 1 January 2019. With respect to the Reserve for Other Systemic Institutions, Bank of Portugal has set a reserve for Banco Montepio, on a consolidated basis, of 0,0625% in 2018, 0.125% in 2019, 0.1875% in 2020 and 0.25% by 2021.

Under the SREP, Bank of Portugal defined for Banco Montepio an additional 2.75% Pillar 2 requirement to be met on a consolidated basis.

Pursuant to these provisions, as of 31 December 2018, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 9.438%, 10.938% and 12.938%, respectively, including Own Fund Reserves, referred to above.

The summary of the calculation for Banco Montepio Group's capital requirements as at 31 December 2018 and 2017, under phasing-in, is presented as follows:

(Thousands of Euro)

	2018	2017
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(904 940)	(696 238)
Minority interests eligible for CET1	6 597	11 921
Other regulatory adjustments	(65 129)	(163 520)
	1 456 528	1 572 163
Capital Tier 1		
Minority interests eligible for Tier 1	382	3 158
Regulatory adjustments	-	(3 158)
	1 456 910	1 572 163
Capital Tier 2		
Subordinated loans	56 323	24 250
Minority interests eligible for Tier 2	-	-
Regulatory adjustments	-	(16 166)
	56 323	8 084
Total own funds	1 513 233	1 580 247
Own funds requirements		
Credit risk	747 151	825 814
Market risk	8 501	28 093
Operating risk	61 884	57 748
Other requirements	43 147	38 325
	860 683	949 980
Prudential Ratios		
Common Equity Tier 1 Ratio	13,54%	13,24%
Tier 1 Ratio	13,54%	13,24%
Total Capital Ratio	14,07%	13,31%

It should be noted that ratios, as at 31 December 2018, consider the impact of admission to the deferred tax assets special regime, as described in note 33.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2018, Banco Montepio recognises prudently only 5% of the impact related to the IRS 9 adoption. If Banco Montepio did not applied this transition plan, Banco Montepio's prudential ratios as at 31 December 2018 would be:

(Thousands of Euro)

	2018
Capital Common Equity Tier 1	1 322 018
Capital Tier 1	1 322 400
Total own funds	1 378 723
Own funds requirements	851 561
Prudential Ratios	
Common Equity Tier 1 Ratio	12.42%
Tier 1 Ratio	12.42%
Total Capital Ratio	12.95%

56 Accounting standards recently issued

<u>The recently issued accounting standards and interpretations already in force and which Banco Montepio applied in the preparation of its financial statements are as follows:</u>

IFRS 9 – Financial instruments (issued in 2009 and amended in 2010, 2013 and 2014)

IFRS 9 was adopted by European Commission Regulation 2067/2016, of 22 November 2016, defining the entry into force no later than the date of the beginning of the first financial year beginning on or after 1 January 2018.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces the hedging requirements. IFRS 9 (2014) introduces limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three measurement categories for financial assets: amortised, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL). A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding. If the debt instrument that are SPPI are held under a business model whose objective achieved both by collecting contractual cash flows and by selling, the measurement would be at fair value through other comprehensive income (FVOCI), keeping the revenue form interest presenting in profit or loss.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI (FVOCI). Those amounts recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment.

All other financial assets, either the financial assets held under a business model of trading, either other financial instruments who do not comply with SPPI criteria, would be measured at fair value through profit and loss (FVTPL).

In this situation, includes Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI that would be measured at fair value with changes in fair value recognised in profit or loss (FVTPL).

The standard requires embedded derivatives in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety, confirming the existence of embedded derivatives, it should be measured at fair value through profit and loss (FVTPL).

The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

IFRS 9 (2014) established a new impairment model base on "expected losses" that replace the current "incurred losses" in IAS 39.

So, loss event will no longer need to occur before an impairment allowance is recognised. This new model will accelerate recognition of losses form impairment on debt instruments held that are measured at amortised cost or FVOCI.

If the credit risk of financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12 month expected credit losses.

If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses thereby increasing the amount of impairment recognised.

As soon as the loss event occur (what is current define as "objective evidence of impairment"), the impairment allowance would be allocated directly to financial asset affected, which provide the same accounting treatment, from that point, similar to the current IAS 39, including the treatment of interest revenue.

The mandatory effective date of IFRS 9 is 1 January 2018.

IFRS 15 – Revenue from Contracts with Customers

IASB issued on 28 May 2014 the standard IFRS 15 - Revenue from Contracts with Costumers. IFRS 15 was adopted by Regulation of the European Commission no. 1905/2016, of 22 September 2016 with mandatory application for periods beginning on or after 1 January 2018.

This standard will revoke IAS 11 Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 provides a model based on 5 steps of analysis in order to determine when revenue should be recognised and in what amount. The model specifies that the revenue should be recognised when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of certain criteria, revenue is recognised:

i) At a time when the control of the goods or services is transferred to the customer; or

ii) Over the period, to the extent that represents the performance of the entity.

None of these amendments had an impact on Banco Montepio’s financial statements.

IFRIC 22 – Foreign Currency Translations and Advance Consideration

It has been issued on 8 December 2016, IFRIC 22, with mandatory application for annual periods beginning on or after 1 January 2018.

This new IFRIC 22 defines that, has been an advance in foreign currency for an asset, expense or revenue, applying paragraphs 21-22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (or if there are multiple payments or receives, the foreign currency exist at each advance consideration date).

None of these amendments had an impact on Banco Montepio’s financial statements.

It was also endorsed by UE Commission the amendments issued by IASB:

- On 20 June 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IFRS 2 on Classification and Measurement of Share-based Payment Transactions;
- On 8 December 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IAS 40 - *Transfers of Investment Property* to clarify whether an entity should transfer property under construction or development to, or from, investment property when there is a change in the use of such property which is supported by evidence other than specifically listed in paragraph 57 of IAS 40;
- The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments, with effective date for annual periods beginning on or after, 1 July 2018, to the standards IFRS 1 (deletion of short-term exemption for first-time adopters) and IAS 28 (measuring an associate or joint venture at fair value).

None of these amendments had an impact on Banco Montepio's financial statements.

Banco Montepio Group has decided not to early apply the following standards and / or interpretations adopted by the European Union:

IFRS 16 - Leases

Banco Montepio Group is required to apply IFRS 16 - Leases, issued by the IASB on 13 January 2016, for periods beginning on or after 1 January 2019. Banco Montepio Group has assessed the estimated impact that the initial application of IFRS 16 will have in its Financial Statements, as described below. The impacts resulting from the adoption of IFRS 16 as of 1 January 2019 may change because:

- Banco Montepio Group has not yet finalized the set of tests and evaluation of controls on the new IT systems; and
- the new accounting policies are subject to changes until Banco Montepio Group presents its first financial statements including the date of initial application.

IFRS 16 introduces a single accounting model for the classification of leases from the lessee's perspective. A lessee recognises an asset on right of use, which represents the right to use the underlying asset, and a lease liability that represents the obligation to make lease payments. There are exceptions in recognition for short-term leases and low value leases. The accounting policy in the view of the lessor remains similar to that envisaged in the current standard - that is, lessors continue to classify leases as financial or operating.

IFRS 16 revokes the current guidance on leases, including IAS 17 - Leases, IFRIC 4 - Determine whether an Agreement contains a Lease, SIC 15 - Operational Leases - Incentives and SIC 27 - Evaluation of Transactions Substance that Involve the Legal Form of a Rental.

i. Leases in which Banco Montepio presents itself as lessee

Banco Montepio Group will recognise the new assets and liabilities for its operating leases related to branch and central services facilities. The nature of the expenditures related to these operating leases will be changed since IFRS 16 replaces linear operating lease expenses by depreciation for assets under rights of use and interest charges related to the lease liabilities.

Previously Banco Montepio Group recognised operating lease expenses on a straight-line basis over the term of the lease agreement and recognised assets and liabilities only to the extent that it observed a difference in the period of time between lease payments and expense recognition.

As at 31 December 2018, the minimum amount of the future lease payments of Banco Montepio Group on non-cancellable operating leases corresponds to Euro 4,008 thousand (note 12), on an undiscounted basis, in which Banco Montepio estimates that it will recognise it as an additional lease liability.

ii. Leases in which the Banco Montepio Group presents itself as lessor

No significant impacts are expected for the lease contracts in which Banco Montepio Group presents itself as lessor. However, in 2019 a set of additional disclosures will be required.

iii. Transition

Banco Montepio Group plans to apply IFRS 16 initially as of 1 January 2019, using the simplified retrospective approach, without the restatement of comparative information. The transition approach used allows the selection of a set of practical exceptions for the non-application of IFRS 16, namely: (i) Short-term leasing, leasing contracts with a period of less than 12 months (including renewal options); and ii) Low value lease, lease contracts whose value of the asset corresponds to ≤ EUR 5,000.

Banco Montepio Group plans to apply the practical exception regarding the definition of a lease on the transition date, that is, it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as a lease in accordance with IAS 17 and IFRIC 4. Thus, for leases previously classified as operating leases under IAS 17, the asset under right of use is measured by an amount equal to the lease liability, adjusted by the amount of any prior or increased lease payments related to that lease, recognised in the balance sheet immediately before the initial date of application. Therefore, as of 1 January 2019, the impact on retained earnings will be nil.

Banco Montepio Group is conducting a qualitative and quantitative evaluation of the impacts resulting from the lease contracts under IFRS 16. The methodology used to determine the adjustments to be made in the financial statements follows the following steps:

1. High-level evaluation, by conducting meetings and completing questionnaires;
2. Analysis of the income statement items to identify situations that may meet the criteria defined by IFRS 16 for the recognition of leases;
3. Preliminary quantification of impacts of adopting IFRS 16 based on several assumptions;
4. Collection and analysis of a sample of contracts, representative of the population, in order to identify the impacts for each type of contract;
5. Review and identification of the main differences in the disclosures to be considered under the application of IFRS 16; and
6. Final quantification of impacts of adopting IFRS 16 based on previously identified gaps.

The main challenges for the adoption of IFRS 16 identified in this analysis are the identification of the lease contracts population, namely the leasing components existing in service contracts, the definition of the lease term of each contract and the determination of the discount rate to be used to project the payment amounts of the lease contracts up to the respective expiry date of the lease.

In summary, the estimated impacts arising from the adoption of IFRS 16 are as follows:

Impact in the Balance sheet as at 31 December 2018,

(Thousands of Euro)

	Increase / (Decrease)
Assets	
Property, plant and equipment (Right-of-use assets)	27 626
Liabilities	
Other liabilities (Lease liabilities)	(27 626)
Net impact on Equity	-

Impact in the income statement for the year ended as of 31 December 2018,

	(Thousands of Euro)
	Increase / (Decrease)
Operating lease expenses (included in Other administrative expenses)	(7 894)
Depreciation of right-of-use assets	7 322
Operating income/ (expense)	**572**
Interest charges related to lease liabilities	960
Net interest income	**960**
Net profit/ (loss) for the period	(388)

With the adoption of IFRS 16, the operating income of Banco Montepio Group will increase, but in return, the net interest income will decrease. This situation results from the fact that IFRS 16 replaces linear expenses of operating leases by depreciation of assets under rights of use and interest charges related to the lease liabilities.

Based on the guidelines of the Basel Committee, for the calculation of regulatory capital, the assets under right of use will be subject to a 100% risk weight in cases where the underlying asset is a tangible asset and deducted from regulatory capital in cases where the underlying assets are intangible assets. Accordingly, at 31 December 2018, the adoption of IFRS 16 is expected to result in a decrease in the regulatory capital ratio of approximately 0.04%.

IFRIC 23 – Uncertainty over Income Tax Treatment

On 7 June 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to appeal a tax examination which resulted in a payment to a taxation authority.

The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned.

In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method.

IFRIC 23 was endorsed by EU Commission Regulation 2018/1595, of 23 October, and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

Banco Montepio Group does not expect significant changes in the adoption of this interpretation.

<u>Recently issued pronouncements that are not yet effective for the Group</u>

The annual improvements cycle 2015-2017, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards

IFRS 3 (remeasure its previously held interest in a joint operation when it obtains control of the business), IFRS 11 (not remeasure its previously held interest in a joint operation when it obtains joint control of the business), IAS 12 (accounts for all income tax consequences of dividend payments in the same way), IAS 23 (treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale).

Other Amendments issued by IASB that are expected to be applied on or after 1 January 2019:

- Long-term interests in Associates and Joint Ventures (Amendment to IAS 28, issued on 12 October 2017), clarifying the interaction with impairment model defied by IFRS 9;
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19, issued on 7 February 2018), where on the amendment, curtailment or settlement of a defined benefit plan, a company now used updated actuarial assumptions to determine its current service and net interest and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI);
- Definition of Business (Amendments to IFRS 3 Business Combinations, issued on 22 October 2018);
- Definition of Material (Amendments to IAS 1 and IAS 8, issued on 31 October 2018).

Banco Montepio Group expects no impact from the adoption of these amendments on its financial statements.

57 Sovereign debt of European Union countries subject to bailout

During 2018, all Greek debt securities were sold in the total amount of Euro 17,021 thousand, with a loss of Euro 412 thousand.

As at 31 December 2017, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	2017						
Issuer/ portfolio	**Book value**	**Fair value**	**Fair value reserve**	**Impairment**	**Average interest rate %**	**Average maturity (years)**	**Measurement level**
Greece							
Financial assets at fair value through other comprehensive income	17 164	17 164	(1,128)	-	2.51%	20.28	1

As at 31 December 2017, the value of the securities includes respective accrued interest in the amount of Euro 52 thousand.

58 Transfer of assets

Banco Montepio performed a set of transactions of sale of financial assets (namely loans and advances to customers) for specialised Funds in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The financial assets sold under these transactions are derecognised from the balance sheet of the Group, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialised funds that acquire financial assets to Banco Montepio are closed funds, in which the holders of the mutual funds have no possibility to request the reimbursement of its investment throughout the useful life of the Funds.

These mutual funds are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, each bank does not hold more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from the seller's banks and that is selected on the date of establishment of the Funds.

The management structure of the Funds has as main responsibilities:

- determine the objective of the Funds; and
- manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Funds.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in most transactions (in which Banco Montepio holds minority positions) establish companies under the Portuguese law in order to acquire the loans to the Group, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds fully subscribed by the funds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by Banco Montepio, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions that occurred, Banco Montepio subscribed:

- Mutual funds of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where the Group has clearly a minority interest). These securities are booked in the Financial assets at fair value through other comprehensive income portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at each year end; and

- Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, Banco Montepio performed the derecognition of the assets transferred under the scope of IAS 39.20 c (i) and the recognition of the assets received as follows:

(Thousands of Euro)

	2018			2017		
	Amounts associated with the transfer of assets			Amounts associated with the transfer of assets		
	Net assets transferred	Amount received	Result obtained with the transfer	Net assets transferred	Amount received	Result obtained with the transfer
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Vallis Construction Sector Fund	-	-	-	23 506	26 776	3 270
Discovery Portugal Real Estate Fund	13 698	15 415	1 717	13 698	15 415	1 717
Fundo Aquaris, FCR	13 060	13 485	425	13 060	13 485	425
Fundo de Reestruturação Empresarial, FCR	45 349	45 509	160	45 349	45 509	160
	99 964	117 533	17 569	123 470	144 309	20 839

As at 31 December 2018 and 2017, the assets received under these transactions are as follows:

	2018
	Senior securities
Fundo Vega, FCR	26 008
Discovery Portugal Real Estate Fund	15 828
Fundo Aquarius, FCR	12 969
Fundo de Reestruturação Empresarial, FCR	40 087
	94 892

(Thousands of Euro)

	2017				
	Senior securities	Junior securities	Total	Impairment	Net amount
Fundo Vega, FCR	28 839	-	28 839	(2 043)	26 796
Vallis Construction Sector Fund	19 269	7 838	27 107	(27 107)	-
Discovery Portugal Real Estate Fund	14 515	-	14 515	-	14 515
Fundo Aquarius, FCR	14 370	-	14 370	(1 110)	13 260
Fundo de Reestruturação Empresarial, FCR	44 484	-	44 484	(2 878)	41 606
	121 477	7 838	129 315	(33 138)	96 177

As at 31 December 2017, impairment losses amounting to Euro 5,864 thousand, Euro 2,043 thousand, Euro 508 thousand were recorded relating to the devaluation of the mutual funds in Vallis Construction Sector Fund, Fundo Vega, FCR and Fundo de Reestruturação Empresarial, FCR.

As at 31 December 2017, junior securities refer to mutual funds on the amount of Euro 7,838 thousand, which are fully provided.

As at 1 January 2018, the investment units in the Vallis Construction Sector Fund were transferred from the portfolio of Financial assets at fair value through other comprehensive income to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss in accordance with the IFRS 9 adoption. It should be noted that as at 31 December 2018 and as at 1 January 2018 (reclassification date), the fair value of these investment units is nil. This fund was settled on 27 December 2018.

Although junior bonds are fully provided, Banco Montepio Group still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of shares of the funds (denominated in the table as senior bonds).

59 Transition to IFRS 9 – Financial instruments

As referred in the accounting policy described in Note 1 a), Banco Montepio adopted IFRS 9 "Financial Instruments" for the first time on 1 January 2018. This led to changes in the classification and valuation of certain financial assets and liabilities, with the following impacts:

(Thousands of Euro)

	IAS 39						IFRS 9		
31 December 2017	**Measurement basis**	**Book value**	**Reclassification**	**Notes**	**Remeasurement**	**Notes**	**Book value**	**Measurement basis**	**1 January 2018**
Assets		**20 200 024**	**-**		**(127 468)**		**20 072 556**	**-**	
Cash and deposits at central banks	Amortised cost	1 733 628	-		-		1 733 628	Amortised cost	Cash and deposits at central banks
Loans and advances to credit institutions repayable on demand	Amortised cost	50 205	-		-		50 205	Amortised cost	Loans and advances to credit institutions repayable on demand
Financial assets held-for-trading	Fair value through profit or loss	184 076	-		-		184 076	Fair value through profit or loss	Financial assets held-for-trading
Financial assets available for sale	Fair value through other comprehensive income	2 200 893	(382 056)	**A**	-		1 818 837	Fair value through other comprehensive income	Financial assets at fair value through other comprehensive income
			414 845	**A and B**	(1 454)	**B**	413 391	Fair value through profit or loss	Financial assets not held for trading mandatorily at fair value through profit or loss
Other loans and advances to credit institutions	Amortised cost	312 203	-		(924)	**C**	311 279	Amortised cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortised cost	13 029 318	(32 789)	**B**	(144 189)	**D**	12 852 340	Amortised cost	Loans and advances to customers
Non-current assets held for sale		742 221	-		-		742 221		Non-current assets held for sale
Non-current assets held for sale - Discontinuing operations		474 475	-		(374)		474 101		Non-current assets held for sale - Discontinuing operations
Investment properties		538 625	-		-		538 625		Investment properties
Property, plant and equipment		233 312	-		-		233 312		Property, plant and equipment
Intangible assets		31 371	-		-		31 371		Intangible assets
Investments in associates		4 097	-		-		4 097		Investments in associates
Current tax assets		7 327	-		-		7 327		Current tax assets
Deferred tax assets		466 000	-		23 971	**G**	489 971		Deferred tax assets
Other assets		192 273	-		(4 498)	**E**	187 775		Other assets
Liabilities		**18 437 103**	**-**		**944**		**18 438 047**		
Deposits from central banks	Amortised cost	1 557 840	-		-		1 557 840	Amortised cost	Deposits from central banks
Financial liabilities held-for-trading	Fair value through profit or loss	16 171	-		-		16 171	Fair value through profit or loss	Financial liabilities held-for-trading
Deposits from other credit institutions	Amortised cost	1 786 717	-		-		1 786 717	Amortised cost	Deposits from other credit institutions
Deposits from customers	Amortised cost	12 561 040	-		-		12 561 040	Amortised cost	Deposits from customers
Debt securities issued	Amortised cost	1 544 054	-		-		1 544 054	Amortised cost	Debt securities issued
Hedging derivatives	Fair value through profit or loss	1 663	-		-		1 663	Fair value through profit or loss	Hedging derivatives
Non-current liabilities held for sale - Discontinuing operations		330 392	-		-		330 392		Non-current liabilities held for sale - Discontinuing operations
Provisions		27 096	-		944	**D**	28 040		Provisions
Current tax liabilities		5 217	-		-		5 217		Current tax liabilities
Other subordinated debt	Amortised cost	236 193	-		-		236 193		Other subordinated debt
Oither liabilities		370 720	-		-		370 720		Oither liabilities
Equity		**1 762 921**	**-**		**(128 412)**		**1 634 509**		
Share capital		2 420 000	-		-		2 420 000		Share capital
Other equity instruments		6 323	-		-		6 323		Other equity instruments
Fair value reserves		27 924	(9 978)	**F**	-		17 946		Fair value reserves
Other reserves and retained earnings		(730 598)	9 978		(128 412)	**H**	(849 032)		Other reserves and retained earnings
Net profit/ (loss) for the period		6 437	-		-		6 437		Net profit/ (loss) for the period
Non-controlling interests		32 835	-		-		32 835		Non-controlling interests
Total Liabilities and Equity		**20 200 024**	**-**		**(127 468)**		**20 072 556**		

On 1 January 2018, Banco Montepio reclassified its financial assets to the portfolios established in IFRS 9:

A. Reclassification of investment fund units in the amount of Euro 382,056 thousand classified, in accordance with IAS 39, in the Available-for-sale financial assets portfolio, to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. This reclassification resulted from CEMG's assessment on the characteristics of these financial instruments, in accordance with the requirements and classification criteria of IFRS 9.

B. Reclassification of loans and advances to customers in the amount of Euro 32,789 thousand, whose contractual cash flows do not represent solely payments of principal and interest (SPPI) over the outstanding capital, and that according to the IFRS 9 requirements, should be classified to Financial assets not held for trading mandatorily at fair value through profit or loss. The remeasurement of this caption in the amount of Euro 1,454 thousand, results from the revaluation of these loans at fair value.

C. Impact arising from the application of the "expected credit losses" (ECL) model to the portfolio of Other loans and advances to credit institutions, in accordance with IFRS 9.

D. Remeasurements of Loans and advances to customers and Provisions, in the amount of Euro 144,189 thousand and Euro 944 thousand, respectively, result from the replacement of the "incurred losses" model of IAS 39 with a forward-looking model of "expected credit losses" (ECL), in accordance with IFRS 9.

E. Impairment increase arising from the application of the "expected credit losses" (ECL) model to the debtors's balance classified under Other assets, in accordance with IFRS 9.

F. The breakdown of reclassifications made between fair value reserve and retained earnings is presented as follows:

	(Thousands of Euro)
Reclassification of the investment units' fair value reserve, net of taxes	(13 563)
Impairment increase for debt instruments - ECL	3 298
Recognition of own credit risk in other comprehensive income	287
	(9 978)

G. Impact on deferred tax assets, in the amount of Euro 23,971 thousand, as a result of the IFRS 9 adoption as of 1 January 2018.

H. Total effect of the IFRS 9 adoption in equity.

The impairment reconciliation in accordance with IAS 39 and 37 as at 31 December 2017 with impairment as at 1 January 2018:

(Thousands of Euro)

	IAS and 37 impairment 31 December 2017	Amendment introduced by adoption of IFRS 9	IFRS 9 impairment 1 January 2018
Financial assets at fair value through other comprehensive income			
- Títulos de rendimento fixo	36 251	3 298	39 549
- Títulos de rendimento variável	42 675	(42 675)	-
Other loans and advances to credit institutions	-	924	924
Loans and advances to customers	1 033 821	144 189	1 178 010
Other assets	35 689	4 498	40 187
Provisions	16 147	944	17 091
	1 164 583	**111 178**	**1 275 761**

Financial assets at fair value through other comprehensive income – Variable income securities records the amount related to the charge-off of impairment recorded for investment fund units classified in accordance with IAS 39 in the portfolio of Financial assets available for sale and reclassified in accordance with the classification criteria of IFRS 9 for the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. All other items record the remeasurement effect calculated in accordance with IFRS 9 criteria.

60 Contingencies

Resolution Fund

Resolution measure of Banco Espírito Santo, S.A. (BES)

Bank of Portugal applied a resolution measure to Banco Espírito Santo, SA on 3 August 2014, pursuant to the provisions of Article 145 C (1.b) of the General Regime for Credit Institutions and Financial Companies (RGICSF), in the partial transfer method of assets, liabilities, off-balance sheet assets and assets under management to a transition bank, Novo Banco, S.A. (Novo Banco). As part of this process, the Resolution Fund made a capital injection in Novo Banco in the amount of Euro 4,900,000 thousand, becoming the sole shareholder, and contracted loans in the amount of Euro 4,600,000 thousand, of which Euro 3,900,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a group of credit institutions, of which Euro 70,000 thousand were granted by the Group.

On 29 December 2015, Bank of Portugal transferred to the Resolution Fund the emerging liabilities from possible negative effects of future decisions arising from the resolution process, resulting in liabilities or contingencies.

On 7 July 2016, the Resolution Fund stated that it would review and assess the proceedings to take following the disclosure of the report on the results of the independent evaluation exercise, which was carried out to estimate the level of credit recovery for each class of creditors in the possible scenario of a normal BES insolvency procedure on 3 August 2014.

Thus, under the applicable law, and where it is found that at the time of BES settlement, creditors whose credit facilities have not been transferred to Novo Banco, assume a loss higher than would have been hypothetically if BES had entered into a settlement procedure immediately prior to the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund. To date, there is a relevant body of legal proceedings underway against the Resolution Fund.

Bank of Portugal announced on 20 February 2017 that it has decided to choose the potential Lone Star investor for a definitive phase of negotiations and in conditions of exclusivity aiming to complete the terms in which the sale of the Fund's share Resolution on Novo Banco, SA would come about/will be held, and on 31 March 2017, a further statement was issued stating:

“Today, the Bank of Portugal choose Lone Star to complete the sale of the Novo Banco and the Resolution Fund signed the transaction’s contract documents.

Under the terms of the agreement, Lone Star will make capital injections in Novo Banco for a total amount of Euro 1,000,000 thousand, of which Euro 750,000 thousand at the time of the transaction completion and Euro 250,000 thousand within a period of up to 3 years.

Due to this capital injection, Lone Star will hold 75% of the capital stock of the Novo Banco and the Resolution Fund will maintain 25% of the capital.

The conditions agreed also include the existence of a contingent capitalisation mechanism, under which the Resolution Fund, as a shareholder, commits to make capital injections in the event of certain cumulative conditions, related to: i) the performance of a delimited set of assets of Novo Banco and ii) with the development of the Bank’s capitalisation levels.

Possible capital injections to be made pursuant to this contingent mechanism benefit from a capital buffer resulting from the planned injection to be made under the terms of the operation and are subject to an absolute ceiling.

The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund, the alignment of benefits and supervision, despite the restrictions arising from the application of the State aid rules.

The completion of the sale is dependent on obtaining the usual regulatory authorizations (including the European Central Bank and the European Commission) and a liability management exercise, subject to the approval of the bondholders, which will cover non-subordinated bonds of Novo Banco and that, by offering new bonds, it will generate at least Euro 500 million of own funds eligible for the calculation of the CET1 ratio.

On 18 October 2017, the Bank of Portugal announced the sale of the Novo Banco, stating that:

- “Bank of Portugal and the Resolution Fund concluded today the sale of Novo Banco to Lone Star through the injection of Euro 750 million by the new shareholder, which will be followed by a new capital injection of Euro 250 million, to be completed by the end of 2017”.
- “The conclusion of this operation entails a complex process of negotiations with the new shareholder, the European institutions and other national institutions, in close cooperation with the Government.”
- “The completion of the operation announced on 31 March allows a very significant strengthening of the equity of Novo Banco and ceases the transition status applicable to the bank since its inception.”

- “As of this date, Novo Banco will be held by Lone Star and by the Resolution Fund, with holdings of 75% and 25%, respectively, and will be provided with the necessary means to execute a plan guaranteeing that the bank will continue to play its decisive role in financing the national economy.”

On 28 March 2018, the Resolution Fund issued a statement on the payment to be made to Novo Banco about the results of 2017, from which is about the activation of the contingent capitalisation mechanism provided for in the contracts celebrated for Novo Banco’s sale. The amount to be paid to Novo Banco in 2018 by the Resolution Fund in relation to 2017 financial statements amounts to Euro 792 million.

The conditions agreed with the sale of Novo Banco, S.A. also include a contingent capitalisation mechanism, under which the Resolution Fund undertakes to make payments to Novo Banco, S.A. if certain cumulative conditions materialise, related to: i) the performance of a delimited set of assets and ii) an increase of the Bank’s capitalisation levels. In case these conditions are met, the payments are subject to a maximum limit of Euro 3,890 thousand. However, payment will only be made after the statutory clearance of accounts and after a verification procedure to be made by an independent entity, which aims to confirm that the amount to be paid by the Fund is correctly calculated.

Firstly, the Fund will use the available financial resources, resulting from contributions paid, directly or indirectly by the banking sector. These resources will be complemented by a loan to be obtained from the State, on the agreed terms in October 2017, as it was disclosed back then. The concrete amount of this loan is not yet accurate, but it is estimated to be a maximum Euro 450 million, below the annual limit of Euro 850 million, with budget.

The Fund has already disbursed a total of Euro 4,900 million of financial support to the resolution measure applied to Banco Espírito Santo, S.A., corresponding to the realization of capital of the new bank in August 2014. The Fund did not make any other payment, but has already registered in its 2017 accounts a provision of Euro 792 million, payment due in 2018.

Resolution measure of Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of Bank of Portugal decided on 19 December 2015 to declare that Banif was "at risk or in a situation of insolvency" and to start an urgent resolution of the institution by the partial or total disposal method of its activity, which has materialized, on 20 December 2015, in the disposal of rights and obligations, representing assets, liabilities, off-balance sheet assets and assets under management of Banif to Banco Santander Totta S.A. (BST).

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. (Oitante), created specifically for this purpose, which has as sole shareholder the Resolution Fund, with the Oitante proceeding to the issuance of debt bonds in the amount of Euro 746,000 thousand, and a guarantee provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

The transaction involved public support, of which Euro 489,000 thousand by the Resolution Fund. The Euro 489,000 thousand assumed by the Resolution Fund were financed through a mutual agreement granted by the State.

Other relevant conditions

The resolution measures applied to BES and Banif referred to above determined that, as at 31 December 2016, the Resolution Fund held the entire capital stock of Novo Banco and Oitante, at the same time as the Resolution Fund contracted a loan and assumed other liabilities and contingent liabilities, namely:

- Effects of the application of the principle that no institutions' creditor under resolution may incur greater loss than it would have assumed may that institution had entered into settlement.
- Negative effects arising from the resolution process resulting in additional liabilities or contingencies for the Novo Banco, S.A., which must be neutralized by the Resolution Fund.
- Legal proceedings against the Resolution Fund.
- Guarantee provided to the bonds issued by Oitante SA for a total amount of Euro 746,000 thousand, counter-guaranteed by the Portuguese State, for which Oitante, S.A. made an early repayment of Euro 90,000 thousand.

In order to satisfy the responsibilities of the Resolution Fund, in particular to repay the loans obtained and to meet other responsibilities that may arise, the Resolution Fund essentially has revenues from initial and periodic contributions of the participating institutions and the banking sector established by Law No. 55-A/2010. In this regard, the possibility of the Government establishing, through an ordinance, that participating institutions make special contributions is also expected, in the situations provided for in applicable legislation, particularly in the event that the Resolution Fund does not have its own resources to satisfy its obligations.

Banco Montepio's financial statements of 31 December 2018 mirror the expectation that no new special or extraordinary contributions will be required to the institutions participating in the Resolution Fund.

In the 2018 accounts, Novo Banco explains that a compensation in the amount of Euro 1,149 million will be requested under the Contingent Capital Facility (CCA). 69% of this amount results from losses incurred on assets included in the CCA (Euro 795 million) and 31% from regulatory capital requirements (Euro 354 million), within the transition period adjustment of capital ratios and also due to the impact of IFRS 9.

According to non-confidential information from the European Comission, the three support measures of the Resolution Fund and the State that compose the sale agreement of Novo Banco and that are connected to a portfolio of loans with uncertain coverage are as follows:

(i) Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning of that portfolio until the maximum of Euro 3,89 thousand million, subject to several conditions, namely in terms of reduction of the capital ratio CET1;

(ii) Novo Banco may issue debt until Euro 400 million, from Tier 2, that the Resolution Fund will subscribe for lack of investors, and which is deducted from the Euro 3,89 billion related to the contingent capital mechanism;

(iii) In case the total capital ratio reaches values below those defined in the Supervisory Review and Evaluation Process ("SREP"), the Portuguese State may inject adicional capital in Novo Banco, subject to determined conditions.

In the future, in case of need to use these contributions, may have relevance to the financial statements.

Since 2013, the Group has made mandatory contributions, as established in Decree-Law No. 24/2013, of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund provided for in the RGICSF.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which clarified that the periodic contribution to the RF should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in the Article 9 of the aforementioned Decree-Law. Banco Montepio is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: “it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to Banco Espírito Santo (BES). Therefore, the eventual collection of a special contribution appears to be unlikely”.

In accordance with Decree-Law No. 24/2013 of 19 February, it is Bank of Portugal’s responsibility to determine, by instruction, the rate to be applied in each year based on the objective incidence of periodic contributions.

Instruction No. 20/2017 of the Bank of Portugal, of 19 December, sets the base rate to be effective in 2018 for the determination of periodic contributions to the Resolution Fund by 0.0459%.

As at 31 December 2018, the Group made regular contributions to the Resolution Fund in the amount of Euro 2,691 thousand (31 December 2017: Euro 3,612 thousand) and paid the contribution to the banking sector in the amount of Euro 11,080 thousand (31 December 2017: Euro 11,875 thousand) and were recognised as expense in April and June, in accordance with IFRIC 21 – Levies.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of Euro 3,900,000 thousand originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from materialization of future contingencies will determine the maturity adjustment of Portuguese State and Bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

The announcement made by the Resolution Fund at 21 March 2017 states:

- “The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amounted to Euro 4,953,000 thousand, of which Euro 4,253,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a set of banks.
- “Those loans will due in December 2046, without loss/prejudice to the possibility of early/anticipated repayment based on the use of revenues/receipts from the Resolution Fund. The maturity will be adjusted in conditions that guarantee the ability of the Resolution Fund to fully meet its obligations based on regular revenues/income and without the need for special contributions or any other

extraordinary contributions. Following the resolution measures of BES and Banif, liabilities arising from contracts obtained by the Resolution Fund with the Portuguese State and the banks, compete in pari passu among themselves."

- “The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund."
- “The new conditions allow for full payment of the Resolution Fund's liabilities and their remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

Following these changes to the loans contracted by the Resolution Fund, as at 31 December 2018 and 2017, the amount of credit and interest owed to the Group amounted to Euro 70,000 thousand. (31 December 2017: Euro 70,000 thousand). This loan generated interest in the amount of Euro 1,419 thousand (31 December 2017: Euro 1,641 thousand).

In this context, considering the above-mentioned exposure, it is not possible at this date to estimate the effects on the Resolution Fund arising from the application of the principle that no creditor of the credit institution under resolution may incur greater loss than the one it would have assumed may that institution entered into settlement of liabilities or additional contingences for Novo Banco, S.A. that have to be neutralized by the Resolution Fund, legal proceedings against the Resolution Fund, including the so-called Harmed BES process; and the guarantee given to the bonds issued by Oitante.

Thus, and regardless the possibility provided for in the applicable legislation for the collection of special contributions, given the recent developments regarding the renegotiation of the conditions of loans granted to the Resolution Fund by the Portuguese State and by a group of banks, Banco Montepio included, and to the public announcements made by the Resolution Fund and by the Minister of Finance which state that this possibility will not be used. The financial statements, as of 31 December 2018, reflect Banco Montepio’s expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif.

Single Resolution Fund

Under the Single European Resolution Fund ('FUR') the Group made an initial contribution of Euro 8,590 thousand in 2015, which, under the Intergovernmental Agreement on the transfer of the mutualisation of contributions to FUR, was not transferred to FUR but used for the compliance with obligations of the Resolution Fund resulting from the application of resolution measures prior to the date of application of the Agreement. This amount will have to be re-set over an 8-year period (starting in 2016) through periodic contributions to FUR. The amount of the cash contribution as at 31 December 2018 attributable to the Group was Euro 8,113 thousand (31 December 2017: Euro 9,702 thousand). The Group also opted for the settlement of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) in the form of irrevocable payment commitment, in accordance with note 10 and 21.

61 Subsidiary and associated companies

As at 31 December 2018, the Group's subsidiary companies, consolidated under the full method, are as follows:

Subsidiary	Head office	Share capital	Currency	Activity	Group	
					% of control	% of direct participation
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde Escudo	Banking	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	7 516 296 830	Kwanza	Banking	51.00%	80.22%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Porto	30 000 000	Euro	Specialised loans	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisboa	175 000 000	Euro	Managemente of shareholdings	100.00%	100.00%
Montepio Investimento, S.A.	Lisboa	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisboa	1 550 000	Euro	Management of investment funds	100.00%	100.00%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisboa	100 000	Euro	Management of Real Estate	100.00%	100.00%
Casa da Sorte - Organização Nogueira da Silva, S.A	Lisboa	5,000,000	Euro	Lotteries and other betting services	89.628%	89.628%
Herdeiros de Manuel Martins Travassos, Lda.	Lisboa	160,000	Euro	Lotteries and other betting services	100.00%	100.00%
Pataca da Sorte - Bingos e Animação Unipessoal, Lda.	Lisboa	5,000	Euro	Lotteries and other betting services	100.00%	100.00%
Augusto da Silva Carvalho, Lda.	Lisboa	24,940	Euro	Lotteries and other betting services	99.50%	99.50%
Binganimus - Bingos e Animação, S.A.	Lisboa	50,000	Euro	Lotteries and other betting services	100.00%	100.00%
Carlos Augusto Lança & Filhos, Lda.	Lisboa	23,954	Euro	Lotteries and other betting services	100.00%	100.00%
Torre da Sorte, Lda.	Lisboa	5,000	Euro	Lotteries and other betting services	100.00%	100.00%

As at 31 December 2018, the Group´s associated companies accounted using the equity method, held directly or indirectly, are as follows:

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	Euro 10 000 000	Accomodation, catering and similar/ Hotels with restaurant	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	Euro 2 449 707	Management of real estqate	28.50%
CESource, ACE	Lisboa	-	Management of IT systems	18.00%

Finibanco Angola

In 2015, a contract was signed for the sale of 1,727,782 shares of Finibanco Angola S.A., representing 30.57% of the share capital, for US 26,346,178 million.

The sale operation of 30.57% of Finibanco Angola was perfomed without any related payment. The ownership rights of the shares were held by the Group, including the rights to vote and to receive dividends. Therefore, considering that there was no substantive transfer of associated risks and rewards, the Group did not derecognise the shares object hereof by the transaction, that is, Banco Montepio did not recognise the disposal of the financial investment, until the settlement was made.

In May 2018, a financial settlement corresponding to 65,040 shares, representing 1.15% of the share capital, was made in the amount of USD 991,764, with the Group becoming the holder of 80.22% of the subsidiary Finibanco Angola, S.A.

In 2017, the financial settlement corresponding to 11,476 shares, representing 0.20% of the share capital, was made in the amount of USD 174,984, with the Group holding 80.37% of the subsidiary Finibanco Angola, S.A.

Upon settlement of the transaction, the Group will continue to control Finibanco Angola, S.A.

As at 31 December 2018, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary	Establishment year	Acquisition year	Head office	% of controlling interest	Consolidation method
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full

On 31 March 2018, the Group deconsolidated the Valor Prime – Fundo de Investimento Imobiliário Aberto.

In 2014, considering the IFRS 10 and the commitments of Banco Montepio in the aim of the activity management of Banco Terra S.A., that gives the ability to manage the main activities, having the ability to face the power and responsibilities of Chief Executive Officer, that will be appointed by the Group, to influence the remaining areas, the shareholding was consolidated by the full consolidation method. This situation remained unchanged during until 31 December 2018.

62 Non-current assets and liabilities held for sale – Discontinuing operations

Banco Montepio is in a negotiating process with a group of investors with the purpose to refocusing the approach to the African market in view of the deconsolidation of the current financial holdings held in Finibanco Angola, S.A.

The disposal of the investment in Banco Terra, S.A. was completed in December 2018 and the Group ceased to have any interest in the strategic redefinition of its international holdings, as disclosed in note 63.

Considering the deliberations already taken by the Board of Directors, as well as the provisions of IFRS 5, the activities performed by these subsidiaries were considered as discontinuing operations in 2016.

At the level of the income statement, the results of these subsidiaries were recognised in "Results from discontinuing operations" and, at the balance sheet level, under "Non-current assets held for sale - Discontinuing operations" and "Non-current liabilities held for sale - Discontinuing operations".

In accordance with paragraph 33(a) of IFRS 5, net cash flows attributable to operating, investing and financing activities of discontinued operations shall be disclosed, but shall not be mandatory for groups of newly acquired assets held for sale that meet the criteria for classification as available for sale in the acquisition.

In addition, it should be noted that as mentioned in the accounting policies, on 31 December 2018, the Group applied IAS 29 to Finibanco Angola on the grounds that the relevant conditions to consider the Angolan economy as a hyperinflationary economy were met.

Thus, before the functional currency was translated into the reporting currency in the financial statements of Finibanco Angola, SA, the amounts relating to assets, liabilities, equity, income and expenses were monetarily restated based on the general price index which reflects the changes in the purchasing power of the currency of the country in which the operations are generated, as follows:

(i) monetary items are not restated because they are already stated in the current monetary unit at the reporting date;

(ii) assets and liabilities linked by agreement to price changes are adjusted under the terms of the agreement in order to determine the amount outstanding at the date of the statement of financial position;

(iii) all other assets and liabilities are non-monetary and are restated (except for certain items that are recorded at current amounts at the reporting date, such as net realizable value and market value);

(iv) all other items of the income statement are restated by applying the change in the general price index from the dates on which income and expense items were initially recorded in the financial statements.

The price index used was the National Consumer Price Index (IPCN) disclosed by the National Statistical Institute (INE) of Angola, in its Rapid Information Sheet for December 2017. The table below presents the index and the accumulated percentage variation over the last 3 years:

	2015	2016	2017	2018
IPCN (Basis - 31 December 2014 = 100)	114.27	162.20	204.79	241.08
Annual variation	14%	48%	42%	18%

It should be noted that as at 31 December 2018, the IPCN stood at 24,108 representing an increase of 17.7% compared to 31 December 2017.

In this context, proforma accounts of the subsidiary Finibanco Angola, SA were prepared, considering the effects of applying IAS 29, namely for non-monetary assets and liabilities, including goodwill, and equity items were restated by applying the price index from the date of acquisition or date of the last revaluation. If restated asset amounts exceed their recoverable amount, these are reduced to their recoverable amount.

The effects of applying IAS 29 calculated with reference to 1 January 2016 were recorded under equity items, without impact on the income statement. The effects of applying IAS 29 for the 2017 period were recorded in the income statement.

The Group's consolidated accounts also considered the following aspects:

- The restatement of non-monetary assets and liabilities and equity items of Finibanco Angola, S.A., in accordance with the requirements of IAS 29;
- After considering the effects of applying IAS 29 described above, the book value of the investment in Finibanco Angola, SA was compared to its recoverable amount on 1 January 2017 and 31 December 2017, in order to assess on the need for impairment recognition regarding the investment in this associate.

The application of IAS 29 to the shareholding held by the Group in Finibanco Angola, S.A. had equity impacts in 2018, involving:

(i) an increase in reserves and retained earnings of Euro 7,088 thousand (31 December 2017: Euro 37,474 thousand);

(ii) a decrease of net income of Euro 3,975 thousand (31 December 2017: Euro 4,084 thousand);

The Balance Sheet of Finibanco Angola, S.A. and Banco Terra, S.A., as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	2018			
	Finibanco Angola	Grupo Casa da Sorte	Adjustments	Total
Cash and deposits at central banks and credit institutions	72 795	313	(24 876)	48 232
Other loans and advances to credit institutions	2 335	-	(2 344)	(9)
Loans and advances to customers	62 812	192	(192)	62 812
Securities portfolio and derivatives	113 211	1	-	113 212
Intangible assets	1 354	(14 735)	21 594	8 213
Other assets	56 938	5 270	57	62 265
Total assets	**309 445**	**(8 959)**	**(5 761)**	**294 725**
Deposits from central banks	1 112	5 140	-	6 252
Deposits from customes	192 854	(989)	(23 512)	168 353
Other subordinated debt	26 697	-	(26 672)	25
Provisions	2 412	(690)	841	2 563
Other liabilities	7 755	9 174	(127)	16 802
Total liabilities	**230 830**	**12 635**	**(49 470)**	**193 995**

The Balance Sheet of Finibanco Angola, S.A. and Banco Terra, S.A., as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	2017			
	Finibanco Angola	Banco Terra	Adjustments	Total
Cash and deposits at central banks and credit institutions	81 602	5 803	(11 334)	76 071
Other loans and advances to credit institutions	5 273	1 227	(5 273)	1 227
Loans and advances to customers	122 636	34 144	-	156 780
Securities portfolio and derivatives	155 468	6 287	-	161 755
Intangible assets	1 149	456	9 931	11 536
Other assets	94 689	5 850	(33 433)	67 106
Total assets	**460 817**	**53 767**	**(40 109)**	**474 475**
Deposits from other credit institutions	4 036	5 194	(3 760)	5 470
Deposits from customers	309 420	26 154	(20 446)	315 128
Other subordinated debt	27 331	-	(25 497)	1 834
Provisions	2 175	34	-	2 209
Other liabilities	5 378	472	(99)	5 751
Total liabilities	**348 340**	**31 854**	**(49 802)**	**330 392**

The main income statement items related to these discontinuing operations are analysed as follows:

(Thousands of Euro)

	2018			2017				
				Finibanco Angola		Banco Terra		
	Finibanco Angola	Banco Terra	Total	Initial	Adjustment	Initial	Adjustment	Total
Net interest income	24 516	4 614	29 130	31 608	-	6 190	-	37 798
Dividends from equity instruments	-	-	-	-	-	-	-	-
Fee and commission income	10 944	471	11 415	8 213	-	497	-	8 710
Net gains/ (losses) arising from financing activities	16 444	124	16 568	4 468	-	(235)	-	4 233
Other operating income/ (expense)	21 776	(4 194)	17 582	(7 952)	(925)	123	-	(8 754)
Total operating income	**73 680**	**1 015**	**74 695**	**36 337**	**(925)**	**6 575**	**-**	**41 987**
Staff costs	8 209	3 009	11 218	9 812	-	3 320	-	13 132
General and administrative expenses	6 151	2 227	8 378	9 602	(10)	2 472	-	12 064
Depreciation and amortisation	1 121	527	1 648	1 805	-	548	-	2 353
Total operating expense	**15 481**	**5 763**	**21 244**	**21 219**	**(10)**	**6 340**	**-**	**27 549**
Loans, other assets and other provisions impairment	10 528	(330)	10 198	5 934	269	49	1 919	8 171
Operating profit	**47 671**	**(4 418)**	**43 253**	**9 184**	**(1 184)**	**186**	**(1 919)**	**6 267**
Profit before income tax	**47 671**	**(4 418)**	**43 253**	**9 184**	**(1 184)**	**186**	**(1 919)**	**6 267**
Taxes	7 097	-	7 097	2 059	-	96	-	2 155
Net profit/ (loss) for the period	**40 574**	**(4 418)**	**36 156**	**7 125**	**(1 184)**	**90**	**(1 919)**	**4 112**

Finibanco Angola, S.A.

The assessment performed for Finibanco Angola was based considering the estimated amount on the sale of Finibanco Angola was considered, in accordance with the acquisition proposal submitted by a third party.

On this basis, the valuation of 80.22% position held by Montepio Holding in Finibanco Angola stood at USD 72,078 thousand, approximately Euro 62,950 thousand.

As at 31 December 2017, the amounts registered in the balance sheet, related to goodwill and consolidation differences, correspond to the difference between the cost of acquisition and the total fair value of the assets and liabilities and contingent liabilities of: (i) Finibanco Angola, S.A. acquired at 31 March 2011 from Montepio Geral Associação Mutualista, as described in note 1 a), in the amount of Euro 53,024 thousand and; (ii) of Banco Terra, acquired in December 2014, in the amount of Euro 3,280 thousand. It should be noted that these amounts are fully provided.

Casa da Sorte - Organização Nogueira da Silva, S.A.

Under a credit recovery process, in 2018, Banco Montepio acquired control over Casa da Sorte - Nogueira da Silva, S.A. and its associates: (i) Herdeiros de Manuel Martins Travassos, Lda.; (ii) Pataca da Sorte - Bingos e Animação Unipessoal, Lda.; (iii) Augusto da Silva Carvalho, Lda.; (iv) Binganimus - Bingos and Animation, S.A.; (v) Carlos Augusto Lança & Filhos, Lda., (vi) Torre da Sorte, Lda. It should be noted that this investment showed no valuation against its credit position, according to note 63.

63 Relevant facts

Election of the Corporate Bodies of Banco Montepio

Banco Montepio's General Meeting, in its extraordinary session of 16 March 2018, changed the nature of its governance model, leading Banco Montepio governing bodies to include, namely, a Board of Directors and an Audit Committe, and elected new members of governing bodies for the 2018-2021 period.

On 4 April 2018, the Bank of Portugal granted the final endorsement, including its composition, of the following corporate bodies: General Meeting, Board of Directors and Audit Committee.

The above-mentioned corporate bodies came into effect on the 21 March 2018 and Dr. Carlos Manuel Tavares da Silva will exercise, under the authorised terms of the Bank of Portugal, functions of Chairman of the Board of Directors and Chairman of the Executive Committee.

On 23 November 2018, by written unanimous decision of the shareholder Montepio Geral - Associação Mutualista, Mrs. Dulce Maria Pereira Cardoso Mota Jorge Jacinto was elected for the position of executive member of the Board of Directors of Banco Montepio, functions of Chairman of the Executive Committee.

Banco Terra, S.A.

On 31 August 2018, CEMG announced that its subsidiary Montepio Holding, SGPS, SA agreed to sell 45.78% of the share capital of Banco Terra, S.A. to Arise, a joint venture formed together by the Norwegian sovereign trust fund Norfund, by the Dutch development bank FMO and by Rabobank to support growth in Africa through investments in African financial institutions.

The sale operation of this shareholding was completed in December 2018, with the Banco Montepio Group no longer holding any interest in Banco Terra S.A. Therefore, as at 31 December 2018, Banco Terra S.A. is not included in the Group's consolidation perimeter.

The shareholding's disposal held by the Group in BTM resulted in a gain of Euro 2.8 million in the 2018 consolidated financial statements. The completion of this operation led to the loss of control of this subsidiary, which in accordance with applicable accounting standards, a negative reserve of Euro 6.8 million was recorded against the cincome statement for the period. Therefore, the consolidated net profit was unfavorably affected by Euro 3.7 million.

With regards to Banco Montepio's capital ratio levels, this operation provides positive impacts of 9 basis points in the Core Tier 1 (Common Equity Tier 1) and 6 basis points in the Total Capital ratio, in both cases supported by the decrease in the risk weighted assets.

Casa da Sorte - Organização Nogueira da Silva, S.A.

On 24 April 2019, Banco Montepio performed a sale operation to the entire capital of the subsidiary Casa da Sorte - Organização Nogueira da Silva, S.A. This investment had been acquired in a credit recovery process, with a view to its subsequent disposal, and is recorded as a discontinuing operation, in accordance with note 62. Following this disposal, the Casa da Sorte Group is no longer included in the consolidation perimeter of Banco Montepio.

Access to the special scheme applicable to deferred tax assets

In the first half of 2018, Banco Montepio joined the special scheme applicable to deferred tax assets approved by Law No. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in the taxation periods beginning on or after 1 January 2015, as well as deferred tax assets recorded in the financial statements for the last reporting period prior to that date and to the portion of associated negative variations in net equity, in accordance with the Extraordinary General Meeting of Banco Montepio, which took place on 6 July 2016.

64 Subsequent events

In addition to the information disclosed in this document, there were no significant transactions and / or relevant events to be disclosed.

65 Note added for translation

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

Financial Statements and Notes to the Individual Financial Statements

FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Individual income statement
for the periods ended at 31 December 2018 and 2017

(Thousands of Euro)

	Notes	2018	2017
Interest and similar income	3	346 917	404 080
Interest and similar expense	3	112 391	154 006
Net interest income		234 526	250 074
Dividends from equity instruments	4	8 437	14 084
Net fee and commission income	5	118 743	123 811
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	8 420	(13 831)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	5 531	90 418
Net gains/ (losses) arising from exchange differences	8	(3 895)	1 639
Net gains/ (losses) arising from sale of other financial assets	9	9 121	39 380
Other operating income/ (expense)	10	(24 512)	(16 944)
Total operating income		356 371	488 631
Staff costs	11	146 908	149 069
General and administrative expenses	12	67 942	72 589
Depreciation and amortisation	13	21 911	22 791
		236 761	244 449
Loans impairment	14	83 679	160 414
Other financial assets impairment	15	3 954	17 595
Other assets impairment	16	(17 699)	(34 901)
Other provisions	17	3 604	6 432
Profit before income tax		46 072	94 642
Tax			
Current	31	(32)	(293)
Deferred	31	(44 021)	(36 689)
Net profit/ (loss) for the period		2 019	57 660

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

The following notes form an integral part of these individual financial statements

Banco Montepio

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Individual Balance Sheet as at 31 December 2018 and 2017

(Thousands of Euro)

	Notes	2018	2017
Assets			
Cash and deposits at central banks	18	1 610 634	1 733 626
Loans and advances to credit institutions repayable on demand	19	75 572	59 472
Other loans and advances to credit institutions	20	448 035	558 711
Loans and advances to customers	21	11 796 170	12 748 717
Financial assets held for trading	22	23 739	184 076
Financial assets not held for trading mandatorily at fair value through profit or loss	23	803 908	-
Financial assets at fair value through other comprehensive income	24	392 589	2 602 791
Hedging derivatives	25	5 666	-
Other financial assets at amortised cost	26	1 255 651	-
Investments in subsidiaries and associates companies	27	346 723	315 903
Non-current assets held for sale	28	705 351	714 133
Property, plant and equipment	29	217 741	220 002
Intangible assets	30	31 657	30 092
Current tax assets	-	6 144	6 589
Deferred tax assets	31	484 147	458 864
Other assets	32	68 418	176 615
Total Assets		18 272 145	19 809 591
Liabilities			
Deposits from central banks	33	1 395 320	1 557 840
Deposits from other credit institutions	34	1 442 548	2 011 197
Deposits from customers	35	12 626 578	12 555 325
Debt securities issued	36	939 674	1 389 999
Financial liabilities held for trading	22	13 496	16 171
Hedging derivatives	25	-	1 663
Provisions	37	30 756	26 207
Current tax liabilities	-	4 241	1 104
Other subordinated debt	38	50 044	237 016
Other liabilities	39	191 502	284 058
Total Liabilities		16 694 159	18 080 580
Equity			
Share capital	40	2 420 000	2 420 000
Other equity instruments	41	6 323	6 323
Fair value reserves	43	(19 764)	27 976
Other reserves and retained earnings	42 and 43	(830 592)	(782 948)
Net profit/ (loss) for the period		2 019	57 660
Total Equity		1 577 986	1 729 011
Total Liabilities and Equity		18 272 145	19 809 591

The following notes form an integral part of these individual financial statements

Caixa Económica Montepio Geral,
caixa económica bancária, S.A.

Individual Statement of Cash Flows
for the periods ended at 31 December 2018 and 2017

(Thousands of Euro)

	2018	2017
Cash flows arising from operating activities		
Interest income received	293 045	391 623
Commission income received	143 226	146 906
Interest expense paid	(183 828)	(241 653)
Commission income paid	(23 252)	(21 827)
Payments to employees and suppliers	(242 711)	(227 220)
Recovery of loans and interests	9 905	2 544
Other payments and receivables	(31 307)	14 387
Income tax payment	1 168	2 232
	(33 754)	66 992
(Increases) / decreases in operating assets		
Loans and advances to credit institutions and customers	786 187	1 058 742
Deposits held for monetary control purposes	138 663	(1385 059)
Other assets	8 696	122 230
	933 546	(204 087)
(Increases) / decreases in operating liabilities		
Deposits from customers	89 607	195 832
Deposits from credit institutions	(568 238)	(587 647)
Deposits from central banks	(150 000)	(749 390)
	(628 631)	(1141 205)
	271 161	(1278 300)
Cash flows arising from financing activities		
Dividends received	8 437	14 084
(Acquisition) / Sale of financial assets held for trading	166 456	(128 340)
(Acquisition) / Sale of financial assets at fair value through other comprehensive income	1 398 986	366 521
Interest received from financial assets at fair value through other comprehensive income	82 897	112 761
(Acquisition) / Sale of hedging derivatives	3 209	-
(Acquisition) / Sale of other financial assets at amortised cost	(1238 226)	1 119 599
Increase of investments in subsidiary and associated companies	-	(10 000)
(Acquisition) / Sale of other financial assets	(4 585)	650
Acquisition of fixed assets	(21 766)	(17 416)
	395 408	1 457 859
Cash flows from arising financing activities		
Capital increase	-	250 000
Other equity instruments	(322)	(320)
Proceeds from issuance of bonds and subordinated debt	50 000	750 000
Reimbursement of bonds and subordinated debt	(685 679)	(1223 979)
Increase / (decrease) in other sundry liabilities		-
	(636 001)	(224 299)
Effect of changes in exchange rate on cash and cash equivalents	1 203	452
Net changes in cash and cash equivalents	31 771	(44 288)
Cash and cash equivalents at the beginning of the period:		
Cash (note 18)	178 925	211 646
Loans and advances to credit institutions repayable on demand (note 19)	59 472	71 039
	238 397	282 685
Cash and cash equivalents at the end of the period:		
Cash (note 18)	194 596	178 925
Loans and advances to credit institutions repayable on demand (note 19)	75 572	59 472
	270 168	238 397

The following notes form an integral part of these financial statements

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Individual Statement of Changes in Equity
for the periods ended at 31 December 2018 and 2017

(Thousands of Euro)

	Share Capital	Participation Fund	Other equity instruments	General and special reserves	Fair value reserves	Retained earnings	Total Equity
Balance on 31 December 2016	**1 770 000**	**400 000**	**6 323**	**186 000**	**(2 303)**	**(970 158)**	**1 389 862**
Other comprehensive income:							
Actuarial gains/ (losses) for the period (note 47)	-	-	-	-	-	2 524	2 524
Taxes (note 31)	-	-	-	-	-	(996)	(996)
Fair value changes (note 43)	-	-	-	-	47 538	-	47 538
Taxes related to fair value changes (note 31)	-	-	-	-	(17 259)	-	(17 259)
Net profit/ (loss) for the period	-	-	-	-	-	57 660	57 660
Total comprehensive income for the period	-	-	-	-	30 279	59 188	89 467
Costs related to the issue of perpertual subordinated instruments (note 41)	-	-	-	-	-	(318)	(318)
Share capital increase (note 40)	250 000	-	-	-	-	-	250 000
Conversion of the participation fund into share capital (note 41)	400 000	(400 000)	-	-	-	-	-
Balance on 31 December 2017	**2 420 000**	**-**	**6 323**	**186 000**	**27 976**	**(911 288)**	**1 729 011**
IFRS 9 transition adjustment							
Gross amount	-	-	-	-	(19 095)	(128 748)	(147 843)
Taxes	-	-	-	-	6 657	47 953	54 610
Balance on 1 January 2018	**2 420 000**	**-**	**6 323**	**186 000**	**15 538**	**(992 083)**	**1 635 778**
Other comprehensive income:							
Actuarial gains/ (losses) for the period (note 47)	-	-	-	-	-	(34 992)	(34 992)
Taxes (note 31)	-	-	-	-	-	10 571	10 571
Fair value changes (note 43)	-	-	-	-	(34 822)	-	(34 822)
Realised reserves	-	-	-	-	-	235	235
Taxes related to fair value changes (note 31)	-	-	-	-	(480)	-	(480)
Net profit/ (loss) for the period	-	-	-	-	-	2 019	2 019
Total comprehensive income for the period	-	-	-	-	(35 302)	(22 167)	(57 469)
Costs related to the issue of perpetual subordinated instruments (note 41)	-	-	-	-	-	(322)	(322)
Share capital increase	-	-	-	5 767	-	(5 767)	-
Balance on 31 December 2018	**2 420 000**	**-**	**6 323**	**191 767**	**(19 764)**	**(1020 339)**	**1 577 987**

The following notes form an integral part of these individual financial statements

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Individual Statement of Comprehensive Income
for the periods ended at 31 December 2018 and 2017

(Thousands of Euro)

	Notes	2018	2017
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Debt instruments	43	(7 726)	57 956
Loans and advances to customers	43	(655)	(331)
Own credit risk	43	(144)	-
Taxes related to fair value changes	31 and 43	(480)	(17 259)
		(9 005)	40 366
Items that won't be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Equity instruments	43	(26 297)	(10 087)
Acturial gains/ (losses) for the period	47	(34 992)	2 524
Taxes	31	10 571	(996)
		(50 718)	(8 559)
Other comprehensive income/ (loss) for the period		(59 723)	31 807
Net profit/ (loss) for the period		2 019	57 660
Total comprehensive income/ (loss) for the period		(57 704)	89 467

The following notes form an integral part of these individual financial statements

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter “CEMG” or “Banco Montepio”) is a credit institution, based at Rua Castilho, no. 5, 1250-066, Lisbon, held by Montepio Geral Associação Mutualista (hereinafter “MGAM”), established on 24 March 1844, and authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, Banco Montepio is authorised to perform banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

On 10 September 2015 it was published the Decree-Law no. 190/2015, which introduces amendments in the Legal Framework of Credit Institutions and Financial Companies and in the Mutual Association Code. Following the publication of this Decree-Law, CEMG changed its classification to “caixa económica bancária”.

As at 14 September 2017, the Deed of the bylaws was executed, transforming CEMG into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, Banco Montepio’s financial statements are required to be prepared in accordance with International Financial Reporting Standards (“IFRS”) as endorsed by the European Union (“EU”) from 2018 onwards. IFRS comprise accounting standards issued by the International Accounting Standards Board (“IASB”) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and its predecessor body.

The individual financial statements presented herein were approved by the Board of Directors of Banco Montepio on 29 April 2019. The financial statements are presented in Euro rounded to the nearest thousand.

All references made regarding to normatives in this document report to the current version.

The individual financial statements of Banco Montepio for the period ended 31 December 2018 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date.

Banco Montepio has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2018, as disclosed in Note 52.

The accounting policies presented in this note were applied consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period, except for the changes arising from the adoption of IFRS 9 - Financial Instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 replaces IAS 39 Financial instruments – Recognition and Measurement and establishes new rules for the accounting of financial instruments introducing significant modifications mainly regarding impairment requirements. Requirements introduced by IFRS 9 are, in general, applied retrospectively through the restatement of the opening balance up to the initial application date.

Banco Montepio benefit from the exception which allows that comparative information of previous years may not be restated if related to modifications in classification and measurement (including impairment). Differences in financial assets and liabilities recorded in the balance sheet as a result from the application of IFRS 9 where recognised in Reserves and Retained Earnings as of 1 January 2018, in accordance with note 55.

The financial statements were prepared under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

The preparation of the financial statements in accordance with IFRS's requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The main estimates and assumptions involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in the accounting policy described in note 1 z).

b) Loans and advances to customers

Loans and advances to customers includes loans and advances originated by Banco Montepio which are not intended to be sold in the short term and are recognised when cash is advanced to borrowers.

The derecognition of these assets occurs in the following situations: (i) the contractual rights of Banco Montepio to their respective cash flows have expired; or (ii) Banco Montepio transferred substantially all the associated risks and rewards of ownership; or (iii) notwithstanding the fact that Banco Montepio may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred.

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

Impairment

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

The new impairment model is applicable to the following instruments of Banco Montepio, which are not measured at fair value through profit or loss:

- Financial assets classified as debt instruments;

- Commitments and financial guarantees issued.

Under IFRS 9 no impairment is recognised in equity instruments, since these are measured at fair value.

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

- Stage 1: no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;

- Stage 2: instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

- Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

The calculation of impairment losses in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since the initial recognition; and
- Incorporation of forward-looking information in ECL calculation.

ECLs Calculation

ECL correspond to unbiased weighted estimates of credit losses that will be determined as follows:

- Financial assets without signs of impairment at the reporting date: the actual value of the difference between the contractual cash flows and the cash flows that Banco Montepio expects to receive;
- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the actual value of the estimated cash flows;
- Unused credit commitments: the actual value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that Banco Montepio expects to receive;
- Financial guarantees: the actual value of expected reimbursement payments deducted from the amounts that Banco Montepio expects to recover.

IFRS 9 defines financial assets with signs of impairment in a similar way as IAS 39 defined impaired financial assets.

Definition of default

Under IFRS 9, Banco Montepio will consider that its financial assets are in default by applying the same definition used in the regulatory view.

Significant increase in credit risk

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

Under IFRS 9, the identification of a significant increase in credit risk is performed by comparing:

- The remaining PD lifetime at the reporting date, and
- The remaining PD lifetime at this moment, that has been estimated at the initial moment of the exposure´s recognition.

Banco Montepio identifies the occurrence of a significant increase in credit risk through the comparison of the actual 12 months PD and the 12 months PD estimated at the contract’s inception, as a proxy for the comparison between the actual remaining PD lifetime and the remaining PD lifetime calculated at the contract’s inception.

When evaluating the significant increase in credit risk, Banco Montepio considers as a backstop the existence of more than 30 days of delay, amongst others.

Degrees of credit risk

In accordance with the current management of Banco Montepio´s credit risk, each customer and consequently its exposures are classified with a degree of risk from its masterscale.

Banco Montepio uses this degrees of risk as a primary factor for the identification of a significant increase in credit risk, in accordance with IFRS 9.

Inputs for the measurement of ECL

The main inputs used for measuring ECLs in a collective basis include the following parameters:

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

These parameters are obtained through internal statistic models and other relevant historical data considering the existing regulatory models adjusted in order to reflect the forward-looking information.

The PD are estimated based on a certain historical period and are calculated using statistical models. These models are based in internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the related PD is also changed.

The degrees of risk are highly important for the determination of the PDs for each exposure. Banco Montepio collects default and performance indicators regarding its credit risk exposures through analysis by type of customers and type of product.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. Banco Montepio estimates LGD´s parameters based on historical recovery rates after the counterparties entry into default. The LGD´s models considers existing collaterals and time of default as well as recovery costs. In case of contracts collaterised by real estate, LTV ratios (loan to value) are an extremely important parameter in the determination of the LGD.

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

As described above, except for the financial assets that consider a 12-month PD as they do not present a significant increase in credit risk, Banco Montepio calculates the ECL considering the risk of default during the maximum contractual maturity period of the contract or, in certain specific situations, based on the behavior maturity.

Forward-looking information

Under IFRS 9, Banco Montepio includes forward looking information both in its assessment of the significant increase in credit risk and in the measurement of the ECL, using an external entity for the acquisition of relevant macroeconomic variables. This approach represents a forecast of what is more likely to occur and will be in line with other data used by Banco Montepio for other purposes, such a strategic planning and budgeting.

Write-offs policy

Banco Montepio recognises the write-off of an asset when there is no reasonable expectations to recover the asset as a whole or in part. This record occurs after all recovery actions developed by Banco Montepio are proven to be unsuccessful. The write-off of an asset are recognised in out-off balance accounts.

c) Financial instruments

(i) Classification, initial recognition and subsequent measurement

Financial assets are recognised on their trade date, which is the date on which Banco Montepio commits to acquiring the asset and are classified considering its underlying purpose, in the following categories:

1) Financial assets and liabilities at fair value through profit or loss

1a) Financial assets held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising from financial assets at fair value through profit or loss.

Interest from debt instruments is recognised as net interest income.

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

1b) Financial assets, not for trading, mandatorily at fair value through profit or loss

In this category are included Financial Instruments managed in a fair value basis, not for trading, or debt instruments whose cash flows do not comply with the criteria of solely reimbursement of principal and payment of interests over the outstanding principal ("SPPI – Solely Payments of Principal and Interest").

At inception, an entity may irrevocably recognise a financial asset measured at fair value through profit or loss if it eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as "accounting mismatch") that otherwise would result in the measurement of financial assets and liabilities or in the recognition of gains and losses from them, in different basis.

However, at inception, IFRS 9 allows that an entity makes an irrevocably selection (instrument by instrument) in order to present as comprehensive income the subsequent fair value changes from an investment in an equity instrument that meets the definition criteria of IFRS 9. This option only applies to instruments not for trading nor the contingent retribution recognised by an acquirer in a business combination to which IFRS 3 applies.

1c) Other financial assets and liabilities at fair value through profit and loss ("Fair value Option")

Banco Montepio has adopted the Fair value Option for certain owned issuances and deposits from customers which contain embedded derivatives or with hedge derivatives associated.

The changes in fair value attributable to changes in the credit risk of these liabilities was recognised in the income statement in 2018, under Net gains / (losses) arising from assets and liabilities at fair value through profit or loss in accordance with IAS 39. According to IFRS 9, this fair value changes are recognised in other comprehensive income, where the amount recognised in other comprehensive income in each year will be variable. The accumulated amount recognised in other comprehensive income will be nil if these liabilities are reimbursed at maturity date.

The designation of other financial assets and liabilities at fair value through profit and loss (Fair Value Option) is performed whenever at least one of the following requirements is fulfilled:

- the financial assets and liabilities are managed, evaluated and reported internally at its fair value;
- the designation of those financial assets and liabilities eliminates or significantly reduces the accounting mismatch of the transactions; and
- the financial assets and liabilities include embedded derivatives that significantly change the cash flows of the original contracts (host contracts).

Considering that the transactions performed by Banco Montepio in the normal course of business are fulfilled at market prices, the financial assets and liabilities at fair value through profit or loss are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit and loss in the initial moment and subsequent fair value changes under IFRS 9 according to the following:

- the amount related to the fair value change attributable to changes in the credit risk of the liability is presented in Other comprehensive income; and
- the remaining amount of the fair value change is presented in the income statement.

2) Financial assets at fair value through other comprehensive income

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

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

Financial assets held with the purpose of being maintained by Banco Montepio, namely bonds, treasury bills or shares, are classified as at fair value through other comprehensive income, except if they are classified in another category of financial assets. The financial assets at fair value through other comprehensive income are initially accounted at fair value, including all expenses or income associated with the transactions and subsequently measured at fair value. The changes in fair value are accounted for against “fair value reserves”.

i) Debt instruments

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

ii) Equity instruments

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

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

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

3) Other financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following criteria are met and if is not designated at fair value through profit or loss by option (use of Fair value option):

- the financial asset is held within a business model whose main objective is to hold financial assets in order to collect contractual cash flows; and
- the contratual cash flows occur in specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI). In this category are included non-derivative financial assets with fixed or determinable payments and fixed maturity, for which Banco Montepio has the intention and capacity to maintain until the maturity of the assets and that were not included in any other category of financial assets. These financial assets are initially recognised at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognised in Net interest income. The impairment losses are recognised in profit and loss when identified.

4) Loans and receivables - Loans represented by securities

Non-derivative financial assets with fixed or determined payments, that are not quoted in a market and which Banco Montepio does not intend to sell immediately or in a near future, may be classified in this category.

In addition to loans granted, Banco Montepio recognises in this category unquoted bonds and commercial paper. The financial assets recognised in this category are initially accounted at fair value and subsequently at amortised cost net of impairment. The related transaction costs are included in the effective interest rate for these financial instruments. The interests accounted based on the effective interest rate method are recognised in Net interest income.

Impairment losses are recognised in profit and loss when identified.

5) Other financial liabilities

Other financial liabilities are all financial liabilities that are not recognised as financial liabilities at fair value through profit and loss. This category includes money market transactions, deposits from customers and from other credit institutions, debt securities issued, and other transactions.

These financial liabilities are initially recognised at fair value and subsequently at amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognised in net interest income.

The financial gains or losses calculated at the time of the repurchase of other financial liabilities are recognised as Net gains / (losses) arising from assets and liabilities at fair value through profit and loss when occurred.

(ii) Impairment

At each balance sheet date, an assessment over the impairment of debt instruments classified at amortised cost or at fair value through other comprehensive income is made in accordance with the ECL methodology.

(iii) Embedded derivatives

Embedded derivatives should be accounted for separately as derivatives if the economic risks and rewards of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is not initially measured at fair value with changes through profit and loss. Embedded derivatives are classified as trading and recognised at fair value with changes through profit and loss.

d) Hedge accounting

(i) Hedge accounting

Banco Montepio designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading derivatives.

Derivative hedging instruments are recorded at fair value and gains and losses on re-measurement are recognised in accordance with the hedge accounting model adopted by Banco Montepio. An hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting year; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative and to changes in foreign exchange risk related with the monetary items is recognised through profit and loss.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognised in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses recognised until the discontinuance of the hedge accounting are amortised through profit and loss over the residual period of the hedged item.

(iii) Hedge effectiveness

For a hedge relationship to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

e) Reclassification between financial instruments categories

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

f) Derecognition

Banco Montepio derecognises financial assets when all rights to future cash flows have expired. In a transfer of assets, derecognition can only occur either when risks and rewards have been substantially transferred or Banco Montepio Group does not maintain control over the assets.

Banco Montepio derecognises financial liabilities when these are cancelled or extinguished.

g) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Income from equity instruments (dividends) are recognised when the right to receive this income is established and are deducted to equity.

h) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

Securities lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognised as a financial liability. Securities borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either customers or credit institutions. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or interest expense (net interest income).

(ii) Repurchase agreements

Banco Montepio performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date are not recognised on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from other credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognised on an accrual basis over the period of the transaction and is included in Interest and similar income and Interest and similar expense.

i) Investments in subsidiaries and associates companies

Investments in subsidiaries and associates companies are recorded in Banco Montepio's individual financial statements at their historical cost less any impairment losses.

Subsidiaries are entities (including investment funds and securitisation vehicles) controlled by Banco Montepio. Banco Montepio controls an entity when has exposure, or rights, to variable returns derived of its involvement with this entity, and can reclaim them with the power that have over the entity relevant activities (de facto control).

Associates are those entities, in which Banco Montepio has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that Banco Montepio has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If Banco Montepio holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that Banco Montepio does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by do Banco Montepio is usually evidenced in one or more of the following ways:

- representation on the Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between Banco Montepio and the investee;
- interchange of the management team; and
- provision of essential technical information.

Impairment

The recoverable amount of the instruments in subsidiaries and associates is assessed whenever there are signs of evidence of impairment. Impairment losses are calculated based on the difference between the recoverable amounts of the investments in subsidiaries and associated and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period. The recoverable amount is determined based on the higher between the assets value in use and the fair value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

j) Non-current assets held for sale and discontinued operations

Non-current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets are available for immediate sale and its sale is highly probable.

Banco Montepio also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term, are consolidated until the disposal.

Banco Montepio also classifies as non-current assets held for sale, the investments arising from recovered loans that are measured initially by the lower of its fair value net of selling costs and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalised.

The fair value is based in market values being determined based on the expected selling price estimated through periodic valuations performed by independent experts registered with Portuguese Securities Market Commission (CMVM).

The subsequent measurement of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of selling costs, not subject to amortisation. In case of unrealised losses, these should be recognised as impairment losses against results for the period.

k) Finance lease transactions

At the lessee's perspective, finance lease transactions are recorded as an asset and liability at fair value of the leased asset, which is equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each year end.

At the lessor's perspective, assets held under finance leases are recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals are a combination of the financial income and amortisation of the capital outstanding. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

l) Interest income and expenses

Interest income and expense for financial instruments measured at amortised cost are recognised in the interests and similar income or interests and similar expenses (net interest income) through the effective interest rate method. The interest related to financial assets at fair value through other comprehensive income are calculated using the effective interest rate method and are also recognised on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, Banco Montepio estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

Specifically regarding the accounting policy for interest on overdue loans portfolio the following aspects are considered:

- interest income for overdue loans secured by collaterals is accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is recorded against income in accordance with IAS 18, assuming that there is a reasonable probability for recoverability; and
- interest accrued and unpaid for loans over 90 days overdue that are not secured by collaterals are written-off and are recognised only when received, in accordance with IAS 18, on the basis that its recoverability is considered to be remote.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains/(losses) arising from assets and liabilities at fair value through profit and loss. For hedging derivatives of interest rate risk and those related to financial assets or financial liabilities recognised in the Fair Value Option category, the interest component of the changes in their fair value is recognised under interest income or expense (Net interest income).

m) Financial results (Net gains/(losses) arising from financial assets at fair value through other comprehensive income, Net gains / (losses) arising from assets and liabilities at fair value through profit or loss and Net gains/ (losses) arising from other financial assets at amortised cost)

Financial results include gains and losses arising from financial assets and financial liabilities at fair value through profit and loss, that is, fair value changes and interest on trading derivatives and embedded derivatives), as well as the corresponding dividends received. This caption also includes gains and losses arising from the sale of debt instruments of financial assets at fair value through other comprehensive income and of other financial assets at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this caption.

n) Fee and commission income

Income from fees and commissions is recognised in accordance with the following criteria:

- Fees and commissions which are earned as services are provided are recognised in income over the period in which the service is being provided; or
- Fees and commissions that are earned on the execution of a significant act, are recognised as income when the service is completed; and
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognised in Net interest income.

o) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognised in the Banco Montepio's financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period to which they relate.

p) Property, plant and equipment

Property, plant and equipment are recorded at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognised as a separate asset only when it is probable that future economic benefits will result for Banco Montepio. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Buildings for own use	50
Expenditure on rented buildings	10
Other property, plant and equipment	4 to 10

Whenever there is an indication that property and equipment might be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

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

q) Intangible assets

Software

Banco Montepio accounts as intangible assets the costs associated to software acquired from external entities and depreciates them on a straight-line basis by an estimated lifetime of three or six years. The Group does not capitalise internal costs arising from software development.

r) Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with Central Banks.

s) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when Banco Montepio has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis.

t) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in the profit and loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognised against equity.

u) Post-employment and long-term benefits

Defined benefit plans

Banco Montepio has the responsibility to pay its employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of Collective Labor Agreement (ACT). In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the general Social Security system and the attribution of an end-of-career award corresponding to 1.5 times the monthly retribution received at the retirement date.

Arising from the signing of the Collective Labor Agreement (ACT) and subsequent amendments, Banco Montepio set up pension funds to cover the liabilities with pensions on retirement and disability, widows' pension, health-care benefits and death subsidy.

On 1 January 2011, bank employees were integrated in the Social Security System which ensure their protection in maternity, paternity, adoption and old age. Protections associated with sickness, incapacity, survival and death remain under banks responsibility (Decree-Law No 1-A/2011, of 3 January).

The contribution rate is 26.6% in which 23.6% belongs to Banco Montepio, and 3% to employees, replacing the Caixa de Abono de Familia dos Empregados Bancários (CAFEB) extinguished by the same Decree-Law. As a result, the pension rights of the active employees started to be covered by the terms defined by Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in Collective Labor Agreement (“Acordo Colectivo de Trabalho”).

Following the Government approval of the Decree-Law no. 127/2011, which was published in 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank employees was established, regarding the transfer to Social Security domain of the liabilities with pensions under payment to retired employers and pensioners, as at 31 December 2011.

This decree-law established that the liabilities to be transferred were the liabilities with pensions under payment at 31 December 2011 to retired employees and pensioners, at permanent values (discount rate 0%) in the terms set forth in Collective Labour Regulation Instrument (IRCT). The liabilities regarding the update of pensions, benefit plans, contributions to Social-Medical Assistance Services (SAMS) over retirement and survival pensions, death subsidy and deferred survival pension are still under the responsibility of the Institutions.

In December 2016, Banco Montepio issued a new Collective Labor Agreement/ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career award which replaced the extinguished old-age bonus, as disclosed in Note 47.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the requirements of IAS 19.

Banco Montepio’s liabilities with pension plans and other benefits are calculated annually, at 31 December of each year.

The pension liabilities and health care benefits are covered by the Pension fund that is managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

Banco Montepio´s net liability regarding defined benefit pension plans and other benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates associated with high quality corporate bonds and with a similar maturity to the date of termination of the plan. The net liability is determined after the deduction of the fair value of the assets of the Pensions Plan.

The income / cost of interests with the pension plan is calculated, multiplying the net asset / liability with retirement pension (liabilities less the fair value of the plan's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned before. On this basis, the income / cost net of interests includes the interest costs associated with retirement pension liabilities and the expected return of the plan's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) gains and losses resulting from differences between actuarial assumptions used and the amounts actually observed (experience gains and losses) and changes in actuarial assumptions and (ii) gains and losses arising from the difference between the expected return of the plan's assets and the amounts obtained, are recognised against equity under other comprehensive income.

Banco Montepio recognises in its income statement a net total amount that comprises (i) the current service cost, (ii) the income / cost net of interest with the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurred during the period. The costs of early retirements correspond to the increase in liabilities due to the employee's retirement before reaching retirement age.

Other benefits non-related with pensions, namely retired employees' health expenses and benefits to spouses and descendants by death and expenses with house loans, are also used to calculate liabilities.

Payments to the Pension Fund shall be made by the Group on an annual basis and according to a schedule of contributions in order to maintain the solvency of the fund. The liability related with pensions in payment shall be funded at a minimum level of 100% and 95% to past services cost with active employees.

Defined contribution plan

As at 31 December 2018, Banco Montepio has a defined contribution plan for employees who were admitted after 3 March 2009. For this plan, designated as contributory, contributions are made monthly and equal to 1.5% of the effective remuneration to be made by the company and 1.5% to be made by the employee.

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement in the period to which they relate.

v) Income taxes

Until 31 December 2011, Banco Montepio was an entity exempt from Income Tax ("IRC"), in accordance with subparagraph a) no. 1 of Article 10 of the IRC. This exemption had been recognised under the Order of 3 December 1993 by the Secretary of State for Fiscal Issues and confirmed by Law no. 10-B/96 of March 23, approving the State Budget for 1996.

With effect from 1 January 2012, Banco Montepio is subject to the regime established by the Income Tax Code (CIRC). Additionally, deferred taxes resulting from the temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation, are accounted for, whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax recognised in profit or loss comprises current and deferred tax effects. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and cash flow hedging derivatives are subsequently recognised in profit and loss in the moment the results that originated the deferred taxes are recognised.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at the balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

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

As established in IAS 12, paragraph 74, Banco Montepio compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In 2018, Banco Montepio became the dominant company of the Group subject to Income tax under the Special Taxation Regime of Group Companies (*Regime Especial de Tributação dos Grupos de Sociedades*, hereinafter “RETGS”), comprised of companies holding an equal to or greater than 75% and which meet the conditions foreseen in Article 69 et seq. of the Portuguese Income Tax Code, whose previously dominant company was Montepio Holding, S.G.P.S., S.A.

Companies included in the RETGS calculate and record income tax as if they were taxed on an individual basis. However, the liabilities calculated are owed to the dominant company of the tax group, Banco Montepio, which is responsible for the overall clearance and tax levies. Gains or losses arising from the application of this system are recorded for each of the companies that generated it.

w) Segmental reporting

Considering that the individual financial statements are presented together with those of the Group, in the light of paragraph 4 of IFRS 8, Banco Montepio is exempt from presenting information on an individual basis relating to the segments.

Banco Montepio adopted the IFRS 8 – Operational Segments for the purposes of disclosure of financial information by operational segments. An operating segment is a Group's component: (i) that engages in business activities from which it may earn revenues or incur expenses; (ii) whose operational results are regularly reviewed by the main responsible for the Group operational decisions about allocating resources to the segment and assess its performance; and (iii) for which distinct financial information is available.

Considering that the individual financial statements are presented together with the Group's individual financial statements, in accordance with the paragraph 4 of IFRS 8, Banco Montepio is dismissed to present individual information regarding Segmental Reporting.

x) Provisions

Provisions are recognised when (i) Banco Montepio has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

The provision measurement is according with the principles defined in IAS 37 in respect of the best estimate of expected cost, the more likely result for the ongoing processes, considering the risk and uncertainties related to the process. In cases where the discount effect is material, provisions correspond to actual value of the expected future payments, discounted by a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

y) Insurance and reinsurance brokerage services

Banco Montepio is duly authorised by the Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões - "ASF") to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the Article 8, paragraph a), subparagraph i) of Decree-Law 144/2006 of 31 July, operating in the life and non-life insurance brokerage areas.

In the insurance brokerage services area, Banco Montepio sells insurance contracts. As remuneration for the insurance brokerage services rendered, Banco Montepio receives commission for brokering insurance contracts and investment contracts, which is defined in agreements/protocols established between Banco Montepio and the Insurers.

Commission received for insurance brokerage services refers to:

- commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through Banco Montepio and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;
- commission for participation in the results of insurance, which are calculated annually and paid by the insurer in the beginning of the year following that to which they refer (up to 31 January).

Commission received for insurance brokerage services are recognised in an accrual basis. Fees paid in a different period from that to which it relates are recorded as a receivable in the caption “Other assets” against “Income from services and commissions - for insurance brokerage services”.

z) Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors and management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects Banco Montepio reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, Banco Montepio reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present the Banco Montepio’s financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment losses on loans and advances to customers

Banco Montepio reviews its loan portfolios to assess impairment losses on a regularly basis, as described in the accounting policy described in note 1 b).

The evaluation process in determining whether an amount of impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

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

Fair value of derivative financial instruments

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different financial results for a particular period.

Impairment for investments in subsidiary and associated companies

Banco Montepio assesses the recoverable amount whenever there are signs of evidence of impairment. Impairment losses are calculated based on the difference between the recoverable amounts of the investments in subsidiaries and associated and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period.

The recoverable amount is determined based on the higher between the assets value in use and the market value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks, that may require assumptions or judgment in making estimates of fair value.

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

Entities included in the consolidation perimeter

For the purposes of determining entities to include in the consolidation perimeter, Banco Montepio assesses whether is exposed to, or has rights to, the variable returns from its involvement with the entity and can obtain those variable returns through the power it holds over that entity (de facto control).

The decision if an entity needs to be consolidated by Banco Montepio requires the use of judgment, estimates and assumptions to determine to what extend Banco Montepio is exposed to the variable returns and its ability to use its power to affect those returns.

Different estimates and assumptions could lead Banco Montepio to a different scope of consolidation perimeter with a direct impact in the consolidated net income.

Income taxes

Significant interpretations and estimates are required in determining the global amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

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

The Portuguese Tax and Customs Authorities are entitled to review Bancon Montepio determination of its annual taxable earnings, for a period of four years, save where any deduction or tax credit has been made in which the period is the exercise of that right. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pensions and other post-employment and long-term benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as discount rate, pensions' growth rate and wages and mortality table, estimated return on investments, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Valuation of non-current assets held for sale and investment properties

Non-current assets held for sale are measured at the lower amount between its fair value net of selling costs and the book value of the existing credit at the date the change was made. Investment properties are measured at fair value. Fair value is determined on the basis of periodic assessments made by external experts registered with CMVM. Different methodologies and assumptions would have an impact on the determination of the assets fair value and consequently on the financial statements.

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigations and considering the risks and uncertainties of the process. Different assumptions and judgments would have an impact in determining the amount of provisions and consequently on the individual financial statements.

2 Net interest income and net gains/ (losses) arising from assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income

IFRS requires a separate disclosure of net interest income, net gains arising from assets and liabilities at fair-value through profit or loss and available-for-sale financial assets, as presented in notes 3, 6 and 7. A particular business activity can generate impacts either in net gains arising from assets and liabilities at fair-value through profit or loss and available-for-sale financial assets or in net interest income captions. Therefore, the disclosure now presented highlights the contribution of the different business activities to the net interest income and to the net gains arising from assets and liabilities at fair-value through profit or loss and available-for-sale financial assets.

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Net interest income	234 526	250 074
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	8 420	(13 831)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	5 531	90 418
	248 477	326 661

3 Net interest income

The amount of this account is comprised of:

	(Thousand euros)	
	2018	**2017**
Interest and similar income		
Loans and advances to customers	299 353	350 302
Deposits and other short-term investments	17 939	2 389
Financial assets held for trading	14 258	15 946
Financial assets at fair value through other comprehensive income	6 244	21 321
Hedging derivatives	6 563	1 348
Other financial assets at amortised cost	2 230	12 504
Interest from other financial assets not held for trading mandatorily at fair value through profit or loss	251	-
Other interest and similar income	79	270
	346 917	404 080
Interest and similar expense		
Deposits from customers	54 713	82 010
Deposits from central banks and other credit institutions	23 421	18 384
Securities issued	16 923	36 697
Financial liabilities held for trading	12 474	13 100
Hedging derivatives	3 707	762
Other subordinated debt	1 152	3 051
Other interest and similar expense	1	2
	112 391	154 006
Net interest income	234 526	250 074

The balance Interest and similar income – Loans and advances to customers includes the amount of Euro 18,675 thousand (31 December 2017: Euro 19,711 thousand) related to commissions and the amount of Euro 2,533 thousand (31 December 2017: Euro 2,805 thousand) related to other gains/losses which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 l).

In addition, the balance Interest and similar income - Loans and advances to customers also includes the amount of Euro 251 thousand referring to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

As at 31 December 2018, the balance Interest and similar income – Loans and advances to customers includes the amount of Euro 19,932 thousand related to customers classified under stage 3, in accordance with the accounting policy described in note 1b). As at 31 December 2017, this balance includes the amount of Euro 66,311 thousand related to customers with signs of impairment.

4 Dividends from equity instruments

This balance includes dividends and income from investment fund units received during the period, relating to financial assets at fair value through other comprehensive income.

5 Net fee and commission income

The amount of this account is comprised of:

(Thousands of Euro)	2018	2017
Fee and commission income		
From banking services	102 741	101 330
From transactions on behalf of third parties	27 923	29 310
From brokerage insurance services	7 080	7 572
Guarantees provided	5 358	6 255
Other fee and commission income	198	2 717
	143 300	147 184
Fee and commission expense		
From banking services rendered by third parties	16 792	16 096
Other fee and commission expense	6 969	6 619
From transactions with securities	796	658
	24 557	23 373
Net fee and commission income	118 743	123 811

As at 31 December 2018 and 2017, the balance Insurance brokerage services is presented as follows:

(Thousands of Euro)	2018	2017
Life insurance	3 535	4 815
Non-life insurance	3 545	2 757
	7 080	7 572

Insurance brokerage services remunerations were received in full in cash and all its fees were the result of insurance intermediation carried out by Lusitania, Companhia de Seguros, S.A. and Lusitania Vida, Companhia de Seguros, S.A.

6 Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss

The amount of this account is comprised of:

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	4 192	2 867	1 325	11 327	10 886	441
Issued by other entities	70	854	(784)	53 708	68 535	(14 827)
Shares	1 827	2 669	(842)	13 955	13 665	290
Investment units	156	379	(223)	4 058	4 084	(26)
	6 245	6 769	(524)	83 048	97 170	(14 122)
Derivative financial instruments						
Interest rate contracts	64 661	64 939	(278)	148 989	146 136	2 853
Exchange rate contracts	30 548	31 385	(837)	32 650	33 054	(404)
Future contracts	4 926	4 856	70	3 652	4 221	(569)
Option contracts	1 088	1 111	(23)	3 586	3 427	159
Commodities contracts	1 010	-	1 010	-	796	(796)
	102 233	102 291	(58)	188 877	187 634	1 243
Financial assets not held for trading mandatorily at fair value through profit or loss						
Investment units	14 820	7 754	7 066	-	-	-
Loans and advances to customers	986	-	986	-	-	-
	15 806	7 754	8 052	-	-	-
Other financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by public entities	-	388	(388)	-	-	-
Shares	36	-	36	-	-	-
Loans and advances to customers	91	197	(106)	60	595	(535)
	127	585	(458)	60	595	(535)
Financial liabilities at fair value through profit or loss						
Deposits from other institutions	-	-	-	3	-	3
Deposits from customers	22	-	22	38	59	(21)
Debt securities issued	546	55	491	294	817	(523)
	568	55	513	335	876	(541)
Hedging derivatives						
Interest rate contracts	54 871	47 189	7 682	8 134	10 383	(2 249)
	54 871	47 189	7 682	8 134	10 383	(2 249)
Hedged financial liabilities						
Debt securities issued	11 070	17 857	(6 787)	4 462	2 089	2 373
	11 070	17 857	(6 787)	4 462	2 089	2 373
	190 920	182 500	8 420	284 916	298 747	(13 831)

In accordance with the accounting policies followed by Banco Montepio, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

Banco Montepio recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments whether at inception or subsequently is determined based only on observable market data and reflects the Banco Montepio access to the wholesale financial market.

7 Net gains/ (losses) arising from financial assets at fair value through other comprehensive income

The amount of this account is comprised of:

(Thousands of Euro)

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	13 138	7 723	5 415	82 735	4 125	78 610
Issued by other entities	354	238	116	8 287	207	8 080
Shares	-	-	-	769	88	681
Other variable income securities	-	-	-	4 693	1 646	3 047
	13 492	7 961	5 531	96 484	6 066	90 418

As at 31 December 2018, the balance Fixed income securities – Bonds – issued by public entities includes the amounts of Euro 7,905 thousand and Euro 2,898 thousand related with capital gains generated with the sale of Portuguese and Spanish public debt bonds, respectively, and the amount of Euro 5,388 thousand related with capital losses generated with the sale of Italian public debt. This caption, on 31 December 2017, includes the amounts of Euro 73,029 thousand and Euro 5,393 thousand, related with gains generated with the sale of treasury bonds of the Portuguese public debt and of the Spanish and Italian public debt, respectively.

8 Net gains/ (losses) arising from exchange differences

The amount of this account is comprised of:

(Thousands of Euro)

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	56 524	60 419	(3 895)	26 954	25 315	1 639

This account comprises the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 t).

9 Net gains/ (losses) arising from sale of other financial assets

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Sale of non-current assets held for sale	14 488	8 597
Sale of loans and advances to customers	(5 239)	16 207
Sale of other assets	(128)	14 576
	9 121	39 380

The balance Sale of non-current assets held for sale includes essentially the result generated with the sale of real estate, as described in note 28.

As at 31 December 2018, the balance Sales of loans and advances to customers includes a loss generated on the sale of a portfolio of loans to customers which was in default in the amount of Euro 4,904 thousand, as disclosed in note 21.

As at 31 December 2017, the balance Sale of loans and advances to customers includes the gains generated on the sale of two portfolios of loans to customers which were in default, as disclosed in notes 21 and 22.

As at 31 December 2017, the balance Sale of other assets includes the amount of Euro 14,375 thousand related to the gain generated on the sale of part of the portfolio of the Portuguese public debt bonds and which was previously recorded in the portfolio of financial assets at fair value through other comprehensive income and that was previously recorded in the portfolio of other financial assets at amortised cost.

10 Other operating income/ (expenses)

The amount of this account is comprised of:

	(Thousands of Euro)	
	2018	**2017**
Other operating income		
Profits arising from deposits on demand management	6 783	9 628
Services rendered	5 282	4 895
Reimbursement of expenses	2 296	2 306
Staff transfer	-	21 019
Repurchase of debt securities issued	955	2 054
Other	10 182	8 627
	25 498	48 529
Other operating expenses		
Contributions:		
Banking sector	10 642	11 406
Ex-ante for the Single Resolution Fund	8 051	9 645
Resolution Fund	2 535	3 473
Deposit Guarantee Fund	21	13
Expenses with investment properties revaluation	12 823	8 440
Servicing and expenses with credit recovery	6 500	20 152
Expenses with issuances	1 238	2 694
Taxes	1 012	565
Donations and membership	631	854
Repurchase of debt securities issued	-	631
Other	6 557	7 600
	50 010	65 473
Other net operating income/ (expenses)	(24 512)	(16 944)

As at 31 December 2017, the balance Other operating income – Staff transfer includes the amount of Euro 20,197 thousand related to the staff transfer from Banco Montepio to MGAM and to entities under its control. In 2018, income associated with staff transfer in the amount of Euro 14,078 thousand was recorded under Staff costs, as referred in note 11.

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

The item *Ex-ante* Contribution to the Single Resolution Fund corresponds to the annual contribution, in accordance with paragraph 1, article 153-H of the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), which transposed the articles 100 (4) (a) and 103 (1) of the Directive 2015/59/EU of the European Parliament and of the Council of 15 May 2014, and article 20 of the Delegated Regulation (EU) 2015/63 of 21 October 2014

("Delegated regulation") and with the conditions provided by the Implementing Regulation 2015/81 of the Council from 19 December 2014 ("Implementing Regulation").

This contribution was determined by the Bank of Portugal, in its quality of National Resolution Authority, based in the methodology defined in accordance with its articles 4, 13 and 20 in the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 June of each year, as stipulated in the Agreement for the Transfer and Mutualisation of the contributions to the Single Resolution Fund signed in Brussels on 21 May 2014 and approved by the Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to Article 67 (4) of Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July 2014 (MUR Regulation).

In addition, it is the responsibility of the Single Resolution Council ("CUR"), in close cooperation with the Bank of Portugal, as the national resolution authority, to calculate on an annual basis these contributions, pursuant to and for the purposes Article 70 (2) of the MUR Regulation. In 2018, Banco Montepio opted for the use of irrevocable payment commitments, by 15% of the contribution's value, as provided for in Article 8 (3) of the Implementing Regulation. On this basis, Banco Montepio decided to settle Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposit, as disclosed in notes 20 and 56. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

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

The item Other operating expenses - Expenses with properties held for trading includes the costs related to the promotion in the sale of real estate, property tax (IMI) and additional property tax (AIMI), condominium quotas and maintenance and repair of real estate properties.

The item Servicing and credit recovery expenses registers servicing costs applied to a portfolio of non-performing credits made by third parties.

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Remunerations	103 436	112 653
Mandatory Social Security charges	31 220	29 816
Charges with the Pension Fund	8 763	1 588
Other staff costs	3 489	5 012
	146 908	149 069

As at 31 December 2018, Staff costs reflects the effect of Staff transfers from Banco Montepio to MGAM and to entities of Banco Montepio Group in the amount of Euro 14,078 thousand. As at 31 December 2017, this amount was Euro 20,197 thousand and was recorded under Other operating income, as referred in note 10.

The remuneration of the Management aims to be a compensation for their direct activities in Banco Montepio.

In 2018, the amount of compensation paid to the previous Executive Board of Directors and to the General and Supervisory Board, which in both cases were fulfilling their function until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

As at 31 December 2018 and 2017, Management did not receive any retribution of variable remuneration.

First-line managers are considered as Other key management personnel.

The costs with salaries and other benefits attributed to the Executive Board of Directors, Audit Committee, General Meeting Board, previous Executive Board of Directors and previous General and Supervisory Board and Other key management personnel, in 2018, are presented as follows:

(Thousands of Euro)

	Board of Directors	Audit Committee	General Meeting Board	Previous Executive Board of Directors	Previous General and Supervisoy Board	Other key management personnel	Total
Remunerations and other short-term benefits	1 573	216	7	528	284	2 869	5 477
Pension costs	20	-	-	-	-	112	132
Costs with health-care benefits (SAMS)	9	-	-	10	-	49	68
Social Security charges	333	40	2	118	51	630	1 174
	1 935	256	9	656	335	3 660	6 851

As at 31 December 2018, the remuneration received by the General and Supervisory Board in the period in which they exercised their functions amounted to Euro 335 thousand (31 December 2017: Euro 1,064 thousand).

The costs with remunerations and other benefits attributed to the Executive Board of Directors, General and Supervisory Board, General Meeting Board and Other key management personnel of the Banco Montepio, in 2017 are presented as follows:

(Thousands of Euro)

	Executive Board of Directors	General and Supervisory Board and General Meeting Board	Other key management personnel	Total
Remunerations and other short-term benefits	1 927	1 070	3 252	6 249
Pension costs	1 747	505	-	2 252
Costs with health-care benefits (SAMS)	12	-	61	73
Social Security charges	430	195	761	1 386
	4 116	1 770	4 074	9 960

As at 31 December 2018, loans granted to the Board of Directors of Banco Montepio (after 20 March 2018) amounted to Euro 337 thousand, to the Audit Committee (after 20 March 2018) amounted to Euro 163 thousand and to Other key management personnel amounted to Euro 2,994 thousand (31 December 2017: Euro 3,042 thousand). Loans granted to the previous governing bodies of Banco Montepio was as follows: to the Executive Board of Directors (until 20 March 2018) amounted to Euro 132 thousand (31 December 2017: Euro 134 thousand) and to the General and Supervisory Board (until 20 March) reached Euro 2,034 thousand (31 December 2017: Euro 2,323 thousand), according to note 49.

The average number of employees, by professional category, in Banco Montepio during 2018 and 2017 is as follows:

	2018	2017
Management	206	198
Managerial staff	648	645
Technical staff	1 330	1 302
Administrative staff	1 385	1 405
Staff	51	51
	3 620	3 601

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Rental costs	10 505	11 454
Specialised services		
IT services	9 788	7 102
Independent work	3 589	4 548
Other specialised services	16 379	18 072
Communication costs	5 189	5 261
Maintenance and repair	4 495	4 754
Water, energy and fuel	3 972	4 090
Advertising costs	2 871	4 358
Transportation	2 585	2 642
Consumables	1 365	1 538
Travel, hotel and representation costs	915	1 004
Insurance	828	1 914
Training	485	7
Other general and administrative costs	4 976	5 845
	67 942	72 589

The balance Rental costs, includes the amount of Euro 8,077 thousand (31 December 2017: Euro 8,825 thousand) related to rents paid regarding buildings used by Banco Montepio as lessee.

The balance Other general and administrative expenses includes the amount of Euro 3,132 thousand (31 December 2017: Euro 3,304 thousand) related with services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

Banco Montepio has several vehicle operational leasing contracts. Payments made under such leasing contracts are recognised in income during the duration of the contract. The future minimum payments for operational leasing contracts not revocable by maturity, are presented as follows:

(Thousands of Euro)

	2018	2017
Within 1 year	1 292	1 587
1 to 5 years	2 565	501
	3 857	2 088

The balance Other specialised services includes fees invoiced (excluding VAT) by the Group's Statutory Auditor within its functions of statutory audit as well as other services, including the ones rendered by its network, as follows:

(Thousands of Euro)

	2018	2017
Audit		
Statutory Audit services	1 259	1 215
Other reliability assurance services required by law		
Issuance of opinions on the internal control systems	334	114
Issuance of opinions for the regulatory entities and support on engagements for supervisory purposes	305	165
Issuance of several reports	58	38
	697	317
Other reliability services not required by law	394	339
	2 350	1 871

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Intangible assets		
Software	12 888	13 726
Property, plant and equipment		
Land and buildings		
For own use	3 044	3 059
Leasehold improvements in rented buildings	1 156	1 581
Equipment		
IT equipment	2 978	2 716
Interior installations	1 302	1 026
Furniture	345	395
Security equipment	179	241
Machinery and tools	10	10
Operating leases	8	34
Other property, plant and equipment	1	3
	9 023	9 065
	21 911	22 791

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)	2018	2017
Other loans and advances to credit institutions		
Charge for the period	2 868	-
	2 868	-
Loans and advances to customers		
Charge for the period net of reversals	90 716	162 958
Recovery of loans and interest charged-off	(9 905)	(2 544)
	80 811	160 414
	83 679	160 414

This account relates to the estimate of the incurred losses determined according with the accounting policy described in note 1 b).

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)	2018	2017
Impairment of financial assets at fair value through other comprehensive income		
Charge for the period net of reversals	1 275	17 595
Impairment of other financial assets at amortised cost		
Charge for the period net of reversals	2 679	-
	3 954	17 595

As at 31 December 2017, the balance Impairment of financial assets at fair value through other comprehensinve income includes the charge for the period in the amount of Euro 10,286 thousand that corresponds to impairment losses recognised for investments units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers. In accordance with the classification criteria under IFRS 9, investment units in these funds were classified as of 1 January 2018, as Financial assets not held for trading mandatorily at fair value through profit or loss.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Impairment for investments in subsidiaries and associates companies		
Charge for the period	322	-
Write-back for the period	(30 821)	(46 616)
	(30 499)	(46 616)
Impairment for non-current assets held for sale		
Charge for the period	13 655	11 332
Write-back for the period	(7 994)	(1 790)
	5 661	9 542
Impairment for other assets		
Charge for the period	9 219	2 558
Write-back for the period	(2 080)	(385)
	7 139	2 173
	(17 699)	(34 901)

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	2018	2017
Provisions for guarantees and commitments		
Charge for the period	11 660	16 558
Write-back for the period	(13 155)	(14 262)
	(1 495)	2 296
Provisions for other risks and charges		
Charge for the period	10 035	5 709
Write-back for the period	(4 936)	(1 573)
	5 099	4 136
	3 604	6 432

18 Cash and deposits at central banks

This balance is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Cash	194 596	178 925
Deposits at central banks		
Bank of Portugal	1 416 038	1 554 701
	1 610 634	1 733 626

As at 31 December 2018, the balance Central bank relating to deposits within the Bank of Portugal, includes the amount of Euro 90,286 thousand (31 December 2017: Euro 92,448 thousand) to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of deposits and other effective liabilities. The cash reserve requirements, according with the European Central Bank System for Euro Zone, establishes the maintenance of a deposit with the Central Bank equivalent to 1% of the average value of deposits and other liabilities, during each reserve requirements period.

At as 31 December 2018, deposits within the Bank of Portugal were remunerated at the rate of -0.4%.

19 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Credit institutions in Portugal	1 172	1 295
Credit institutions abroad	47 409	18 535
Amounts due for collection	26 991	39 642
	75 572	59 472

The balance Amounts due for collection represents essentially cheques receivable from other credit institutions due for collection.

20 Other loans and advances to credit institutions

This balance is analysed as follows:

	2018	2017
Loans and advances to credit institutions in Portugal		
Loans	268 660	229 113
Term deposits	1 987	1 986
Other loans and advances	10 000	42 160
	280 647	273 259
Loans and advances to credit institutions abroad		
CSA's	27 179	40 226
Term deposits	9 226	7 659
Reverse repos	2 190	3 405
Subordinated deposits	701	1 702
Very-short term deposits	-	30 000
Other loans and advances	131 875	202 460
	171 171	285 452
	451 818	558 711
Impairment for credit risk over loans and advances to credit institutions	(3 783)	-
	448 035	558 711

The caption Loans and advances to credit institutions in Portugal – Loans includes the relationship engagements with Banco Montepio's subsidiaries.

The Credit Support Annex (hereinafter referred to as "CSA's") are contracts that regulate the delivery, reception and monitoring of delivered/received collateral to cover the exposure of a counterparty to the other, as a result of open positions in over-the-counter derivatives. According to most CSA's executed by the Group, this collateral might be in the form of securities or cash, however, in the Group's particular case, collaterals are all in cash.

Collaterals in cash delivered (establishment or strengthening) or received (collateral release) result from the changes in the fair value of the several derivative instruments that CEMG negotiated with each one of the counterparties and are an effective transfer of cash, through TARGET2 transfers, for each one of the counterparties, as a guarantee of Banco Montepio's exposure towards the counterparty.

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, Banco Montepio holds an amount of Euro 27,179 thousand (31 December 2016: Euro 40,226 thousand) related to deposits in credit institutions given as collateral for the above mentioned operations.

The caption Loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) related to a deposit made and accepted as collateral within the Ex-ante Contribution to the Resolution Fund, as described in notes 10 and 56.

The caption Loans and advances to credit institutions abroad – Other loans and advances includes the amounts deposited on behalf of the vehicles incorporated for the purpose of the Banco Montepio's securitisation transactions.

Impairment movements for credit risks on Other loans and advances to credit institutions are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	-	-
IFRS 9 transition adjustment	915	-
Charge for the period net of reversals	2 868	-
Balance on 31 December	3 783	-

The balance Other loans and advances to credit institutions, by maturity, is analysed as follows:

(Thousands of Euro)

	2018	2017
Within 3 months	81 466	171 065
3 to 6 months	37 433	160 587
6 months to 1 year	195 741	22 958
1 to 5 years	8 844	9 176
Above 5 years	115 253	184 960
Undetermined	13 081	9 965
	451 818	558 711

21 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Corporate		
Loans not represented by securities		
Loans	2 697 982	2 810 474
Commercial lines of credit	447 497	470 134
Finance lease	284 406	297 272
Discounted bills	66 049	71 712
Factoring	175 157	143 889
Overdrafts	7 011	2 543
Other loans	618 267	727 366
Loans represented by securities		
Commercial paper	410 790	383 797
Bonds	169 922	242 388
Retail		
Mortgage loans	6 170 438	6 598 905
Finance lease	38 276	37 258
Consumer credit and other loans	722 549	780 937
	11 808 344	12 566 675
Correction value of assets subject to hedge operations	(107)	(1)
Overdue loans and interests		
Below 90 days	36 815	80 830
Above 90 days	893 486	1 109 474
	930 301	1 190 304
	12 738 538	13 756 978
Impairment for credit risk	(942 368)	(1 008 261)
	11 796 170	12 748 717

As at 31 December 2018, the balance Loans and advances to customers includes de amount of Euro 2,728,028 thousand (31 December 2017: Euro 2,726,854 thousand) related to the issue of covered bonds held by the Group, as referred in note 36.

As at 31 December 2018, loans and advances, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that Banco Montepio granted to institutional capital owners and to related parties, amounted to Euro 318,106 thousand (31 December 2017: Euro 372,809 thousand), as referred in note 49. The conclusion of businesses between Banco Montepio and institutional capital owners or individual or collective persons related to them, according to article 20 of the Portuguese Securities Code, regardless the value, it's always submitted to deliberation and examination of the Board of Directors and the Audit Committee, as proposed by the commercial network, supported by analysis and opinion about the compliance with the limit established in article 109 of the General Law on Credit Institutions and Financial Companies General Law issued by the Risk Division. The impairment amount for credit risks related with these contracts amounts to Euro 16,348 thousand as at 31 December 2018 (31 December 2017: Euro 335 thousand).

During 2018, Banco Montepio performed a sale operation of a customer loan portfolio, recorded on and off-balance sheet, which was in default. The exposure of this loan portfolio amounted to Euro 239,144 thousand and generated a loss in the amount of Euro 4,904 thousand, as referred in note 9.

During 2017, Banco Montepio performed a sale operation of two customer loan portfolios which were in default. The capital gains amounted to: (i) Euro 2,783 thousand related to the sale operation of a customer loan portfolio that was in default recorded off-balance sheet, with a nominal value of Euro 215,288 thousand, as described in note 9, which took place in the first half of 2017, and (ii) Euro 13,424 thousand related to the sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 9.

It should be note that the latter disposed portfolio included other rights not recorded either on or off-balance sheet in the amount of Euro 105,590 thousand. In addition, and within this transaction, Banco Montepio acquired all the Class A notes of the vehicle that purchased this portfolio and recorded the amount of Euro 121,329 thousand in the portfolio of financial assets held for trading, as mentioned in note 22.

As at 31 December 2018, Loans and advances to customers includes the amount of Euro 2,261,479 thousand (31 December 2017: Euro 3,314,738 thousand) related to loans object of securitization and, in accordance with the accounting policy outlined in note 1 f), were not subject to derecognition, as described in note 50.

In the balance Correction value of assets subject to hedge operations is accounted the fair value of the portfolio that is hedged. The valuation is accounted for in the income statement, in accordance with the accounting policy described in note 1 d). Banco Montepio evaluates on an ongoing basis the effectiveness of the existing hedge operations.

Loans and advances to customers include loans recorded at fair value through profit or loss in the amount of Euro 15,139 thousand (31 December 2017: Euro 24,633 thousand). The fair value adjustment amounted to Euro 107 thousand (31 December 2017: Euro 1 thousand), and the impact on income was negative in the amount of Euro 106 thousand (31 December 2017: negative in Euro 535 thousand), according to note 22.

The fair value of the loan portfolio is disclosed in note 46.

The analysis of Loans and advances to customers, by type of interest rate as at 31 December 2018 and 2017, is as follows:

(Thousands of Euro)

	2018	2017
Variable interest rate contract	11 116 203	12 563 687
Fixed interest rate contract	1 622 335	1 193 291
	12 738 538	13 756 978

The analysis of Overdue loans and interest, by type of credit, is as follows:

(Thousands of Euro)

	2018	2017
Asset-backed loans	606 898	818 998
Other guarantee loans	179 388	221 396
Financial leases	7 119	11 089
Secured loans	33 000	4 300
Other loans	103 896	134 521
	930 301	1 190 304

The analysis of Loans and advances to customers, by maturity and by type of credit, as at 31 December 2018, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	170 182	509 540	8 290 616	606 898	9 577 236
Other guarantee loans	500 135	236 189	346 019	179 388	1 261 731
Finance leases	21 310	86 613	214 759	7 119	329 801
Secured loans	441 083	124 956	14 673	33 000	613 712
Other loans	106 271	281 810	464 081	103 896	956 058
	1 238 981	1 239 108	9 330 148	930 301	12 738 538

The analysis of loans and advances to customers, by maturity and by type of credit, as at 31 December 2017, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	190 621	921 266	8 464 320	818 998	10 395 205
Other guarantee loans	513 830	246 423	385 366	221 396	1 367 015
Finance leases	7 746	103 389	223 395	11 089	345 619
Secured loans	493 714	122 215	10 256	4 300	630 485
Other loans	308 389	103 865	471 879	134 521	1 018 654
	1 514 300	1 497 158	9 555 216	1 190 304	13 756 978

The balance Financial leases, by maturity as at 31 December 2018, is analysed as follows:

(Thousands of Euro)

	Finance leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	57 367	136 764	115 037	309 168
Outstanding interests	(9 489)	(23 659)	(20 183)	(53 331)
Residual values	16 183	8 799	41 863	66 845
	64 061	121 904	136 717	322 682

The balance Financial leases, by maturity as at 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Finance leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	57 643	143 049	125 234	325 926
Outstanding interests	(10 536)	(26 273)	(22 241)	(59 050)
Residual values	2 577	22 894	42 183	67 654
	49 684	139 670	145 176	334 530

Towards the Operating lease, the Group does not present significant contracts as a Lessor.

The analysis of Overdue loans and interest, by type of customer and purpose, is as follows:

(Thousands of Euro)

	2018	2017
Corporate		
Construction/ Production	197 762	267 222
Investment	348 025	470 513
Treasury	187 479	212 935
Other loans	30 297	40 442
Retail		
Mortgage loans	81 513	91 863
Consumer credit	38 941	50 426
Other loans	46 284	56 903
	930 301	1 190 304

Changes in impairment for credit risks are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	1 008 261	1 151 260
IFRS 9 transition adjustment	140 980	-
Charge for the period net of reversals	90 716	162 958
Impairment	(297 589)	(305 957)
Balance on 31 December	942 368	1 008 261

As mentioned, during 2018, Banco Montepio performed a sale operation of a customer loans portfolio which was in default, recorded on and off-balance sheet, and charged-off the impairment for credit risk in the amount of Euro 139,849 thousand.

Also, during 2017, Banco Montepio performed a sale operation of two customer loan portfolios which were in default, recorded off-balance sheet, and charged-off the impairment for credit risk in the amount of Euro 249,299 thousand.

If the impairment loss decreases in a subsequent period to its initial accounting and this decrease can be objectively associated to an event that occurred after the recognition of the loss, the impairment in excess is reversed through profit and loss.

In compliance with note 1 c), loans and advances to customers are charged-off when there are no expectations, from an economic point of view, of recovering the loan amount and for collateralised loans, when the funds arising from the execution of the respective collaterals were already received.

The impairment for credit risks, by type of credit, is as follows:

	(Thousands of Euro)	
	2018	**2017**
Asset-backed loans	623 249	635 830
Other secured loans	201 579	252 693
Unsecured loans	117 540	119 738
	942 368	1 008 261

The analysis of the loans impairment charged-off, by type of credit, is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Asset-backed loans	100 844	121 489
Other secured loans	113 118	43 816
Unsecured loans	83 627	140 652
	297 589	305 957

The total recovered loans and overdue interest, booked on 31 December 2018, amounted to Euro 9,905 thousand (31 December 2017: Euro 2,544 thousand), as described in note 14.

In addition, the loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 951,835 thousand (31 December 2017: Euro 1,148,027 thousand) which have an impairment of Euro 398,744 thousand (31 December 2017: Euro 399,831 thousand).

Banco Montepio has adopted forbearance measures and practices, according to the risk, in order to adjust the disposable income or the financial capacity of customers to its debt service. On this basis, were adopted the recommendations legislated within the non-compliance regimes (Decree-Law no. 227/2012) and in the companies (SIREVE, PER), widely disclosed in the institutional website, in internal rules and communications to disclosure and implementation within customers who show evidence of financial difficulties.

Regarding the forbearance measures and in accordance with the Implementing Regulation (EU) 2015/227 of 9 January 2015, contractual changes were considered (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The restructuring operations that were performed during 2018 and 2017 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate.

The analysis of restructured loans, performed in 2018 and 2017, by type of credit, is as follows:

(Thousands of Euro)

	2018	2017
Corporate		
Loans not represented by securities		
Loans	55 281	109 768
Commercial lines of credit	21 288	3 787
Finance leases	657	7 478
Other loans	3 627	39 184
Retail		
Mortage loans	9 397	11 523
Consumer credit and other loans	3 607	3 269
	93 857	175 009

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering the new collaterals.

In respect of restructured loans, the impairment associated to these operations amounts to Euro 24,571 thousand (31 December 2017: Euro 28,207 thousand).

Banco Montepio uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

22 Financial assets and liabilities held for trading

The balance financial assets and liabilities held for trading is analysed as follows:

(Thousands of Euro)

	2018	2017
Financial assets held for trading		
Securities		
Shares	-	6 734
Bonds	-	149 622
Investment units	-	3 167
	-	159 523
Derivative instruments		
Derivative financial instruments with positive fair value	23 739	24 553
	23 739	184 076
Financial liabilities held for trading		
Securities		
Short sale	-	901
Derivative instruments		
Derivative financial instruments with negative fair value	13 496	15 270
	13 496	16 171

As at 31 December 2017, the balance Financial assets held for trading – Securities – Bonds includes the amount of Euro 121,329 thousand relating to a class A asset securitisation transaction which was acquired within a sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 21.

As at 31 December 2017, within an assets assignment operation (loans and real estate) performed in 2016, in the amount of Euro 288,232 thousand, Banco Montepio acquired the right to return a set of parameters of assigned assets, which amounted to Euro 12,000 thousand. As at 31 December 2018, this transaction amounted to Euro 12,214 thousand (31 December 2017: Euro 11,204 thousand) and is recorded under the caption Financial instruments with positive fair value.

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation, described in note 46, as follows:

(Thousands of Euro)

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Derivative instruments				
Derivative financial instruments with positive fair value	-	11 525	12 214	23 739
	-	11 525	12 214	23 739
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	13 496	-	13 496
	-	13 496	-	13 496

(Thousands fo Euro)

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	6 734	-	-	6 734
Bonds	28 293	-	121 329	149 622
Investment units	3 167	-	-	3 167
	38 194	-	121 329	159 523
Derivative instruments				
Derivative financial instruments with positive fair value	-	24 553	-	24 553
	38 194	24 553	121 329	184 076
Financial liabilities held for trading				
Securities				
Short sales	901	-	-	901
Derivative instruments				
Derivative financial instruments with negative fair value	-	15 270	-	15 270
	901	15 270	-	16 171

The trading portfolio is recorded at fair value through profit and loss, in accordance with the accounting policy described in note 1 c). As referred in this note, assets held for trading are those which were acquired with the purpose of sale or re-acquisition on the short term regardless of its maturity.

The analysis of the securities portfolio held for trading by maturity, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Below 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Fixed income securities						
Bonds						
Portuguese	372	372	1 065	133 564	-	135 373
Foreign	-	80	11 129	3 040	-	14 249
Variable income securities						
Shares						
Portuguese	-	-	-	-	1 092	1 092
Foreign	-	-	-	-	5 642	5 642
Investment units	-	-	-	-	3 167	3 167
	372	452	12 194	136 604	9 901	159 523

The balance of Derivatives financial instruments as at 31 December 2018, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

		2018						
		Derivative			Related Asset/ Liability			
Derivative	**Related financial asset/ liability**	**Notional**	**Fair value**	**Changes in fair value in the period [1]**	**Fair value**	**Changes in fair value in the period**	**Book value**	**Reimbursement amount at maturity date**
Interest rate swap	Debt securities issued	3 300	301	(113)	78	(185)	3 460	3 300
Interest rate swap	Deposits from customers	14 850	(32)	75	11	(22)	14 597	14 597
Interest rate swap	Loans and advances to customers	15 257	123	168	(107)	(106)	15 139	15 120
Interest rate swap	Other	3 324 917	(2 093)	395	-	-	-	-
Currency swap (Short)	-	38 811	(38)	(329)	-	-	-	-
Currency swap (Long)	-	38 740						
Future options (Short)	-	-	-	(9)	-	-	-	-
Future options (Long)	-	-						
Forwards (Short)	-	1 373	-	-	-	-	-	-
Forwards (Long)	-	1 373						
Options (Short)	-	50 865	11 982	773	-	-	-	-
Options (Long)	-	353 859						
		3 843 345	10 243	960	(18)	(313)	33 196	33 017

[1] Includes the result of derivatives disclosed in note 6.

The balance of Derivatives financial instruments as at 31 December 2017, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		2017						
		Derivative			Related Asset/ Liability			
Derivative	**Related financial asset/ liability**	**Notional**	**Fair value**	**Changes in fair value in the period [1]**	**Fair value**	**Changes in fair value in the period**	**Book value**	**Reimbursement amount at maturity date**
Interest rate swap	Debt securities issued and subordinated debt	3 300	414	(526)	263	215	3 460	3 300
Interest rate swap	Loans and advances to customers	15 100	(107)	(59)	33	21	14 789	14 789
Interest rate swap	Deposits from other credit institutions	-	-	(2 576)	-	(3)	-	-
Interest rate swap	Mortgage bonds	-	-	2 380	-	-	-	-
Interest rate swap	Loans and advances to customers	24 562	(45)	671	(1)	(535)	24 633	24 562
Interest rate swap	Other	3 669 577	(2 488)	1 741	-	-	-	-
Currency swap (Short)	-	50 481	291	(88)	-	-	-	-
Currency swap (Long)	-	50 744						
Future options (Short)	-	2 978	9	9	-	-	-	-
Future options (Long)	-	-						
Forwards (Short)	-	3 044	-	(4)	-	-	-	-
Forwards (Long)	-	3 051						
Options (Short)	-	54 809	11 209	(797)	-	-	-	-
Options (Long)	-	358 131						
		4 235 777	9 283	751	295	(302)	42 882	42 651

[1] Includes the result of derivatives disclosed in note 6.

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2018, is presented as follows:

(Thousands of Euro)

	2018					
	Notional with remaining term				Fair value	
	Below 3 months	3 months to 1 year	Above 1 year	Total	Assets	Liabilities
Interest rate contracts						
Interest rate swaps	5 000	24 192	3 329 132	3 358 324	11 570	13 271
Options	4 892	40 942	55 808	101 642	(76)	157
Exchange rate contracts						
Currency swaps	76 443	1 108	-	77 551	25	63
Forwards	2 746	-	-	2 746	-	-
Index / Share contracts						
Options	5 000	9 850	-	14 850	5	5
Credit contracts						
Options	-	-	288 232	288 232	12 215	-
	94 081	76 092	3 673 172	3 843 345	23 739	13 496

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2017, is presented as follows:

(Thousands of Euro)

	2017					
	Notional with remaining term				Fair value	
	Below 3 months	3 months to 1 year	Above 1 year	Total	Assets	Liabilities
Interest rate contracts						
Interest rate swaps	250	17 850	3 694 439	3 712 539	12 779	15 005
Options	213	800	108 595	109 608	52	51
Exchange rate contracts						
Currency swaps	101 225	-	-	101 225	292	1
Forwards	4 487	1 608	-	6 095	-	-
Index / Share contracts						
Futures	2 978	-	-	2 978	9	-
Options	250	-	14 850	15 100	217	213
Credit contracts						
Options	-	-	288 232	288 232	11 204	-
	109 403	20 258	4 106 116	4 235 777	24 553	15 270

As at 31 December 2017, the amount of the loan obtained from EIB is collateralised by Spanish and Italian bonds at the nominal value of Euro 10,000 thousand, provided as collateral and recorded under the caption Financial assets held for trading, as described in note 34.

23 Financial assets not held for trading mandatorily at fair value through profit or loss

This balance is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Variable income securities		
Investment units	783 538	-
Loans and advances to customers at fair value		
Loans not represented by securitiese	20 370	-
	803 908	-

As part of the IFRS 9 adoption, the Group's investment units held until 31 December 2017 in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 24 and 43.

On 31 December 2018, the assets included in level 3, under Variable income securities – Investment units include investment units in real estate investment funds, specialised credit recovery funds and venture capital funds that are valued according to the amount disclosed over the Net Asset Value of the Fund (NAVF), determined by the management company, in the amount of Euro 776,982 thousand, of which Euro 676,521 thousand are related to real estate investment funds. The assets of specialised credit recovery funds result from a diversified set of assets and liabilities, which are valued at the respective funds' accounts at fair value through internal methodologies used by the management entity.

The assets of the real estate investment funds are valued by the management company based on evaluation reports prepared by real estate experts registered at CMVM.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 77,698 thousand was calculated on 31 December 2018.

As mentioned in Note 54, the caption Variable income securities – Investment units includes, as at 31 December 2018, the amount of Euro 37,474 thousand related to investment units in specialised credit funds acquired with the transfer of loans and advances to customers.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 49. Financial assets included in this balance were classified under levels 1 and 3.

(Thousands of Euro)

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Variable income securities				
Investment units	6 556	-	776 982	783 538
Loans and advances to customers at fair value				
Loans not represented securities	-	-	20 370	20 370
	6 556	-	797 352	803 908

Changes occurred in financial assets not held for trading mandatorily at fair value through profit or loss under level 3 are analysed as follows:

(Thousands of Euro)

	2018	**2017**
Balance on 1 January	829 254	-
Remeasurements	(52 215)	-
Disposals	(57)	-
Balance on 31 December	776 982	-

24 Financial assets at fair value through other comprehensive income

This balance is analysed as follows:

(Thousands of Euro)

	2018				
	Cost [1]	Fair value reserves		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Foreign	209 187	136	(5 165)	(432)	203 726
Bonds issued by other entities					
Domestic	18 164	20	(1 719)	(96)	16 369
Foreign	40 717	205	(942)	(43)	39 937
Variable income securities					
Shares					
Domestic	74 229	6 439	(4 340)	-	76 328
Foreign	71 532	2 693	(17 996)	-	56 229
	413 829	9 493	(30 162)	(571)	392 589

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

(Thousands of Euro)

	2017				
	Cost [1]	Fair value reserves		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	702 901	1 567	(1 111)	-	703 357
Foreign	861 203	1 024	(5 131)	-	857 096
Bonds issued by other entities					
Domestic	41 293	795	(76)	(28 107)	13 905
Foreign	37 875	471	(86)	(7 000)	31 260
Variable income securities					
Shares					
Domestic	76 153	12 113	(1 626)	(1 920)	84 720
Foreign	73 144	10 326	(7 719)	(48)	75 703
Investment units	949 809	22 451	(261)	(135 249)	836 750
	2 742 378	48 747	(16 010)	(172 324)	2 602 791

(1) Acquisition cost related to variable income securities and amortised cost by debt securities.

As part of the IFRS 9 adoption, the investment units were reclassified to Financial assets not held for trading mandatorily at fair value through profit and loss, as described in note 23.

The main assumptions in the evaluation of shares whose book value is determined based on Banco Montepio's internal models are as follows:

Almina

The evaluation of Almina with reference to 31 December 2018 was carried out based on Almina Holding Group business plan, as well as other information provided by Almina's management.

The two relevant businesses for Almina's evaluation correspond to ore exploitation: zinc and copper. The main assumptions that have been used were: use of a discount rate between 8% and 9.8% and the determination of ore market prices based on international indexes.

As at 31 December 2018 and 2017, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Thousands of Euro)

	2018				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Foreign	203 726	-	-	-	203 726
Bonds issued by other entities				-	
Domestic	7 601	4 184	4 584	-	16 369
Foreign	32 041	7 896	-	-	39 937
	243 368	12 080	4 584	-	260 032
Variable income securities					
Shares					
Domestic	-	-	74 161	2 167	76 328
Foreign	47 310	-	8 481	438	56 229
	47 310	-	82 642	2 605	132 557
	290 678	12 080	87 226	2 605	392 589

(Thousands of Euro)

	2017				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	703 357	-	-	-	703 357
Foreign	857 096	-	-	-	857 096
Bonds issued by other entities				-	
Domestic	6 967	1 258	5 680	-	13 905
Foreign	22 246	9 014	-	-	31 260
	1 589 666	10 272	5 680	-	1 605 618
Variable income securities					
Shares					
Domestic	-	-	79 836	4 884	84 720
Foreign	1 693	-	73 672	338	75 703
Investment units	7 500	-	829 250	-	836 750
	9 193	-	982 758	5 222	997 173
	1 598 859	10 272	988 438	5 222	2 602 791

As referred in IFRS 13, financial instruments are measured according to the valuation levels described in note 46.

As part of the IFRS 9 adoption, Banco Montepio's investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, according to note 23.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 8,723 thousand was calculated on 31 December 2018 (31 December 2017: Euro 98,844 thousand).

Instruments classified under level 3 have associated unrealised gains and losses in the positive amount of Euro 3,235 thousand (31 December 2017: positive amount of Euro 34,325 thousand) recognised in fair value reserves.

On 31 December 2018, the impairment amount recorded for these securities amounted to Euro 74 thousand (31 December 2017: Euro 169,266 thousand).

The movements occurred in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

	2018	2017
Balance on 1 January	988 438	1 095 624
Acquisitions	-	4 527
Remeasurements	(13 815)	(28 841)
Disposals	-	(82 872)
Transfers from level 3 to level 1	(66 673)	-
Transfers to level 3	8 530	-
Transfers to financial assets not held for trading mandatorily at fair value through profit or loss	(829 254)	-
Balance on 31 December	87 226	988 438

The revaluation of Visa Inc preference shares (Series C), as at 31 December 2018, resulted in the recognition of a positive fair value reserve in the amount of Euro 2,065 thousand (31 December 2017: Euro 1,205 thousand).

The movements occurred in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	172 324	190 428
IFRS 9 transition adjustment	(134 408)	-
Charge for the period net of reversals	1 275	17 595
Charge-off	(38 620)	(35 699)
Balance on 31 December	571	172 324

On 31 December 2017, the impairment amount recorded for investment units of the Real Estate Investment Fund amounts to Euro 103,163 thousand.

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2018, is as follows:

(Thousands of Euro)

	2018					
	Below 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Fixed income securities						
Bonds issued by public entities						
Foreign	-	-	203 726	-	-	203 726
Bonds issued by other entities						
Domestic	-	243	8 888	6 363	875	16 369
Foreign	-	-	20 361	19 576	-	39 937
	-	243	232 975	25 939	875	260 032
Variable income securities						
Shares						
Domestic	-	-	-	-	76 328	76 328
Foreign	-	-	-	-	56 229	56 229
	-	-	-	-	132 557	132 557
	-	243	232 975	25 939	133 432	392 589

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Below 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Fixed income securities						
Bonds issued by public entities						
Domestic	2 716	132 607	498 285	69 749	-	703 357
Foreign	781	118 351	685 501	52 463	-	857 096
Bonds issued by other entities						
Domestic	193	826	3 035	8 451	1 400	13 905
Foreign	54	82	5 033	26 091	-	31 260
	3 744	251 866	1 191 854	156 754	1 400	1 605 618
Variable income securities						
Shares						
Domestic	-	-	-	-	84 720	84 720
Foreign	-	-	-	-	75 703	75 703
Investment units	-	-	-	-	836 750	836 750
	-	-	-	-	997 173	997 173
	3 744	251 866	1 191 854	156 754	998 573	2 602 791

Securities pledged as collateral recorded in financial assets at fair value through other comprehensive income, are presented as follows:

- The market value of the assets pledged as collateral to the European Central Bank under liquidity providing operations amounts to Euro 1,910,913 thousand at 31 December 2018 after hair cut (31 December 2017: Euro 2,539,595 thousand), as described in note 33;
- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousand at 31 December 2018 and 2017;
- The amount of the EIB loan obtained is collateralised by securities of Portuguese, Spanish and Italian states in the nominal amount of Euro 152,000 thousand (31 December 2017: 507,939 thousand), as described in note 34; and

- Securities pledged as collateral to the Deposit Guarantee Fund in the nominal amount of Euro 22,200 thousand at 31 December 2018 (31 December 2017: Euro 23,500 thousand), as mentioned in note 45.

These financial assets pledged as collateral can be executed in case of default of contractual obligations assumed by Banco Montepio under the terms and conditions of signed contracts, as referred in notes 33 and 34.

25 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Assets		
Interest rate swaps	5 666	-
Liabilities		
Interest rate swaps	-	1 663

Banco Montepio contracted an interest rate swap to hedge its interest rate risks. The accounting method depends on the nature of the hedged risk, namely if Banco Montepio is exposed to fair value changes, cash flows changes or probable forecast transactions.

Banco Montepio performs periodical effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2018 is as follows:

(Thousands of Euro)

	2018							
	Notional by maturity date				Fair value			
	Below 3 months	3 months to 1 year	Above 1 year	Total	Below 3 months	3 months to 1 year	Above 1 year	Total
Fair value hedge derivative with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	5 666	5 666
	-	-	750 000	750 000	-	-	5 666	5 666

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2017 is as follows:

(Thousands of Euro)

	2017							
	Notional by maturity date				Fair value			
	Below 3 months	3 months to 1 year	Above 1 year	Total	Below 3 months	3 months to 1 year	Above 1 year	Total
Fair value hedged derivative with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	1 663	1 663
	-	-	750 000	750 000	-	-	1 663	1 663

As at 31 December 2018, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

2018							
Derivative	Hedged item	Hedged risk	Notional	Fair value[1]	Changes in fair value of the derivative in the period	Hedged item fair value[2]	Changes in fair value of the hedged item in the period [2]
Interest rate swap	Debt securities issued	Interest rate	750 000	5 666	7 329	(4 417)	(6 790)
			750 000	5 666	7 329	(4 417)	(6 790)

[1] Includes accrued interest.
[2] Attributable to the hedged risk.

As at 31 December 2017, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

2017							
Derivative	Hedged item	Hedged risk	Notional	Fair value[1]	Changes in fair value of the derivative in the period	Hedged item fair value(2)	Changes in fair value of the hedged item in the period[2]
Interest rate swap	Debt securities issued	Interest rate	750 000	(1 663)	(1 663)	2 373	2 373
			750 000	(1 663)	(1 663)	2 373	2 373

[1] Includes accrued interest.
[2] Attributable to the hedged risk.

26 Other financial assets at amortised cost

This balance is analysed as follows:

	(Thousands of Euro)
	2018
Fixed income securities	
Bonds issued by public entities	
Domestic	1 037 815
Foreign	220 386
	1 258 201
Impairment for other financial assets at amortised cost	(2 550)
	1 255 651

The fair value of the portfolio of Other financial assets at amortised cost is disclosed in note 46.

Other financial assets at amortised cost, as at 31 December 2018, can be analysed as follows:

(Thousands of Euro)

Securities	Issued date	Maturity date	Interest rate	Book value
BTP 0.10 15-APR-2019	15 April 2016	15 April 2019	0.100%	18 970
OT APR21	23 February 2005	15 April 2021	3.850%	133 639
BONOS 0,750% 30JUL2021	08 March 2016	30 July 2021	0.750%	35 769
OT 2,200% 17-OCT-2022	09 September 2015	17 October 2022	2.200%	228 343
BONOS 0,350% 30JUL2023	22 May 2018	30 July 2023	0.350%	165 648
OT 4,95% 25-OCT-2023	10 June 2008	25 October 2023	4.950%	205 711
OT 5.65% 15-FEV-2024	14 May 2013	15 February 2024	5.650%	306 198
OT 2,875% 15-OCT-2025	20 January 2015	15 October 2025	2.875%	72 140
OT 2,875% 21JUL2026	21 January 2016	21 July 2026	2.875%	28 128
OT 4,125% 14APR2027	18 January 2017	14 April 2027	4.125%	43 224
OT 2,125% 17OCT2028	17 January 2018	17 October 2028	2.125%	20 431
				1 258 201

Other financial assets at amortised cost are recognised in accordance with the accounting policy described in note 1 c).

As at 31 December 2018, the amount of loan obtained from EIB is collateralised by bonds of the Portuguese, Spanish and Italian State at the nominal value of Euro 253,211 thousand, provided as collateral and recorded under the caption Other financial assets at amortised cost, as disclosed in note 34.

As at 31 December 2018, the nominal amount of the assets pledged as collaterals to the European Central Bank within the liquidity-providing operations amounts to EUR 675,747 thousand after haircut.

Impairment movements for other financial assets at amortised cost are analysed as follows:

	(Thousands of Euro)
	2018
Balance on 1 January	-
Charge for the period	2 679
Charge-off	(129)
Balance on 31 December	2 550

27 Investments in subsidiaries and associates companies

This balance is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Montepio Holding, S.G.P.S., S.A.	413 750	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	8 997	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, ACE	637	637
	426 584	426 584
Impairment of investments in subsidiaries and associates companies	(79 861)	(110 681)
	346 723	315 903

As at 31 December 2017, Banco Montepio made supplementary capital contributions to its subsidiary Montepio Holding, SGPS, S.A. (“Montepio Holding”), amounting to Euro 10,000 thousand. These supplementary capital contributions were made in order to Montepio Holding could provide its subsidiaries with the development of each one's business.

Banco Montepio analysed the impairment regarding investments made in its subsidiaries, considering the recoverable value of the businesses developed by each one. The recoverable amount, in accordance with the accounting policy described in this report, was determined by the higher of fair value net of selling costs and the value in use for continued subsidiaries and by the fair value of selling costs for discontinued subsidiaries.

The value in use was determined based on the business plan approved by the management, considering also the specificity of the businesses and markets where Banco Montepio’s subsidiaries operate, discount rate differentiated levels, for the solvency levels required for banking activity and for the perpetuity growth of net results.

The validation of the assumptions used and the evolution of the macroeconomic and market conditions may result in changes in these assumptions and, consequently, in the recoverable amount calculated for the subsidiaries that are subject of this analysis.

Financial statements were prepared based on the continuity of its operations, which depend on the future development of the assumptions underlying the recoverability of their shareholdings and on the success of the initiatives taken by the Board of Directors with the purpose to strengthen equity.

Montepio Holding, S.G.P.S., S.A.

Following the analysis carried out, we concluded on the disclosure in the 31 December 2018 financial statements of an impairment in the amount of Euro 79,861 thousand (31 December 2017: Euro 110,681 thousand) related with the shareholding held in Montepio Holding.

Montepio Holding, S.G.P.S., S.A. holds 100% of the capital and voting rights of Montepio Crédito – Instituição Financeira de Crédito, S.A., Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A. and of Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A., as well as an 80.22% shareholding in Finibanco Angola, S.A.

The valuation of Montepio Holding, SGPS, SA was carried out considering that the best estimate for calculating its fair value corresponded to the amount of its equity adjusted by the fair value of assets and liabilities recorded at amortised cost or historical cost, except for Montepio Investimento, S.A., which considered the business plan foreseen under the Transformation Plan of the Group, specifically for Banco de Empresas Montepio, SA.

Banco Terra, S.A.

The disposal of the investment in Banco Terra, S.A. held by Montepio Holding, S.G.P.S., S.A, was completed in December 2018 within the strategic redefinition of its international holdings.

Casa da Sorte - Organização Nogueira da Silva, S.A.

Under a credit recovery process, in 2018, Banco Montepio acquired control over Casa da Sorte - Nogueira da Silva, S.A. and its associates: (i) Herdeiros de Manuel Martins Travassos, Lda.; (ii) Pataca da Sorte - Bingos e Animação Unipessoal, Lda.; (iii) Augusto da Silva Carvalho, Lda.; (iv) Binganimus - Bingos and Animation, S.A.; (v) Carlos Augusto Lança & Filhos, Lda., (vi) Torre da Sorte, Lda. It should be noted that this investment showed no valuation against its credit position, according to note 57.

Impairment movements for investments in associated companies are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	110 681	157 297
Charge for the period	322	-
Write-back for the period	(30 821)	(46 616)
Charge-off	(321)	-
Balance on 31 December	79 861	110 681

The financial information concerning subsidiary and associated companies is presented in the following table:

(Thousands of Euro)

	Number of shares	Percentage of direct shares	Unit value Euro	Acquisition cost
31 December 2018				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1.00	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90,69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5.00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26.00%	1.00	637
CESource, ACE	-	18.00%	-	-
Casa da Sorte - Organização Nogueira da Silva, S.A.	896 280	89.63%	-	-
Herdeiros de Manuel Martins Travassos, Lda [(1)]	4	100.00%	-	-
Pataca da Sorte - Bingos e Animação Unipessoal, Lda. [(1)]	1	100.00%	-	-
Augusto da Silva Carvalho, Lda. [(1)]	2	99.50%	-	-
Binganimus - Bingos e Animação, S.A.	50 000	100.00%	-	-
Carlos Augusto Lança & Filhos, Lda. [(1)]	2	100.00%	-	-
Torre da Sorte, Lda. [(1)]	2	100.00%	-	-
				426 584
31 December 2017				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1.00	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90,69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5.00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26.00%	1.00	637
				426 584

[(1)] Quotes

The list of subsidiaries and associated Banco Montepio's companies is presented in note 57.

28 Non-current assets held for sale

This balance is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Properties and other assets resulting from the resolution of customer loan agreements	839 990	852 440
Impairment for non-current assets held for sale	(134 639)	(138 307)
	705 351	714 133

The assets included in this balance are accounted for in accordance with the accounting policy described in note 1 j).

The balance Investments arising from recovered loans includes the amount of Euro 1,320 thousand (31 December 2017: Euro 1,377 thousand) related with other non-current assets held for sale (equipment) resulting from the foreclosure of loans to customers' contracts, which have an associated impairment in the amount of Euro 1,320 thousand (31 December 2017: Euro 1,375 thousand).

The foreclosure of loans to customers' contracts, is originated by (i) delivery of the assets, with repurchase or leasing option, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer on behalf of Banco Montepio; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment pro-solvency).

Banco Montepio has implemented a plan to sale immediately the non-current assets held for sale. According to Banco Montepio's expectation, these assets are available for sale in a period below 1 year and the Group has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline. This balance includes buildings and other assets for which the Group has already established contracts for the sale in the amount of Euro 19,692 thousand (31 December 2017: Euro 32,269 thousand).

The movements, in the end of 2018 and 2017, for non-current assets held for sale are analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Balance at the beginning of the period	852 440	867 174
Acquisitions	95 898	130 640
Disposals	(108 515)	(144 764)
Other movements	167	(610)
Balance at the end of the period	839 990	852 440

The movement in impairment for non-current assets held for sale balance is analysed as follows:

	(Thousand of Euro)	
	2018	**2017**
Balance on 1 January	138 307	143 432
Charge for the period	13 655	11 332
Write-back for the period	(7 994)	(1 790)
Charge-off	(9 329)	(14 667)
Balance on 31 December	134 639	138 307

In addition to the impairment losses, as at 31 December 2018, Banco Montepio recognised in profit or loss, losses on real estate arising from its disposal in the amount of Euro 402 thousand and gains in the amount of Euro 14,890 thousand (31 December 2017: losses in the amount of Euro 1,206 thousand and gains in the amount of Euro 9,803 thousand), as mentioned in note 9.

29 Property, plant and equipment

This balance is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Investments		
Land and building		
For own user	206 298	204 334
Leasehold improvements in rented buildings	28 851	29 152
Equipment		
IT equipment	91 481	90 120
Interior installations	29 095	24 950
Furniture	18 445	18 567
Security equipment	7 557	7 355
Machinery and tools	2 568	2 551
Transportation	559	677
Other equipment	1	1
Works of art	2 870	2 870
Assets in operating lease	109	323
Work in progress	1 122	3 403
Other property, plant and equipment	1 846	1 848
	390 802	386 151
Accumulated depreciation		
Charge for the period	9 023	9 065
Accumulated charge in previous periods	164 038	157 084
	173 061	166 149
	217 741	220 002

The movements in Property, plant and equipment, during 2018, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals/ Write-offs	Adjustments/ Transfers	Balance on 31 December
Investments					
Land and buildings					
For own service	204 334	2 408	444	-	206 298
Leasehold improvements in rented buildings	29 152	25	326	-	28 851
Equipment					
IT equipment	90 120	2 657	1 296	-	91 481
Interior installations	24 950	356	-	3 789	29 095
Furniture	18 567	102	224	-	18 445
Security equipment	7 355	210	8	-	7 557
Machinery and tools	2 551	46	29	-	2 568
Transportation	677	-	118	-	559
Other equipment	1	-	-	-	1
Works of art	2 870	-	-	-	2 870
Assets in operating lease	323	-	214	-	109
Other property, plant and equipment	1 848	-	2	-	1 846
Work in progress	3 403	1 508	-	(3 789)	1 122
	386 151	7 312	2 661	-	390 802
Accumulated depreciation					
Land and buildings					
For own service	7 996	3 044	15	-	11 025
Leasehold improvements in rented buildings	25 566	1 156	261	-	26 461
Equipment					
IT equipment	84 419	2 978	1 294	-	86 103
Interior installations	18 158	1 302	-	-	19 460
Furniture	17 668	345	222	-	17 791
Security equipment	7 051	179	8	-	7 222
Machinery and tools	2 533	10	27	-	2 516
Transportation	677	-	118	-	559
Other equipment	1	-	-	-	1
Assets in operating lease	265	8	164	-	109
Other property, plant and equipment	1 815	1	2	-	1 814
	166 149	9 023	2 111	-	173 061
	220 002				217 741

The movements in Property, plant and equipment, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals/ Write-offs	Adjustments/ Transfers	Balance on 31 December
Investments					
Land and buildings					
For own use	204 334	-		-	204 334
Leasehold improvements in rented buildings	30 517	43	1 408		29 152
Equipment					
IT equipment	87 554	2 566	-	-	90 120
Interior installations	20 262	288	-	4 400	24 950
Furniture	18 386	223	42	-	18 567
Security equipment	7 210	155	10	-	7 355
Machinery and tools	2 547	4	-	-	2 551
Transportation	901	4	228	-	677
Other equipment	1	-	-	-	1
Works of art	2 870	-	-	-	2 870
Assets in operating lease	534	-	211	-	323
Other property, plant and equipment	1 848	-	-	-	1 848
Work in progress	4 507	3 329	33	(4 400)	3 403
	381 471	6 612	1 932	-	386 151
Accumulated depreciation					
Land and buildings					
For own use	4 937	3 059	-	-	7 996
Leasehold improvements in rented buildings	25 124	1 581	1 168	29	25 566
Equipment					
IT equipment	81 703	2 716	-	-	84 419
Interior installations	17 132	1 026	-	-	18 158
Furniture	17 315	395	42	-	17 668
Security equipment	6 820	241	10	-	7 051
Machinery and tools	2 523	10	-	-	2 533
Transportation	901	-	224	-	677
Other equipment	1	-	-	-	1
Assets in operating lease	394	34	163	-	265
Other property, plant and equipment	1 812	3	-	-	1 815
	158 662	9 065	1 607	29	166 149
	222 809				220 002

30 Intangible assets

This balance is analysed as follows:

	2018	2017
	(Thousands of Euro)	
Investments		
Software	120 986	104 718
Work in progress	3 838	5 653
	124 824	110 371
Accumulated depreciation		
Charge for the period	12 888	13 726
Accumulated charge in previous periods	80 279	66 553
	93 167	80 279
	31 657	30 092

The movements in Intangible assets, during 2018, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Adjustments/ Transfers	Balance on 31 December
Cost				
Software	104 718	-	16 268	120 986
Work in progress	5 653	14 453	(16 268)	3 838
	110 371	14 453	-	124 824
Accumulated depreciation				
Software	80 279	12 888	-	93 167
	80 279	12 888	-	93 167
Impairment	-	2	-	2
	30 092			31 659

The movements in Intangible assets, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustments/ Transfers	Balance on 31 December
Cost					
Software	93 713	-	-	11 005	104 718
Other property, plant and equipment	61	-	(61)	-	-
Work in progress	5 853	10 805	-	(11 005)	5 653
	99 627	10 805	(61)	-	110 371
Accumulated depreciation					
Software	66 553	13 726	-	-	80 279
	66 553	13 726	-	-	80 279
Impairment	(61)	-	61	-	-
	33 013				30 092

Impairment movements for intangible assets are analysed as follows:

	2018	2017
Balance on 1 January	-	61
Charge-off	-	(61)
Balance on 31 December	-	-

31 Taxes

Deferred tax assets and liabilities as at 31 December 2018 and 2017 are analysed as follows:

(Thousands of Euro)

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 625	64 200	-	-	42 625	64 200
Benefits to employees	21 114	27 055	-	-	21 114	27 055
	63 739	91 255	-	-	63 739	91 255
Deferred taxes dependent on future profitability						
Financial instruments	34 021	2 535	(9 589)	(9 442)	24 432	(6 907)
Provisions / Impairment						
Impairment on loans granted	174 452	136 367	-	-	174 452	136 367
Other risks and charges	7 685	7 394	-	-	7 685	7 394
Impairment in securities and non-financial assets	6 613	36 993	-	-	6 613	36 993
Impairment in financial assets	1 931	-	-	-	1 931	-
Benefits to employees	35 024	15 131	-	-	35 024	15 131
Other	86	84	(7)	(54)	79	30
Taxes losses carried forward	170 192	178 601	-	-	170 192	178 601
Net deferred tax assets/ (liabilities)	493 743	468 360	(9 596)	(9 496)	484 147	458 864

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of Banco Montepio was held, approving the admission to the special regime applicable to deferred tax assets, approved by Law no. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in annual accounts for the last tax period prior to that date and to the part of the expenditure and related negative equity changes. In accordance with Law no. 23/2016, of 19 August, this special regime is not applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor it is to related deferred tax assets.

Law no. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. negative net result in individual annual accounts or in settlement accounts by voluntary winding-up, insolvency decided by law or authorisation withdrawal), there will be a conversion into tax credits of deferred tax assets that resulted from the non deduction of expenses and deductions of assets resulting from credit impairment losses and post-employment benefits or long-term employee benefits. In such case, a special reserve corresponding to 110% of its amount shall be established, requiring the simultaneous conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State in the same amount. Tax credits may be offset against tax debts of the beneficiaries (or from an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law no. 61/2014, of 26 August, is not dependent on future profits.

The aforementioned legal framework was densified by Ordinance no. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance no. 293-A / 2016, of 18 November, determining the conditions and procedures for the acquisition of those State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after that date and the issuing bank shall deposit on the State's behalf the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be recovered when and to the extent that the State rights are acquired by the shareholders, or exercised by the State.

Deferred taxes are calculated using tax rates that are expected to be in force on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the balance sheet date.

The balance Benefits to employees includes, on 31 December 2018, the amount of Euro 8,230 thousand (31 December 2017: Euro 10,793 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy in 2011. As at 31 December 2018, this balance also includes the amount of Euro 5,657 thousand (31 December 2017: Euro 3,229 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the General Social Security System.

The negative equity variation due to the change in the accounting policy related with actuarial deviations recognised in the Penion Fund performed in 2011 is deductible for tax purposes in equal parts, for a 10-year period starting on 1 January 2012. The expense generated with the transfer of liabilities with pensioners to the General Social Security System is deductible for tax purposes in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of pensioners whose responsibilities were transferred (20 years in the Banco Montepio's case).

As at 31 December 2018, deferred taxes associated with Employee benefits include the amount of Euro 21,853 thousand (31 December 2017: 13,781 thousand) related with employee benefits in excess when compared with the existing limits.

As at 31 December 2018, and due to (i) tax rates effective after 1 January 2018 and ii) the expectation underlying the conversion into costs and tax-deductible profits and the estimation of tax profit or tax losses in each one of the subsequent periods, the Group changed the rate (base rate and surcharges) used for calculating deferred taxes, from 30% and 21% to 30.5% and 21%, respectively, depending on specific cases associated with temporary differences or tax losses carried forward.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to losses carried forward are recognised only if the existence of future taxable profits is probable. The uncertainty of the recoverability of the tax losses carried forward is considered in the deferred tax assets calculation.

As referred in the accounting policy described in note 1 v) and in accordance with the requirements set in IAS 12, the deferred tax assets recognised in the Banco Montepio's financial statements have an underlying high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared on the 2018 budget, assuming a pre-tax income growth assumption between 2019 and 2026.

Thus, the recoverability of deferred tax assets, namely related to tax losses carried forward, is supported in the Banco Montepio's forecasted financial statements, prepared under the aforementioned budget, which considered the macroeconomic and competitive environment where the Group operates as well as the strategic priorities established in the Transformation Plan for the period 2018-2023.

The recovery of profitability, liquidity and capital levels recommended in the Transformation Plan for the period 2019-2023 is fundamentally supported by favorable impacts related to:

(i) Evolution of the commercial network business, which incorporates the ambition to increase in credit and deposit portfolios. The projected growth in the performing portfolio of loans to customers is based, for private companies, on mortgage loans and consumer loans, and, as far as companies are concerned, on the favorable performance of Banco de Empresas Montepio, by offering an integrated value proposal. The increase in the deposit portfolio translates the objective of strengthening customer deposits as the main source of financing for the activity, through the gradual reduction of the cost of deposits, namely through the mix between demand and term deposits. Thus, the strategy outlined reflects a favorable effect on the level of net interest income, as well as on commissions, the latter showing the impacts of a continued management of the price list by adjusting it to the Montepio's value proposal for each segment, being defined in line with its life cycle and financial profile, as well as with the growth of the first bank's share, leading to the progressive increase of the customer base with greater transactionality and enforceability.

(ii) De-leveraging of non-strategic assets, either through the sustained decline of non-performing credit, based on the improvement of credit recovery processes and the sale of portfolios, or through the reduction of real estate for trading, reflecting the maintenance of an adequate pace of sales provided by the favorable sectorial framework of the real estate activity and by the stabilization of real estate inflows associated with the improvement of the credit recovery processes through payment in kind.

(iii) Improvement in efficiency and in cost-to-income ratio supported by the growth in banking income, associated to the increase in business volume, and the strengthening of operating costs control, based on the implementation of a set of measures aimed at rationalization of expenditure.

Following this assessment, and as at 31 December 2018 and 2017, Banco Montepio recognised all deferred tax assets, thus, there are no deferred tax assets to be recognised.

In addition, a sensitivity analysis was carried out considering a scenario in which profit and loss before tax evolved at a 10% rate lower than those considered in the aforementioned projections, and no impact on deferred taxes was determined.

The expiry date of recognised tax losses carried forward is presented as follows:

(Thousands of Euro)

Expiry date	2018	2017
2022	5 553	3 922
2027	36 333	51 639
2028	128 306	123 040
	170 192	178 601

Tax recognised in the income statement and reserves during the years of 2018 and 2017 is analysed as follows:

(Thousands of Euro)

	2018		2017	
	Charged to net income/ (loss)	Charged to reserves and retained earnings	Charged to net income/ (loss)	Charged to reserves and retained earnings
Financial instruments	(8 670)	40 009	-	(17 259)
Provisions / Impairment	(67 362)	54 695	(38 147)	-
Employee benefits	10 064	3 888	(1 070)	(2 365)
Other	49	-	1	-
Tax losses carried forward	21 898	(30 308)	2 527	1 369
Deferred taxes recognised as profit/ (losses)	(44 021)	68 284	(36 689)	(18 255)
Current taxes recognised as profit/ (losses)	(32)	(3 583)	(293)	-
	(44 053)	64 701	(36 982)	(18 255)

As at 1 January 2018, the balance Provisions / Impairment records the tax impact recognised in Reserves and retained earnings related to the adoption of IFRS 9, as described in note 55.

The reconciliation of the effective tax rate is analysed as follows:

	2018		2017	
	%	Value	%	Value
Profit before income tax		46 072		94 642
Income tax based on the current nominal tax rate	30,5	(14 052)	(29,5)	(27 919)
Tax gains and losses	(6,6)	(3 023)	-	-
Equity contribution for the banking sector	(4,9)	(2 235)	(3,6)	(3 365)
Post-employement benefits and Pension Fund	(3,2)	(1 463)	0,8	801
Taxable provisions/ impairment	(35,2)	(16 205)	(15,5)	(14 655)
Autonomous taxation	(1,4)	(658)	(1,2)	(1 104)
Corrections to previous periods	1,4	626	0,9	811
Effect of differences in income tax for the period	17,9	8 235	5,0	4 753
Deferred taxes previously not recognised	(3,0)	(1 403)	-	-
Other	(30,1)	(13 875)	4,0	3 786
Income tax for the period	(95,6)	(44 053)	(39,0)	(36 892)

The Tax Authority may review Banco Montepio's taxable income during a period of four years, except in the case of tax losses carried forward, as well as any other deduction or tax credit, in which the period is the period of exercise of that right.

Banco Montepio was object of a Tax Authority's inspection up to and including the 2015 period.

In 2018, Banco Montepio became the dominant company of the Tax Group subject to corporate income tax under the Regime for Taxation of Group Companies (RETGS), whose former dominant company was Montepio Holding, S.G.P.S., S.A.

In this context, the Group considers that the effects for the calculation of the taxable income according to RETGS are reflected in the calculation of the current tax of the period of each entity, including the effect in the calculation of the current tax of the period for using tax loss generated by another entity of the Group.

32 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Other debtors	78 118	72 575
Recoverable grants receivable from the Portuguese Government	4 907	4 991
Other amounts receivable	3 619	3 248
Deferred costs	2 544	515
Sundry debtors	9 345	120 469
	98 533	201 798
Impairment for other assets	(30 115)	(25 183)
	68 418	176 615

As at 31 December 2018 and 2017, the balance Other debtors is analysed as follows:

(Thousands of Euro)

	2018	2017
SilverEquation	29 909	29 909
Supplementary capital contributions	14 910	14 910
Public entities	6 429	6 667
Other	26 870	21 089
	78 118	72 575

The balance Supplementary capital contributions includes the value of supplementary capital contributions subscribed within a sale of credits operation in the amount of Euro 14,910 thousand, which are fully provided.

As at 31 December 2018, the balance Public Entities includes the amounts related to receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

The balance Recoverable grants receivable from the Portuguese Government corresponds to recoverable grants referring to mortgage and PME's loans, in accordance with the legal provisions applicable to low-interest loan. These amounts do not bear interest and are claimed monthly.

As at 31 December 2017, the balance Sundry debtors includes the amount of Euro 106,182 thousand related to outstanding securities transactions.

As at 31 December 2018 and 2017, the balance Recoverable grants receivable from the Portuguese Government are presented as follows:

(Thousands of Euro)

	2018	2017
Overdue grants unclaimed	3 278	3 224
Unsettled recoverable grants from the Portuguese Government	1 516	1 631
Unclaimed grants	113	136
	4 907	4 991

The movements in Impairment for other assets are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	25 183	26 389
IFRS 9 transition adjustment	3 508	-
Charge for the period	9 219	2 558
Write-back for the period	(2 080)	(385)
Charge-off	(5 715)	(3 379)
Balance on 31 December	30 115	25 183

33 Deposits from central banks

This balance includes deposits obtained in the European System of Central Banks, which are pledged by securities from the portfolio of financial assets at fair value through other comprehensive income and the portfolio of other financial assets at amortised cost, as described in notes 24 and 26.

As at 31 December 2018 and 2017, the analysis of Deposits from central banks by maturity is as follows:

	(Thousands of Euro)	
	2018	2017
Above 6 months	1 395 320	1 557 840
	1 395 320	1 557 840

The operations are remunerated at the rates of Bank of Portugal in force at the contract date.

34 Deposits from other credit institutions

This balance is analysed as follows:

(Thousands of Euro)

	2018			2017		
	Non-interest bearing	Interest-bearing	Total	Non-interest bearing	Interest-bearing	Total
Deposits from institutions in Portugal						
Deposits repayable on demand	6 088	-	6 088	19 327	-	19 327
Term deposits	-	837	837	-	7 995	7 995
	6 088	837	6 925	19 327	7 995	27 322
Deposits from institutions abroad						
BEI loan	-	350 406	350 406	-	460 433	460 433
Deposits repayable on demand	35 828	-	35 828	33 051	-	33 051
Term deposits	-	177 505	177 505	-	200 540	200 540
Sales operations with repurchase agreement	-	850 317	850 317	-	1 275 553	1 275 553
CSA's	-	-	-	50	-	50
Repos collaterals	-	17 499	17 499	-	13 405	13 405
Other deposits	4 068	-	4 068	843	-	843
	39 896	1 395 727	1 435 623	33 944	1 949 931	1 983 875
	45 984	1 396 564	1 442 548	53 271	1 957 926	2 011 197

The balance Deposits from other credit institutions, analysed by maturity, is as follows:

	(Thousands of Euro)	
	2018	2017
Below 3 months	307 999	362 167
3 to 6 months	122 915	66 904
6 months to 1 year	661 228	419 480
1 to 5 years	350 406	891 721
Above 5 years	-	270 925
	1 442 548	2 011 197

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA has, on 31 December 2017, the amount of Euro 50 thousand of deposits from other credit institutions received as collateral for these operations, according to note 20.

The funds obtained under CSA with international financial institutions, are remunerated at EONIA rate. However, because these rates have shown negative values, these funds have not been remunerated.

The amount of the EIB loan is collateralised by Portuguese, Spanish and Italian states securities in the amount of Euro 405,211 thousand (31 December 2017: Euro 517,939 thousand), recorded in the balance

Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost, as described in notes 22, 24 and 26, respectively.

The balance Repos refers to the Margin Maintenance of the Repos in accordance with the Global Master Repurchase Agreement.

35 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	2018			2017		
	Non-interest bearing	Interest-bearing	Total	Non-interest bearing	Interest-bearing	Total
Deposits repayable on demand	3 753 420	398 347	4 151 767	3 361 390	277 437	3 638 827
Term deposits	-	8 332 065	8 332 065	-	8 380 146	8 380 146
Saving accounts	-	118 898	118 898	-	113 044	113 044
Other deposits	23 837	-	23 837	23 275	400 000	423 275
Adjustments arising from fair value option operations	11	-	11	33	-	33
	3 777 268	8 849 310	12 626 578	3 384 698	9 170 627	12 555 325

In the terms of Ordinance no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined by Regulation 11/94 of the Bank of Portugal, of 29 December.

As at 31 December 2018, the caption Term deposits includes deposits at fair value through profit and loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand (31 December 2017: Euro 14,789 thousand). Thus, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 c), having been recognised a loss, at 31 December 2018, in the amount of Euro 22 thousand (31 December 2017: Euro 21 thousand) related to fair-value variations.

The balance Deposits from customers, analysed by maturity, is as follows:

(Thousands of Euro)

	2018	2017
Deposits repayable on demand	4 151 767	3 638 827
Term deposits and saving accounts		
Below 3 months	694 666	803 303
3 to 6 months	2 949 118	3 485 233
6 months to 1 year	1 834 236	2 231 157
1 to 5 years	2 921 600	1 922 017
Above 5 years	51 343	51 480
	12 602 730	12 132 017
Othe deposits		
Below 3 months	23 837	423 275
Adjusments arising from fair value option operations	11	33
	12 626 578	12 555 325

As at 31 December 2018, Deposits from customers were interest-bearing at the average rate of 0.44% (31 December 2017: 0.68%).

36 Debt securities issued

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Cash bonds	124 719	375 300
Covered bonds	753 612	746 238
Securitisations	61 343	268 461
	939 674	1 389 999

The fair value of the debt securities issued is presented in note 46.

The balance Debt securities issued includes issues at fair value through profit or loss, in the amount of Euro 6,776 thousand (31 December 2017: Euro 7,904 thousand), measured in accordance with internal valuation techniques and considering, mainly, observable market data.

According with the hierarchy of the evaluation sources, as referred in IFRS 13, these instruments are classified in Level 2. Financial liabilities are revalued against the income statement, as referred in the accounting policy presented in note 1 c). As at 31 December 2018, a gain in the amount of Euro 491 thousand (31 December 2017: a loss of Euro 523 thousand) was recognised regarding fair value variations.

As at 31 December 2018 and 2017, the analysis of Debt securities issued outstanding by maturity is as follows:

(Thousands of Euro)

	2018	2017
Below 6 months	97 172	174 237
6 months to 1 year	21 701	80 578
1 to 5 years	754 818	868 525
Above 5 years	61 343	268 461
	935 034	1 391 801
Adjustments arising from fair value option operations	4 640	(1 802)
	939 674	1 389 999

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, Banco Montepio issued a total of Euro 2,300,000 thousand at nominal value.

As at 31 December 2018, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 141	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 6S	300 000	300 209	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 8S	500 000	500 115	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/AA-/A
Covered bonds - 9S	250 000	250 145	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A3/AA-/A
Covered bonds - 10S	750 000	753 612	October 2017	October 2022	Annual	Fixed at 0.875%	A3/AA-/A
	2 300 000	2 304 222					

As at 31 December 2017, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 132	December 2015	December 2020	Quarterly	Euribor 3M + 0,80%	A3/A+/A
Covered bonds - 6S	300 000	300 204	November 2016	November 2023	Quarterly	Euribor 3M + 0,80%	A3/A+/A
Covered bonds - 8S	500 000	500 103	December 2016	December 2026	Quarterly	Euribor 3M + 0,90%	A3/A+/A
Covered bonds - 9S	250 000	250 148	May 2017	May 2024	Quarterly	Euribor 3M + 0,85%	A3/A+/A
Covered bonds - 10S	750 000	746 238	October 2017	October 2022	Annual	Fixed at 0,875%	A3/A+/A
	2 300 000	2 296 825					

The covered bonds are guaranteed by cover pool assets, comprised of mortgage loans which are segregated as an autonomous asset in Banco Montepio's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these obligations is set out in Decree-Law no. 59/2006, Regulations no. 5/2006, of 20 March, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October, of Bank of Portugal and Instruction no.13/2006, of 15 November, of Bank of Portugal.

As at 31 December 2018, the amount of credits that collateralise these issues amounted to Euro 2,728,028 thousand (31 December 2017: Euro 2,726,854 thousand), according with note 21.

The movements in Debt securities issued in the period ended 31 December 2018 are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
Cash bonds	375 300	-	(242 669)	-	(7 912)	124 719
Covered bonds	746 238	-	-	-	7 374	753 612
Securitisations	268 461	-	(188 577)	(18 541)	-	61 343
	1 389 999	-	(431 246)	(18 541)	(538)	939 674

(a) Included is the movement of accrued interest on balance sheet date, corrections for operations at fair value option and exchange variation.

The movements in Debt securities issued in the period ended 31 December 2017 are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimburseme nts	Net purchases	Other movements [(a)]	Balance on 31 December
Cash bonds	1 040 533	-	(265 185)	(384 350)	(15 698)	375 300
Covered bonds	265 028	750 000	(265 000)	-	(3 790)	746 238
Securitisations	538 155	-	(269 694)	-	-	268 461
Euro Medium Term Notes (EMTN)	39 913	-	(39 750)	-	(163)	-
	1 883 629	750 000	(839 629)	(384 350)	(19 651)	1 389 999

(a) Included is the movement of accrued interest on balance sheet date, corrections for operations at fair value option and exchange variation.

In 2017, under the Covered Bond Programm of Banco Montepio, the Group issued an amount of Euro 750,000 thousand, at 5 years and an interest rate of 0.875% and reimbursed an amount of Euro 265,000 thousand.

In accordance with the account policy described in note 1 c), the purchase of debt securities issued by Banco Montepio is withdrawn from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

As at 31 December 2018, Debt securities issued bear postponed and anticipated interest at an effective interest rate ranging between 0.00% and 8.3% (31 December 2017: 0.00% and 7.48%).

As at 31 December 2018, the balance Debt securities issued includes the following issues:

(Thousands of Euro)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGAÇÕES CAIXA-MG TAXA FIXA SETEMBRO 2010-2020	09/09/2010	09/09/2020	Annual fixed rate of 4%	100
OBRIGAÇÕES CAIXA-CRPC-2012-2020-1.SERIE	30/03/2012	31/03/2020	Annual fixed rate of 5.25% (4th year: 6% and 5th year: 6.75%; 6th, 7th and 8th coupon Max[6.25% and Min (IPC+2%;9.15%)]	3 300
OBRIGAÇÕES CAIXA-MONTEPIO CAPITAL CERTO 2012-2020-2ªSERIE	31/05/2012	01/06/2020	Annual fixed rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% and 8th year: 11.1583%)	600
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2021-1.SERIE	28/02/2013	01/03/2021	Annual fixed rate: 5.15% (3rd year rate: 5.30%; 4th year rate: 5.30%; 5th year Rate: 5.90%; 6th coupon Max[5.95%; Min (IPC+2%;8.25%)];7th coupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th coupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2021-2.SERIE	28/06/2013	29/06/2021	Annual fixed rate of 4.9% (3rd year rate: 5.1%, 4th year rate: 5.1%, 5th year rate: 5.65% and 6th to 8th rate: Max(5.95%;Min(IPC+2%;8.15%))	812
MONTEPIO CAPITAL CERTO 2014/2019 1S	31/01/2014	01/02/2019	Annual fixed rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	27 400
MONTEPIO CAPITAL CERTO 2014/2019 2S	28/02/2014	01/03/2019	Annual fixed rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	33 050
CEMG CAP CERTO 2014/2019 3 SERIE	28/03/2014	29/03/2019	Annual fixed rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	33 400
CEMG CAP CERTO 2014/2019 9S	30/09/2014	01/10/2019	Annual fixed rate of 2.75% (3rd year rate: 3.00%, 4th year rate: 3.10%, 5th year rate: 3.35%)	17 900
MONTEPIO CAP CERTO 2014/2029 12S	02/01/2015	31/12/2019	Annual fixed rate of 2.90% (2nd to 4th year rate: 2.95%, 5th year rate: 3.25%)	2 250
OBRIGAÇÕES HIPOTECÁRIAS - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	61 343
				932,303
			Amounts corrected by hedge operations	4 640
			Accruals, expenses and deferred income	2 731
				939,674

37 Provisions

This balance is analysed as follows:

(Thousand of Euro)

	2018	2017
Provisions for guarantees and commitments	15 597	16 147
Provisions for other risks and charges	15 159	10 060
	30 756	26 207

The movements in provisions for guarantees and commitments assumed in 2018 and 2017 are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	16 147	13 851
IFRS 9 transition adjustment	944	-
Charge for the period	11 660	16 558
Write-back for the period	(13 154)	(14 262)
Balance on 31 December	15 597	16 147

The movements in provisions for other risks and charges are analysed as follows:

(Thousands of Euro)

	2018	2017
Balance on 1 January	10 060	7 142
Charge for the period	10 035	5 709
Write-back for the period	(4 936)	(1 573)
Charge-off	-	(1 218)
Balance on 31 December	15 159	10 060

These provisions are accounted in accordance with the probability of occurrence of certain contingencies related with Banco Montepio's activity and are revised in each reporting date in order to reflect the loss best estimate of the amount.

38 Other subordinated debt

As at 31 December 2018, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity	Issue amount	Interest rate	Book value
MONTEPIO EMTN SUB 2018/2028	Dec 2018	Dec 2028	50 000	8,0% the first 5 years and at EurSwap rate of 5y + 7.77% for the remaining years	50 044
					50 044

As at 31 December 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 321
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 169
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 200
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+1.75% (i)	8 326
					237 016

(i) - Remuneration paid on a half-yearly basis

Coupon	Interest rate/ range
1st coupon	6.50% (annual rate)
Between the 2nd and the 10th coupon	Euribor 6M + 1.50% (annual rate)
Between the 11th and subsequent	Euribor 6M + 1.75% (annual rate)

As at 31 December 2018 and 2017, the movement under Other subordinated debt was as follows:

(Thousands of Euro)

	2018					
	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December
CEMG/08 1st series	111 321	-	(110 848)	-	(473)	-
CEMG/08 2nd series	113 169	-	(112 556)	-	(613)	-
CEMG/08 3rd series	4 200	-	(4 168)	-	(32)	-
FNB 08/18 1st/2nd series	8 326	-	(8 320)	-	(6)	-
MONTEPIO EMTN SUB 2018/2028	-	50 000	-	-	44	50 044
	237 016	50 000	(235 892)	-	(1 080)	50 044

(a) Includes the accrued interest on the balance sheet.

(Thousands of Euro)

	2017					
	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December
CEMG/08 1st series	111 348	-	-	-	(27)	111 321
CEMG/08 2nd series	113 216	-	-	-	(47)	113 169
CEMG/08 3rd series	4 202	-	-	-	(2)	4 200
FNB 08/18 1st/2nd series	8 328	-	-	-	(2)	8 326
	237 094	-	-	-	(78)	237 016

(a) Includes the accrued interest on the balance sheet.

On 31 December 2018, under the Euro Medium Term Note Program (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 50,000 thousand, with a 10-year maturity term, at rate of 8.0% in the first five years and a call option at par in the 5th year. During 2018, Banco Montepio repayed Euro 235,892 thousand.

39 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Domestic and foreign operations pending settlement	96 696	200 666
Charges with staff expenses	22 405	21 852
Other sundry liabilities	45 199	28 693
Other expenses	12 320	16 244
Administrative public sector	10 329	10 419
Suppliers	4 135	5 692
Deferred income	418	492
	191 502	284 058

As at 31 December 2018, the balance Charges with staff expenses includes the amount of Euro 19,018 thousand (31 December 2017: Euro 19,084 thousand), related to holidays and holiday subsidies. Additionally, as at 31 December 2018, this balance also includes the amount of Euro 1,092 thousand (31 December 2017: Euro 458 thousand) related to seniority bonus.

As at 31 December 2018, the balance Other sundry liabilities includes the amount of Euro 18,456 thousand (31 December 2017: Euro 9,425 thousand), related with the net liabilities recognised in the balance sheet, which present the difference between the costs with pensions, health benefits and death subsidy and the assets, as referred in note 47.

40 Share capital

Banco Montepio's share capital, which is fully paid, amounts to Euro 2,420,000 thousand.

In December 2018, MGAM sold 158,920 shares of Banco Montepio's share capital, being divided as follows:

	2018	
	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 841 080	99.9934%
Other shareholders	158 920	0.0066%
	2 420 000 000	100.0%

As at 14 September 2017, Banco Montepio was transformed into a public limited company with Banco Montepio's Participation Fund, in the amount of Euro 400,000 thousand, becoming extinct, by conversion into share capital and its mutual funds were converted into common shares.

At 30 June 2017, the Group performed a capital increase subscribed by Montepio Geral Associação Mutualista, in accordance with the statutory resolutions of MGAM General Meeting, the General and Supervisory Council and the Board of Directors of CEMG.

The referred capital increase was materialised by MGAM, fully paid-up in cash, through the realization of institutional capital in the amount of Euro 250,000 thousand.

41 Other equity instruments

This caption includes the issuance of Euro 15,000 thousand occurred in the first quarter of 2010 of Perpetual Subordinated Securities Interest conditioners made by Montepio Investimento, S.A. (previously designated as Finibanco, S.A.), and in connection with the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated as Finibanco Holding, S.G.P.S., S.A.), and its subsidiaries, was integrated in CEMG equity, as described in note 1 a).

In case of purchase of subordinated perpetual securities, these are cancelled from equity and the difference between the purchase value and its book value is recognised in equity.

Banco Montepio repurchased perpetual subordinated instruments in the amounts of Euro 6,727 thousand and Euro 1,950 thousand, in 2013 and in March 2016, respectively. With this operation, the balance Other equity instruments amounted to Euro 6,323 thousand.

Payment

Banco Montepio is prevented from proceeding to the interest payment if, in the Board of Directors' or Bank of Portugal's opinion, this payment endanger compliance with the Regulatory equity requirements regulation.

During 2018, Banco Montepio proceeded to the interest payment for this emission in the amount of Euro 322 thousand (31 December 2017: Euro 318 thousand).

Reimbursement

These values are perpetual securities and are only refundable under the terms of early repayment provided below.

By agreement of Bank of Portugal, the issuer may reimburse, in whole or in part, from the 10th date of payment of interest, including (5th year).

In case of continued occurrence of an Event of Disqualification as Core Capital, even before the expiration of five years from its issuance, and in agreement with Bank of Portugal, these Securities are redeemable at the option of the Issuer, at any time.

In a disqualification event as Core Capital (Tier 1) is defined as a change in any legal document or its official interpretation implies these securities values may no longer be classified as Core Capital of the Issuer.

As at 31 December 2018 and 2017, these securities are considered as a positive element of Own Funds (Tier 2) of Banco Montepio, complying with the requirements of Regulation no. 575/2013 of the European Union.

42 Legal reserves

In accordance with Article no. 97 of Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), approved by the Decree-Law no. 298/92, of 31 December, and amended by the Decree-Law no. 201/2002, Banco Montepio should reinforce annualy the legal reserve with, at least, 10% of annual net profits, until to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher. This reserve can not, normally, be distributed.

The variation of the legal reserve is analysed in note 43.

43 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income	(20 669)	32 737
Loans and advances to customers	1 491	2 146
Own credit risk	143	-
	(19 035)	34 883
Taxes		
Financial assets at fair value through other comprehensive income	(274)	(6 274)
Loans and advances to customers	(455)	(633)
	(729)	(6 907)
Fair value reserve net of taxes	(19 764)	27 976
Other reserves and retained earnings		
Legal reserve	191 767	186 000
Other reserves and retained earnings	(1022 602)	(968 948)
Gains on equity instruments	243	-
	(830 592)	(782 948)

Fair value reserves of financial assets at fair value through other comprehensive income represent the potential gains and losses on the portfolio of financial assets at fair value through other comprehensive income and records the amount, of the fair value reserve, relating to the loan portfolio reclassified from Other financial assets at fair value through other comprehensive income to Loans and advances to customers.

The balance Loans and advances to customers refers to the amount, of the fair value reserve, relating to the credit portfolio reclassified from Financial assets at fair value through other comprehensive.

The balance Other reserves and retained earnings includes the impact of Euro 80,795 thousand related to the IFRS 9 transition adjustment, according to note 55. This caption also includes the negative value of Euro 37 thousand related to realised gains on financial assets recorded at fair value through other comprehensive income.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during 2018, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	IFRS 9 adjustment	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities							
Bonds issued by Portuguese public entities	456	1 821	(1 821)	-	(456)	-	-
Bonds issued by other public entities	(4 107)	2 683	(5 298)	(537)	2 662	(432)	(5 029)
Bonds issued by other entities:							
Domestic	719	(1 730)	(2 270)	(95)	(34)	1 711	(1 699)
Foreign	385	35	(562)	(534)	(18)	(43)	(737)
	(2 547)	2 809	(9 951)	(1 166)	2 154	1 236	(7 465)
Variable income securities							
Shares							
Domestic	10 487	-	(9 476)	1 088	-	-	2 099
Foreign	2 607	-	(17 881)	-	(29)	-	(15 303)
	13 094	-	(27 357)	1 088	(29)	-	(13 204)
	10 547	2 809	(37 308)	(78)	2 125	1 236	(20 669)

As part of the IFRS 9 adoption, Banco Montepio's investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 23 and 24.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	(59 774)	-	456	59 774	-	456
Bonds issued by foreign public entities	(7 254)	1 030	(3 824)	5 941	-	(4 107)
Bonds issued by other entities:						
Domestic	(126)	661	75	109	-	719
Foreign	6 652	(27 437)	184	(6 655)	27 641	385
	(60 502)	(25 746)	(3 109)	59 169	27 641	(2 547)
Variable income securities						
Shares						
Domestic	8 189	2 298	-	-	-	10 487
Foreign	14 722	(12 005)	29	(168)	29	2 607
Investment units	22 460	11 640	(1)	(2 343)	(9 566)	22 190
	45 371	1 933	28	(2 511)	(9 537)	35 284
	(15 131)	(23 813)	(3 081)	56 658	18 104	32 737

Fair value reserves on financial assets at fair value through other comprehensive income, are detailed as follows:

	2018	2017
	(Thousands of Euro)	
Amortised cost of financial assets at fair value through other comprehensive income	413 829	2 742 378
Recognised accumulated impairment	(571)	(172 324)
Amortised cost of financial assets at fair value through other comprehensive income net of impairment	413 258	2 570 054
Market value of financial assets at fair value through other comprehensive income	392 589	2 602 791
Potential gains/ (losses) recognised in the fair value reserve	(20 669)	32 737

44 Distribution of profits

As at 31 December 2018 and 2017, Banco Montepio did not distributed profits.

45 Guarantees and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	2018	2017
Guarantees granted	436 275	463 770
Commitments to third parties	1 318 751	1 429 131
Deposit and custody of securities	7 186 315	8 266 489
	8 941 341	10 159 390

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Guarantees granted		
Guarantees	417 091	443 108
Documentary credits	19 184	20 662
	436 275	463 770
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	648 040	762 361
Potential liability with the Investor's Indemnity System	1 533	1 499
Term liability to the Guarantee Deposits Fund	22 768	22 768
Securities subscription	4 053	-
Revocable commitments		
Revocable credit facilities	642 357	642 503
	1 318 751	1 429 131

Bank guarantees granted are financial operations that do not necessarily result into mobilisation on Funds by Banco Montepio.

Documentary credits correspond to irrevocable commitments on behalf of Banco Montepio's customers, which ensure the payment of a determined amount to the customer's suppliers, within a fixed term, against the presentation of the documentation confirming the shipment of goods or the rendering of services. The irrevocable condition arises from the fact that the commitment is not cancellable without the agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Banco Montepio's customers (for example unused credit facilities). These agreements are generally, contracted for fixed periods of time or with other expiring requirements, and usually require the payment of a commission. Substantially, all credit commitments require that customers comply with certain conditions set at the time the credit was granted.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying customer and business, being that Banco Montepio requires these operations to be adequately covered by collaterals, when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having been used, the indicated amounts do not represent necessarily future cash flow needs.

As at 31 December 2018 and 2017, the balance Term liability to the the Guarantee Deposits Fund is related with the irrevocable commitment assumed by Banco Montepio and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

As at 31 December 2018 and 2017, under the Deposit Guarantee Fund, Banco Montepio granted as pledge treasury bonds (OT 4.95% 25/10/2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 22,200 thousand (31 December 2017: Euro 23,500 thousand), as described in note 24.

As at 31 December 2018 and 2017, the balance Potential liability with the Investors' Indemnity System refers to the irrevocable obligation that Banco Montepio assumed, under the applicable law, to deliver to that system, in case needed, the required amount to pay its share of the indemnities to be paid to investors.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in note 1 b). The maximum credit exposure is represented by the nominal value that could be lost related to guarantees and commitments undertaken by Banco Montepio in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

46 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy of Banco Montepio.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution. Under these conditions, the values presented cannot be understood as an estimate of the economic value of Banco Montepio.

The main methods and assumptions used in estimating the fair value for the financial assets and liabilities are presented as follows:

- *Cash and deposits at central banks and Loans and advances to credit institutions repayable on* demand

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Deposits from central banks, Deposits from other credit institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated term. The rate of return of funding with the European Central Bank is negative by 0.4% for the operations negotiated at December 2018.

  Regarding loans and advances not measured at fair value, the discount rate used reflects the current conditions applied by Banco Montepio on identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (rates from monetary market or from interest rate swap market, at the end of the period). In 2018, the average discount rate was 0.23% (31 December 2017: 0.36%) for Repos and 0.07% (31 December 2017: 0.30%) for the remaining deposits.

For Loans and advances to the other credit instituions investments a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term options was applied. Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives), Financial assets at fair value through other comprehensive income, Financial assets not held for trading mandatorily at fair value through profit or loss and Other financial Assets at fair value through profit or loss*

These financial instruments are accounted at fair value. Fair value is based on market prices (Bid-price), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

When optionality is involved, the standard models (Black-Scholes, Black, Ho and others) considering the volatility surfaces applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

- *Other financial assets at amortised cost*

These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the respective market conditions and terms.

- *Hedging and trading derivatives*

  All derivatives are recorded at fair value.

  In case of those who are quoted in organised markets their market price is used. As for derivatives traded "over the counter", the numerical methods based on techniques of discounted cash flow and options valuation models, considering market variables namely the market interest rates applicable to the instruments concerned, and where necessary, their volatility, shall apply.

  Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

- *Loans and advances to customers without defined maturity date and Deposits from customers repayable on demand*

  Considering the short maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Loans and advances to customers with defined maturity date*

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans in default, the net impairment value of these operations is a reasonable estimate of its fair value, considering the economic valuation performed in the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity dates (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the reporting date, which was calculated from the average of production for the last quarter. The average discount rate was 2.88% for mortgage loans (31 December 2017: 3.06%), 6.22% for individual credit (31 December 2017: 6.38%) and 4.67% for the remaining loans (31 December 2017: 3.71%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

- *Deposits from customers*

  The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by Banco Montepio in identical instruments with a similar maturity. The discount rate includes the market rates of the residual maturity dates (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of Banco Montepio at the reporting date, which was calculated from the average production of the last quarter of 2018. The average discount rate at 31 December 2018 was of 0.33% (31 December 2017: 0.84%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, fair value was calculated for the components that are not yet reflected on the balance sheet. For the fixed interest rate instruments for which Banco Montepio applies a hedge-accounting policy, the fair value regarding the interest rate risk is already accounted for.

In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of Banco Montepio.

As original reference, the Group applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

In case of issues of covered bonds, the fair value is determined based on quotations disseminated by financial content provider Bloomberg.

In respect of subordinated issues the discount rate was of 7.91% (31 December 2017: 3.99%). The average discount rate calculated for senior issues placed on the retail market was 0.47% (31 December 2017: 0.72%).

The change in the discount rate for the subordinated issue reflects the issuance conditions for 2018 and 2017. It should be noted that Banco Montepio issued subordinated debt in 2018.

Issues placed in the institutional market were revalued at the market value available on 31 December 2018.

As at 31 December 2018, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of Banco Montepio:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0,37300	2,48000	0,75000	-0,83000	-0,08667
7 days	-0,37300	2,41588	0,75000	-0,83000	-0,08667
1 month	-0,36300	2,70000	0,89500	-0,63000	-0,40000
2 months	-0,33693	2,76000	0,97000	-0,79000	-0,35000
3 months	-0,30900	2,87000	0,97000	-0,75000	-0,38000
6 months	-0,23700	2,95000	1,06000	-0,64000	-0,33000
9 months	-0,17700	3,03000	1,14500	-0,66500	-0,20000
1 year	-0,11700	3,10000	1,24500	-0,57500	-0,23000
2 years	-0,17150	2,67700	1,14500	-0,57300	-0,02250
3 years	-0,06500	2,62600	1,21600	-0,46800	-0,02250
5 years	0,20100	2,63500	1,30700	-0,26500	-0,00880
7 years	0,46900	2,68100	1,36600	-0,01900	0,04000
10 years	0,81500	2,76600	1,44400	0,29300	0,14750
15 years	1,16900	2,85200	1,52600	0,61600	0,34000
20 years	1,34500	2,82400	1,52600	0,61600	0,34000
30 years	1,40500	2,81900	1,52600	0,61600	0,34000

As at 31 December 2017, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of Banco Montepio:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0,45000	1,50500	0,50000	-0,84500	-0,17000
7 days	-0,37800	1,48038	0,50000	-0,79500	-0,03376
1 month	-0,36800	1,65000	0,50500	-0,75000	-0,26000
2 months	-0,34000	1,69000	0,51000	-0,75000	-0,22000
3 months	-0,32900	1,76000	0,51000	-0,75000	-0,22000
6 months	-0,27100	1,91000	0,55000	-0,72000	-0,20000
9 months	-0,21700	2,02000	0,66000	-0,68000	-0,15000
1 year	-0,18600	2,18000	0,74000	-0,62000	-0,15000
2 years	-0,15000	2,07700	0,78600	-0,48200	0,01750
3 years	0,01100	2,16800	0,88700	-0,35400	0,03500
5 years	0,31300	2,25600	1,03700	-0,13900	0,09000
7 years	0,56100	2,32100	1,14600	0,03800	0,16250
10 years	0,88000	2,40500	1,27700	0,27100	0,29750
15 years	1,24400	2,49600	1,41000	0,53800	0,52500
20 years	1,41880	2,53130	1,41000	0,53800	0,52500
30 years	1,50130	2,53880	1,41000	0,53800	0,52500

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the Money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2018**	**2017**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1450	1.1993	7.418	7.450	7.600	7.725	7.800
EUR/GBP	0.8945	0.8872	11.250	11.800	11.305	11.155	10.800
EUR/CHF	1.1269	1.1702	5.755	5.975	6.363	6.450	6.550
EUR/JPY	125.85	135.01	9.373	9.685	9.837	10.025	10.030

Concerning the exchange rates, Banco Montepio uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of the Group, at 31 December 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

	2018				
	At fair value though profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 610 634	1 610 634	1 610 634
Loans and advances to credit institutions repayable on demand	-	-	75 572	75 572	75 572
Other loans and advances to credit institutions	-	-	448 035	448 035	446 533
Loans and advances to customers	15 139	-	11 781 031	11 796 170	11 908 336
Financial assets held for trading	23 739	-	-	23 739	23 739
Financial assets not held for trading mandatorily at fair value through profit or loss	803 908	-	-	803 908	803 908
Financial assets at fair value through other comprehensive income	-	392 589	-	392 589	392 589
Hedging derivatives	5 666	-	-	5 666	5 666
Other financial assets at amortised cost	-	-	1 255 651	1 255 651	1 267 168
	848 452	392 589	15 170 923	16 411 964	16 534 145
Financial liabilities					
Deposits from central banks	-	-	1 395 320	1 395 320	1 395 320
Deposits from other credit institutions	-	-	1 474 548	1 474 548	1 431 874
Deposits from customers	14 597	-	12 611 981	12 626 578	12 631 855
Debt securities issued	6 776	-	932 898	939 674	940 851
Financial liabilities held for trading	13 496	-	-	13 496	13 496
Other subordinated debt	-	-	50 044	50 044	50 342
	34 869	-	16 464 791	16 499 660	16 463 738

(Thousands of Euro)

	2017				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 733 626	1 733 626	1 733 626
Loans and advances to credit institutions repayable on demand	-	-	59 472	59 472	59 472
Other loans and advances to credit institutions	-	-	558 711	558 711	557 781
Loans and advances to customers	24 633	-	12 724 084	12 748 717	12 670 411
Financial assets held for trading	184 076	-	-	184 076	184 076
Financial assets at fair value through other comprehensive income	-	2 602 791	-	2 602 791	2 602 791
	208 709	2 602 791	15 075 893	17 887 393	17 808 157
Financial liabilities					
Deposits from central banks	-	-	1 557 840	1 557 840	1 557 840
Deposits from other credit institutions	-	-	2 011 197	2 011 197	2 011 026
Deposits from customers	14 789	-	12 540 536	12 555 325	12 550 871
Debt securities issued	7 094	-	1 382 905	1 389 999	1 395 540
Financial liabilities held for trading	16 171	-	-	16 171	16 171
Hedging derivatives	1 663	-	-	1 663	1 663
Other subordinated liabilities	-	-	237 016	237 016	234 860
	39 717	-	17 729 494	17 769 211	17 767 971

The following table summarises, by valuation levels, the fair value of Banco Montepio's financial assets and liabilities, as at 31 December 2018:

(Thousands of Euro)

	2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 610 634	-	-	-	1 610 634
Loans and advances to credit institutions repayable on demabd	75 572	-	-	-	75 572
Other loans and advances to credit institutions	-	-	446 533	-	446 533
Loans and advances to customers	-	15 139	11 893 197	-	11 908 336
Financial assets held for trading	-	11 525	12 214	-	23 739
Financial assets not held for trading mandatorily at fair value through profit or loss	6 556	-	797 352	-	803 908
Financial assets at fair value through other comprehensive incomed	290 678	12 080	87 226	2 605	392 589
Hedging derivatives	-	5 666	-	-	5 666
Other financial assets at amortised cost	1 267 168	-	-	-	1 267 168
	3 250 608	44 410	13 236 522	2 605	16 534 145
Financial liabilities					
Deposits from central banks	1 395 320	-	-	-	1 395 320
Deposits from other institutions	-	-	1 431 874	-	1 431 874
Deposits from customers	-	14 597	12 617 258	-	12 631 855
Debt securities issued	-	6 776	934 075	-	940 851
Financial liabilities held for trading		13 496	-	-	13 496
Other subordinated debt	-	-	50 342	-	50 342
	1 395 320	34 869	15 033 549	-	16 463 738

The following table summarises, by valuation levels, the fair value of Banco Montepio's financial assets and liabilities, as at 31 December 2017:

(Thousands of Euro)

	2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 733 626	-	-	-	1 733 626
Loans and advances to credit institutions repayable on demand	59 472	-	-	-	59 472
Other loans and advances to credit institutions	-	-	557 781	-	557 781
Loans and advances to customers	-	24 633	12 645 778	-	12 670 411
Financial assets held for trading	38 194	24 553	121 329	-	184 076
Financial assets at fair value through other comprehensive income	1 598 859	10 272	988 438	5 222	2 602 791
	3 430 151	59 458	14 313 326	5 222	17 808 157
Financial liabilities					
Deposits from central banks	1 557 840	-	-	-	1 557 840
Deposits from other credit institutions	-	-	2 011 026	-	2 011 026
Deposits from customers	-	14 789	12 536 082	-	12 550 871
Debt securities issued	-	7 094	1 388 446	-	1 395 540
Financial liabilities held for trading	901	15 270	-	-	16 171
Hedging derivatives	-	1 663	-	-	1 663
Other subordinated debt	-	-	234 860	-	234 860
	1 558 741	38 816	16 170 414	-	17 767 971

Banco Montepio uses the following hierarchy for fair value with 3 levels in the evaluation of financial instruments (assets and liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters used in determining the fair value measurement of the instrument, as referred in IRFS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving identical instruments to the ones being valued. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the main market of the instrument, or most advantageous market for which there is access.
- Level 2: Fair value is determined based on evaluation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and evaluation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.
- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the evaluation technique used and inputs used and review processes to test the accuracy of the values obtained.

Banco Montepio considers an active market where transactions of particular financial instruments occur with frequency and business volumes sufficient for providing information over prices continuously. The following minimum conditions should verify:

- Existence of frequent daily prices trading in the last year;
- The above quotations are exchanged regularly; and
- There are executable quotes from more than one entity.

A parameter used in a valuation technique is considered observable in the market, if the following conditions are met:

- If its value is determined in an active market;
- Or, if there is an OTC market and it is reasonable to assume that the conditions of an active market are met, except for the condition of trading volumes; and
- Or, the parameter value can be obtained by the inverse calculation of prices of financial instruments or derivatives where the remaining parameters required for initial assessment are observable in a liquid market or an OTC market that comply with the preceding paragraphs.

47 Post-employment and long-term benefits

Banco Montepio assumed the responsibility to pay to their employees' seniority and disability retirement pensions and others benefits, in accordance with the accounting policy described in note 1 u). In addition, and in accordance with the same policy, Banco Montepio calculates on an annual basis, as of 31 December of each year, pension liabilities and other benefits. Therefore, the amounts presented in this note only reflect current service cost.

The general pension plan for the employees refers to liabilities for retirement benefits provided for in the Collective Labour Agreement for the banking sector and is a complementary plan of the public social security scheme.

Under the Collective Labour Agreement ("ACT") for the banking sector, the employees hired after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria for determining the amount of pension that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and retribution.

The benefits provided by this pension plan are as follows:

- Retirement by presumable disability (old age);

- Retirement by disability;

- Survivor's pension.

All social benefits are granted to beneficiaries, according to the terms, conditions and values included in the pension plan, as employees of Banco Montepio at their retirement date, as well as those who have belonged to their effective board and on retirement meet all the requirements defined in the pension plan.

The pension provided by the fund corresponds to the employee level in reform and seniority, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund or the National Pensions Centre, the latter will be reduced to the pension guaranteed by this plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survivor's pension of 40% of the remuneration to which the employee would be entitled if achieved the situation of retirement or the pension he would receive, respectively.

Banco Montepio's former employees, when placed in the old-age pension or disability status, are entitled to payment by the fund of a pension calculated in the previous terms, in proportion to the time of service provided to Banco Montepio.

Additionally, the pension plan guarantees the costs of Social-Medical Assistance Services (SAMS) and the death grant under the ACT.

Banco Montepio has no other mechanisms to ensure the coverage of liabilities assumed towards old-age pensions, disability, survivors, health benefits and death benefits of its employees.

In December 2016, the Group issued a new Collective Labor Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career premium which replaced the extinguished seniority award.

As a result of the amendment to the ACT, contributions to SAMS were made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the current value of liabilities are as follows:

	2018	2017
Financial assumptions		
Wage growth rate	1.00%	1.00%
Pension growth rate	0.50%	0.50%
Fund's return rate	2.25%	2.10%
Discount rate	2.25%	2.10%
Revaluation rate		
Wage growth rate - Social Security	1.50%	1.50%
Monetary correction rate	1.00%	1.00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 Years	TV 88/90 -3 Years
Actuarial valuation method	UCP	UCP

The assumptions used in calculating the present value of liabilities, in accordance with the requirements of IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices regarding high quality corporate brands and (ii) duration of liabilities.

As at 31 December 2018, the duration of liabilities amounts to 19.7 years (31 December 2017: 20.80 years).

The number of persons covered by the pension plan is as follows:

	2018	2017
Active	3 308	3 389
Retirees and survivors	1 312	1 246
	4 620	4 635

Based on the accounting policy described in note 1 u), post-employment benefits, other benefits and respective coverage levels are presented as follows:

	(Thousands of Euro)	
	2018	2017
Net assets / (liabilities) recognised in the balance sheet		
Liabilities with pension benefits		
Pensioners	(286 534)	(272 275)
Active	(389 309)	(402 650)
	(675 843)	(674 925)
Liabilities with health-care benefits		
Pensioners	(21 628)	(20 304)
Active	(33 400)	(34 167)
	(55 028)	(54 471)
Liabilities with death benefits		
Pensioners	(1 673)	(1 590)
Active	(1 300)	(1 569)
	(2 973)	(3 159)
Total liabilities	(733 844)	(732 555)
Coverages		
Pension Fund value	715 388	723 130
Net assets/ (liabilities) in the balance sheet	(18 456)	(9 425)
Accumulated actuarial losses recognised in other comprehensive income	213 996	179 003

Changes in the defined benefit obligation can be analysed as follows:

(Thousands of Euro)

	2018				2017			
	Pension benfeits	Health-care benefits	Death benefits	Total	Pension benfeits	Health-care benefits	Death benefits	Total
Liabilities at the beginning of the period	674 925	54 471	3 159	732 555	649 995	50 806	3 071	703 872
Current service cost	4 830	1 880	53	6 763	(1 834)	1 811	55	32
Interest cost	14 173	1 144	66	15 383	13 000	1 016	61	14 077
Actuarial gains/ (losses)								
- Changes in assumptions	(18 377)	(1 711)	(107)	(20 195)	27 646	-	-	27 646
- Not related to changes in assumptions	17 947	(756)	(198)	16 993	4 104	716	(5)	4 815
Pensions paid by the Fund	(17 047)	-	-	(17 047)	(16 615)	-	-	(16 615)
Pensions paid by CEMG	(4 725)	-	-	(4 725)	(4 781)	-	-	(4 781)
Early retirement, mutually agreed termination and others	1 802	-	-	1 802	1 155	122	(23)	1 254
Participant contributions	2 315	-	-	2 315	2 255	-	-	2 255
Liabilities at the end of the period	675 843	55 028	2 973	733 844	674 925	54 471	3 159	732 555

As mentioned, Banco Montepio amended the ACT, and changed the retirement age. This represents a cut in employees' benefits, in accordance with IAS 19, and its impact was recorded against the income statement.

The evolution of the Pension fund's value in the periods ended 31 December 2018 and 2017 is analysed as follows:

(Thousands of Euro)	2018	2017
Balance of the Fund at the beginning of the period	723 130	688 730
Expected return	15 185	13 775
Actuarial losses	(38 195)	34 985
Group contributions	30 000	-
Participant contributions	2 315	2 255
Pensions paid by the Fund	(17 047)	(16 615)
Balance of the Fund at the end of the period	715 388	723 130

It should be noted that the Pension Fund is managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A. in which Banco Montepio participates with 97.1%, as at 31 December 2018 (31 December 2017: 97.2%).

As at 31 December 2018 and 2017, the assets of the Pension Fund, divided between quoted and unquoted, can be analysed as follows:

(Thousands of Euro)

	2018			2017		
	Assets of the Fund	Quoted	Unquoted	Assets of the Fund	Quoted	Unquoted
Variable income securities						
Shares	58 294	58 294	-	71 962	71 962	-
Share investment fund	82 794	9 602	73 192	105 735	-	105 735
Bonds	479 074	446 193	32 881	492 818	445 747	47 071
Real estate	5 514	-	5 514	6 507	-	6 507
Real estate investment fund	23 672	674	22 998	24 551	469	24 082
Venture capital fund	9 343	-	9 343	10 496	-	10 496
Hedge funds - Uncorrelated investments	-	-	-	13	-	13
Investments in banks and other	56 697	-	56 697	11 048	-	11 048
	715 388	514 763	200 625	723 130	518 178	204 952

The assets of the pension fund used by Banco Montepio or representative of securities issued by other Group entities are analysed as follows:

(Thousands of Euro)	2018	2017
Investments in banks and other	56 697	11 048
Real estate	5 514	6 507
Bonds	2 250	2 201
	64 461	19 756

The changes in the accumulated actuarial gains and losses are analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Actuarial gains/ (losses) at the beginning of the period	179 003	181 527
Actuarial gains/ (losses) for the period		
- Changes in assumptions	(20 195)	27 646
- Experience adjustments	55 188	(30 170)
Actuarial gains/ (losses) in other comprehensive income	213 996	179 003

The actuarial losses recorded in 2018 under Changes in assumptions, include the positive amount of Euro 20,195 thousand resulting from the change in the discount rate.

The costs with pensions, healthcare and death benefits are analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
Current service cost	6 763	32
Net interest income/ (expense) in the liabilities coverage balance	198	302
Costs with early retirement, mutually agreed termination and others	1 802	1 254
Costs for the period	8 763	1 588

As at 31 December 2018 and 2017, the evolution of net assets/ (liabilities) in the balance sheet is analysed as follows:

	(Thousands of Euro)	
	2018	**2017**
At the beginning of the period	(9 425)	(15 142)
Group contribution	30 000	-
Current service cost	(6 763)	(32)
Net interest income/ (expense) in the liabilities coverage balance	(198)	(302)
Actuarial gains/ (losses)	3 202	(32 461)
Financial gains/ (losses)	(38 195)	34 985
Pensions paid by CEMG	4 725	4 781
Early retirement, mutually agreed terminations and other	(1 802)	(1 254)
At the end of the period	(18 456)	(9 425)

The actuarial assumptions have a significant impact in the pension liabilities and other benefits. Considering, this impact, the Group proceeded to a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the impact in the value of pension liabilities, whose impact is analysed as follows:

(Thousands of Euro)

	2018		2017	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(30 907)	32 978	(40 481)	40 207
Wage growth rate (0.25% change)	22 728	(21 021)	25 664	(22 875)
Pension growth rate (0.25% change)	28 870	(27 610)	25 326	(23 238)
SAMS contribution (0.25% change)	3 226	(3 226)	3 586	(3 432)
Future mortality (1 year change)	(22 367)	22 333	(20 720)	20 066

As a result of the ACT's change, as at 31 December 2018, the cost associated with the final career award amounted to Euro 634 thousand (31 December 2017: Euro 458 thousand), which replaced the extinguished seniority premium.

As at 31 December 2017, the SAMS cost associated to the defined contribution plan amounts to Euro 543 thousand.

48 Assets under management

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non-fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2018 and 2017, the amount of the investment funds managed by Banco Montepio's companies is analysed as follows:

(Thousands of Euro)

	2018	2017
Securities investment fund	137 984	169 202
Real estate investment fund	513 344	292 058
Pension fund	227 963	220 773
Bank and insurance	22 072	26 913
	901 363	708 946

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

49 Transactions with related parties

As defined in IAS 24, are considered related parties of the Group the companies detailed in note 57, the Pension Fund, the members of the Board of Directors, General and Supervisory Board and the key management personnel. In addition to the members of the Board of Directors, General and Supervisory Board and key management personnel, are also considered related parties their family and entities controlled by them or those whose management have significant influence.

According to Portuguese law, in particular under Articles no. 85 and 109 of the General Law for Credit Institutions and Financial Companies ("RGICSF"), are also considered related parties the members of the Audit Committee and the shareholders of Banco Montepio, as well as individuals related to these categories and entities controlled by them or whose management have significant influence.

Banco Montepio's first-line directors are considered in Other key management personnel.

On this basis, the list of related parties considered by Banco Montepio is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors (after 20 March 2018)
Chairman of the Board of Directors
Carlos Manuel Tavares da Silva
Non-executive Members
Luís Eduardo Henriques Guimarães
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Rui Pedro Brás de Matos Heitor
Pedro Jorge Gouveia Alves
Carlos Francisco Ferreira Alves
Executive Committee
Chairman of the Executive Committee
Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Executive Members
Nuno Cardoso Correia da Mota Pinto
José Carlos Sequeira Mateus
Pedro Miguel Nunes Ventaneira
Carlos Miguel López Leiria Pinto
Helena Catarina Gomes Soares de Moura Costa Pina
Leandro Rodrigues da Graça Silva
Audit Committee
Chairman of the Audit Committee
Luís Eduardo Henriques Guimarães
Members
Amadeu Ferreira de Paiva
Manuel Ferreira Teixeira
Vítor Manuel do Carmo Martins
Carlos Francisco Ferreira Alves

Executive Board of Directors (until 20 March 2018)
José Manuel Félix Morgado (Chariman)
João Carlos Martins da Cunha Neves
Luís Gabriel Moreira Maia Almeida
Fernando Ferreira Santo
João Belard da Fonseca Lopes Raimundo
Jorge Manuel Viana de Azevedo Pinto Bravo
Luís Miguel Resende de Jesus

General and Supervisory Board (until 20 March 2018)
Álvaro João Duarte Pinto Correia (Chairman)
António Fernando Menezes Rodrigues
José António de Arez Romão
Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Brás Matos Heitor
Eugénio Óscar Garcia Rosa

Other Related Parties'
Board of Directors
Alfredo Jorge Alves Gomes de Sá
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
António Manuel Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Carlos Vicente Morais Beato
Eduardo José da Silva Farinha
Fernanda Maria da Costa Simões Brázia
Fernando Dias Nogueira
Fernando Ferreira Santo
Fernando Paulo Pereira Magalhães
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco José Gonçalves Simões
Idália Maria Marques Salvador Serrão
Isabel Maria Loureiro Alves Brito
João Andrade Lopes
João António Morais da Costa Pinto
João António Truta Pinto Rabaça
João Carlos Carvalho das Neves

Other Related Parties'
Board of Directors
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
João Luís Ignez Jorge de Ramirez Cordeiro
Joaquim Manuel Marques Cardoso
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
José Miguel Gonçalves Marques Mendes
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida
Luís Miguel Marques Ferreira Cardoso
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Margarida Carrusca Pontes Rosário Ribeiro de Andrade
Maria Rosa Almas Rodrigues
Mário José de Matos Valadas
Miguel Alexandre Teixeira Coelho
Nelson Filipe Mendes Machado
Norberto da Cunha Junqueira Fernandes Félix Pilar
Nuno Henrique Serra Mendes
Paulo José Martins Jorge da Silva
Pedro Manuel Gaspar de Vasconcelos Carrasco
Pedro Miguel Moura Líbano Monteiro
Pedro Miguel Rodrigues Crespo
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other Key Management Personnel
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Ponciano
Ana Maria Guerreiro Almeida
Ana Maria Sousa Capelão Teixeira Fernandes Mendonça Neves
António Fernando Figueiredo Lopes
António josé Boavista Coelho
António José Miranda Lopes Coutinho
Fernando Emanuel Mendes Teixeira
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Helder Ferreira Reis
Jaquelina Maria Almeida Rodrigues Miguens
João Tiago Maia Barros Silva Teixeira
Joaquim António Canhoto Gonçalves Silva
Luis Filipe Pereira Cruz Nunes
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Manuel Fernando Caixado Castanho
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Paulo Miguel Ferreira Trindade
Pedro Jorge Ponte Araújo
Pedro Maria Corte Real Alarcão Judice
Pedro Nuno Coelho Pires
Ricardo Artur Silva Ribeiro
Rui Luís Magalhães Moura
Rui Sérgio Carvalho Santos Calheiros Gama
Vasco Francisco Coelho Almeida
Vítor António Santos Ventura
Vitor Fernando Santos Cunha

Other related parties

Augusto da Silva Carvalho, S.A.
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.
Banco Terra, S.A. (1)
Bem Comum, Sociedade de Capital de Risco, S.A.
Binganimus - Bingos e Animação, S.A.
Bolsimo - Gestão de Activos, S.A.
Carlos Augusto Lança & Filhos, Lda.
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto
Casa da Sorte - Organização Nogueira da Silva, S.A.
CESource, ACE
Clínica CUF Belém, S.A.
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior, S.A.
Finibanco Angola, S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
Herdeiros de Manuel Martins Travassos, Lda.
HTA – Hotéis, Turismo e Animação dos Açores, S.A.
In Posterum, A.C.E.
Leacock - Prestação de Serviços, Lda.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Lusomilhões, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Geral Corp. (2)
Montepio Crédito - Instituição Financeira de Crédito, S.A.
Montepio Gestão de Activos - S.G.F.I., S.A.
Montepio Gestão de Activos Imobiliários, A.C.E.
Montepio Holding, S.G.P.S., S.A.
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Investimento, S.A.
Montepio Residências para Estudantes, S.A.
Montepio Seguros, S.G.P.S., S.A.
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.
N Seguros, S.A.
Naviser - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
NovaCâmbios - Instituição de Pagamento, S.A.
Pataca da Sorte - Bingos e Animação Unipessoal, Lda.
Polaris - Fundo de Investimento Imobiliário Fechado
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.
Torre da Sorte, Lda.
Valor *Prime* - Fundo de Investimento Imobiliário Aberto (3)

(1) Entity sold on 21 December 2018.
(2) Entity liquidated on 15 October 2018.
(3) Loss of control on 31 March 2018.

As at 31 December 2018, assets held Banco Montepio regarding related parties, represented or not by securities, included in the balances Loans and advances to credit institutions repayable on demand, Other loans and advances to credit institutions, Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2018								
Companies	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment ofr loans and advances to customers	Financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Board of Directors (after 20 March 2018)	-	-	337	-	-	-	-	-	337
Audit Committee (after 20 March 2018)	-	-	163	-	-	-	-	-	163
Executive Board of Directors (until 20 March 2018)	-	-	132	-	-	-	-	-	132
General and Supervisory Board (until 20 March 2018)	-	-	2 034	26	-	-	470	11	2 467
Other Related Parties' Board of Directors	-	-	2 582	3	-	-	8	-	2 587
Outro Pessoal Chave de Gestão	-	-	2 944	5	-	-	-	-	2 939
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	701	-	-	-	-	-	-	701
Casa da Sorte - Organização Nogueira da Silva, S.A.	-	-	14 081	15 123	-	-	5 500	842	3 616
CESource, ACE	-	-	-	-	-	117	-	-	117
Finibanco Angola, S.A.	9 525	-	-	-	-	101	2 125	7	11 744
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	-	-	11 330	92	-	-	731	1	11 968
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	2 500	3	2 497
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	1	-	875	-	46	-	922
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	415	-	-	-	415
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	268 548	-	-	-	1 057	92 335	297	361 643
Montepio Geral Associação Mutualista	-	-	5	-	-	1 258	91	-	1 354
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	-	-	2	-	-	-	2
Montepio Holding, S.G.P.S., S.A.	-	-	133 003	842	-	60	-	-	132 221
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	7 543	60	-	-	-	-	7 483
Montepio Investimento, S.A.	-	10 000	-	-	-	68	181	3	10 246
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	123	-	-	123
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	486	9	-	-	1 209	5	1 681
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	200	-	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	1 402	21	-	-	6 300	10	7 671
Residências Montepio, Serviços de Saúde, S.A.	-	-	362	2	-	-	-	-	360
Valor Prime - Fundo de Investimento Imobiliário Aberto	-	-	25 003	165	-	-	5 000	6	29 832
	9 525	279 249	201 410	16 348	1 292	2 784	116 696	1 185	593 423

As at 31 December 2017, assets held by Banco Montepio regarding related parties, represented or not by securities, included in the balances Loans and advances to credit institutions repayable on demand, Other loans and advances to credit institutions, Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2017								
Companies	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Total
Board of Directors (after 20 March 2018)	-	-	141	-	-	-	-	-	141
Executive Board of Directors (until 20 March 2018)	-	-	134	-	-	-	-	-	134
General and Supervisory Board (until 20 March 2018)	-	-	2 323	24	-	-	-	282	2 581
Other Related Parties' Board of Directors	-	-	1 108	-	-	-	-	-	1 108
Other key management personnel	-	-	3 042	-	-	-	-	8	3 050
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	2 174	-	-	-	-	-	-	2 174
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	3	-	-	-	-	-	3
Finibanco Angola, S.A.	9 371	3 759	-	-	-	-	99	961	14 190
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	2	-	-	-	-	-	2
Germont – Empreendimentos Imobiliários, S.A.	-	-	11 330	207	-	-	-	731	11 854
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	3 500	3 500
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	1	-	3 207	1 807	-	-	1 401
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	229 113	-	-	-	-	857	163 220	########
Montepio Geral Associação Mutualista	-	-	62	23	-	-	945	72	1 056
Montepio Holding, S.G.P.S., S.A.	-	-	131 441	-	-	-	69	-	########
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	10 240	69	-	-	-	-	10 171
Montepio Investimento, S.A.	-	35 072	-	-	-	-	679	181	35 932
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	-	271	-	271
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	501	7	-	-	-	1 559	2 053
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	200	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	6 203	-	-	-	-	-	6 203
Residências Montepio, Serviços de Saúde, S.A.	-	-	551	5	-	-	-	-	546
Valor Prime - Fundo de Investimento Imobiliário Aberto	-	-	35 012	-	-	-	99	-	35 111
	9 371	270 118	202 095	335	3 207	1 807	3 019	170 714	########

As at 31 December 2018, Banco Montepio's liabilities with related parties, included in the balances Deposits from other credit institutions, Deposits from customers, Deb securities issued and Other subordinated debt, are analysed as follows:

	2018			
Companies	Deposits from other credit institutions	Deposits from customers	Debt securities issued and Other subordinated debt	Total
Board of Directors (after 20 March 2018)	-	594	-	594
Audit Committee (after 20 March 2018)	-	946	-	946
Executive Board of Directors (until 20 March 2018)	-	865	-	865
General and Supervisory Board (until 20 March 2018)	-	572	-	572
Other Related Parties' Board of Directors	-	6 124	-	6 124
Other key management personnel	-	996	-	996
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	168 202	-	-	168 202
Bolsimo - Gestão de Activos, S.A.	-	3 552	-	3 552
Casa da Sorte - Organização Nogueira da Silva, S.A.	-	1 060	-	1 060
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	33 639	-	33 639
Clínica CUF Belém, S.A.	-	26	-	26
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	5	-	5
Empresa Gestora de Imóveis da Rua do Prior S.A	-	62	-	62
Finibanco Angola, S.A.	27 216	4	-	27 220
Fundação Montepio Geral	-	810	-	810
Fundo de Pensões - Montepio Geral	-	59 694	2 300	61 994
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	4 546	-	4 546
Germont – Empreendimentos Imobiliários, S.A.	-	229	-	229
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	37	-	37
Lusitania Vida, Companhia de Seguros, S.A.	-	15 000	-	15 000
Lusitania, Companhia de Seguros, S.A.	-	13 515	-	13 515
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	49 572	-	49 572
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	49 092	-	49 092
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	51 357	-	51 357
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	1 245	-	1 245
Montepio Geral Associação Mutualista	-	138 176	174 604	312 780
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	1 177	-	1 177
Montepio Gestão de Activos Imobiliários, ACE	-	2 105	-	2 105
Montepio Holding, S.G.P.S., S.A.	-	7 272		7 272
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	89	-	89
Montepio Investimento, S.A.	1 706	-	-	1 706
Montepio Residências para Estudantes, S.A.	-	401	-	401
Montepio Seguros, S.G.P.S., S.A.	-	17	-	17
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	4 730	-	4 730
N Seguros, S.A.	-	804	-	804
NovaCâmbios - Instituição de Pagamento, S.A.	-	745	-	745
PEF - Fundo de Investimento Imobiliário Fechado	-	789	-	789
Polaris-Fundo de Investimento Imobiliário Fechado	-	7	-	7
Residências Montepio, Serviços de Saúde, S.A.	-	283	-	283
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	80	-	80
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 769	-	2 769
Sociedade Portuguesa de Administrações, S.A.	-	211	-	211
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	12 108	-	12 108
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	3 298	-	3 298
	197 124	468 603	176 904	842 631

As at 31 December 2017, Banco Montepio's liabilities with related parties, included in the balances Deposits from other credit institutions, Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

	2017				
Companies	**Deposits from other credit institutions**	**Deposits from customers**	**Debt securities issued and Other subordinated debt**	**Other liabilities**	**Total**
Board of Directors (after 20 March 2018)	-	914	55	-	969
Executive Board of Directors (until 20 March 2018)	-	947	-	-	947
General and Supervisory Board (until 20 March 2018)	-	524	-	-	524
Other Related Parties' Board of Directors	-	2 962	125	-	3 087
Other key management personnel	-	1 541	20	-	1 561
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	193 074	-	-	-	193 074
Banco Terra, S.A.	978	-	-	-	978
Bolsimo - Gestão de Activos, S.A.	-	850	-	-	850
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	23 639	-	-	23 639
Clínica CUF Belém, S.A.	-	29	-	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	8	-	-	8
Empresa Gestora de Imóveis da Rua do Prior S.A	-	5	-	-	5
Finibanco Angola, S.A.	15 589	40	-	-	15 629
Fundação Montepio Geral	-	882	-	-	882
Fundo de Pensões - Montepio Geral	-	13 671	2 250	-	15 921
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	4 063	-	-	4 063
Germont – Empreendimentos Imobiliários, S.A.	-	612	-	-	612
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	44	-	-	44
Lusitania Vida, Companhia de Seguros, S.A.	-	10 819	21 250	-	32 069
Lusitania, Companhia de Seguros, S.A.	-	3 386	13 000	-	16 386
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	39 248	-	-	39 248
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	42 931	-	-	42 931
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	35 488	-	-	35 488
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	3 637	-	236	3 873
Montepio Geral Associação Mutualista	-	217 230	386 344	-	603 574
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	2 451	-	-	2 451
Montepio Gestão de Activos Imobiliários, ACE	-	2 182	-	-	2 182
Montepio Holding, S.G.P.S., S.A.	-	12 562	875	-	13 437
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	3 030	-	-	3 030
Montepio Investimento, S.A.	13 216	-	-	259	13 475
Montepio Seguros, S.G.P.S., S.A.	-	479	-	-	479
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	4 615	-	-	4 615
N Seguros, S.A.	-	442	-	-	442
NovaCâmbios - Instituição de Pagamento, S.A.	-	472	-	-	472
PEF - Fundo de Investimento Imobiliário Fechado	-	297	-	-	297
Polaris-Fundo de Investimento Imobiliário Fechado	-	3	-	-	3
Residências Montepio, Serviços de Saúde, S.A.	-	224	-	-	224
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	77	-	-	77
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 674	-	-	2 674
Sociedade Portuguesa de Administrações, S.A.	-	243	-	-	243
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	8 716	-	-	8 716
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	8 089	-	67	8 156
	222 857	450 026	423 919	562	1 097 364

As at 31 December 2018, Banco Montepio's income and expenses with related parties, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income/ (expense) and General and administrative expenses are analysed as follows:

(Thousands of Euro)

Companies	2018 Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income/ (expense)	Staff costs	General and administrative expenses
Board of Directors (after 20 March 2018)	-	-	1	-	-	-
Audit Committee (after 20 March 2018)	-	3	-	-	-	-
Executive Board of Directors (until 20 March 2018)	-	1	-	-	-	-
General and Supervisory Board (until 20 March 2018)	1	-	-	-	-	-
Other Related Parties' Board of Directors	7	16	5	-	-	-
Other key management personnel	15	5	2	-	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	12	2 831	-	285	(71)	-
Bolsimo - Gestão de Ativos, S.A.	-	-	1	-	(78)	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	190	1	-	-	-
CESource, ACE	-	-	-	-	(597)	-
Finibanco Angola, S.A.	-	-	-	-	(231)	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	50	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	2 438	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	344	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	21	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	228	3 828	-	(50)	-
Lusitania, Companhia de Seguros, S.A.	-	89	3 648	9	-	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	65	204	1	-	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	68	175	1	-	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	59	214	1	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	3 590	-	25	-	(95)	579
Montepio Geral Associação Mutualista	3	10 537	5	1	(9,276)	2 351
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	10	3	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1	(2,563)	3 132
Montepio Geral Corp.	-	-	-	-	-	12
Montepio Holding, S.G.P.S., S.A.	3 961	25	8	-	-	191
Montepio Imóveis – Sociedade Imobiliária, S.A.	2	2	-	-	-	-
Montepio Investimento, S.A.	171	9	22	417	(328)	-
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	37	-	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	1	326	-	(920)	-
N Seguros, S.A.	-	-	9	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	17	-	45	4	-	-
PEF - Fundo de Investimento Imobiliário Fechado	2	-	12	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	209	-	4	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	22	-	29	4	(94)	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	15	-	-	-	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	269	1	49	-	-	245
	8 646	14 222	11 093	724	(14,303)	6 510

The balance General and administrative expenses includes the amount of Euro 3,132 thousand (31 December 2017: Euro 3,304 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

As at 31 December 2017, Banco Montepio's income and expenses with related parties, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income/ (expense) and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	2017				
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income/ (expense)	General and administrative expenses
Board of Directors	4	8	-	-	-
Executive Board of Directors	-	9	1	-	-
General and Supervisory Board	6	3	1	-	-
Other Related Parties' Board of Directors	3	16	2	-	-
Other key management personnel	10	12	2	1	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	12	3 687	-	305	-
Bolsimo - Gestão de Ativos, S.A.	-	-	1	-	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	140	1	-	-
Finibanco Angola, S.A.	-	23	-	304	-
Fundo de Pensões - Montepio Geral	-	73	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	36	5	-	-
Germont – Empreendimentos Imobiliários, S.A.	379	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	21	-	1	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	158	5 159	-	-
Lusitania, Companhia de Seguros, S.A.	6	93	3 066	9	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	88	203	1	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	100	179	1	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	54	219	1	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	3 747	-	123	99	679
Montepio Geral Associação Mutualista	5	37 291	2 509	16 041	2 093
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	17	3	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	2 535	3 304
Montepio Holding, S.G.P.S., S.A.	4 076	13	11	-	696
Montepio Imóveis – Sociedade Imobiliária, S.A.	443	1	-	-	-
Montepio Investimento, S.A.	481	189	21	746	-
Montepio Seguros, S.G.P.S., S.A.	-	-	19	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	21	326	849	-
N Seguros, S.A.	-	1	22	-	-
Nova Câmbios - Instituição de Pagamento, S.A.	9	-	43	1	-
PEF - Fundo de Investimento Imobiliário Fechado	3	-	12	1	-
Polaris-Fundo de Investimento Imobiliário Fechado	185	-	3	-	-
Residências Montepio, Serviços de Saúde, S.A.	29	-	33	14	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	21	-	-	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	1 037	13	207	1	946
	10 456	42 067	12 172	20 909	7 718

Salaries and other expenses to the Board of Directors, Audit Committee and with Other key management personnel are detailed in note 11.

During 2018 and 2017, there were no transactions with the pension's fund of the Group.

50 Securitisation transactions

As at 31 December 2018, there are six securitisation transactions, five of which originated in Banco Montepio and one in Montepio Investimento, S.A., currently integrated into Banco Montepio, following the success of General and Voluntary Public Offering on the equity representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and transmission of almost all assets and liabilities (business acquisitions) for Banco Montepio, as mentioned in the accounting policy described in note 1 a).

The following paragraphs present some additional details of these securitisation transactions.

As at 30 March 2007, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May 2008, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal

Amount Outstanding) of Euro 1,028,600 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 9 December 2008, Montepio Investimento S.A. (to date, Finibanco, S.A.) had settled a mortgage credit portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. in the amount of Euro 236,500 thousand (Aqua Mortage no. 1). The total period of this operation is 55 years, with a revolving period of 2 years. It should be noted that Montepio Investimento sold this securitisation to Banco Montepio in 2011.

As at 25 March 2009, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 5 March 2012, Banco Montepio had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The transfer price by which the loans were transferred was their nominal value, including the initial selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédito celebrated with Tagus - Sociedade de Titularização, S.A., a contract for the sale of consumer loans within a securitisation of credits (Pelican Finance no. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand, from which 60% were constituted by Banco Montepio. The sale was made at their nominal value, including the initial selling costs which represented 0.1871% of Asset Backed Notes.

The entity that guarantees the debt service (servicer) of these operations is Banco Montepio assuming the collection of credits sold and assigned amounts received by deposits, to Sociedades de Titularização de Créditos (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and, Aqua Mortgages no. 1).

During 2018, Pelican SME no. 2 was reimbursed.

As at 31 December 2018, the securitsation operations executed by Banco Montepio are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit: Initial amount	Credit: Current amount	Liabilities: Initial nominal amount	Liabilities: Initial current amount	Liabilities: Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage loan	762 375	198 329	762 375	202 235	61 343
Pelican Mortgages No. 4	May 2008	Euro	Mortgage loan	1 028 600	556 515	1 028 600	584 078	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage loan	236 500	106 184	236 500	102 335	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage loan	1 027 500	556 280	1 027 500	578 464	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage loan	1 107 000	730 645	1 107 000	784 952	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	113 526	185 300	121 066	-
				4 347 275	2 261 479	4 347 275	2 373 130	61 343

* Includes nominal amount, accrued interest and other adjustments.

Additionally, the detail of securitised loans not derecognised by securitisation transaction and nature of the contracts at 31 December 2018 is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions						
	Pelican Mortgage no. 3	Pelican Mortgage no. 4	Aqua Mortgage no. 1	Pelican Mortgage no. 5	Pelican Mortgage no. 6	Pelican Finance no. 1	Total
Domestic credit							
Retail							
Mortgage loans	197 170	553 448	101 734	553 090	716 929	-	2 122 371
Consumer credit and other	-	-	-	-	-	110 472	110 472
	197 170	553 448	101 734	553 090	716 929	110 472	2 232 843
Credit and overdue interest							
Below 90 days	74	931	781	908	3 422	184	6 300
Above 90 days	1 085	2 136	3 669	2 282	10 294	2 870	22 336
	1 159	3 067	4 450	3 190	13 716	3 054	28 636
	198 329	556 515	106 184	556 280	730 645	113 526	2 261 479

As at 31 December 2017, the securitisation operations executed by Banco Montepio are presented as follows:

(Thousands of Euro)

				Credit		Liabilities		
Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Valores colocados em terceiros *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage loan	762 375	222 997	762 375	136 936	90 178
Pelican Mortgages No. 4	May 2008	Euro	Mortgage loan	1 028 600	615 516	1 028 600	642 411	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage loan	236 500	120 699	236 500	115 566	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage loan	1 027 500	613 297	1 027 500	636 245	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage loan	1 107 000	812 326	1 107 000	863 990	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	170 320	179 682	179 682	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	759 583	1 124 300	638 858	178 283
				5 471 575	3 314 738	5 465 957	3 213 688	268 461

* Includes nominal amount, accrued interest and other adjusments.

Additionally, the detail of debt securities issued not derecognised, by securitisation transaction and nature of the contracts, at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	Pelican Mortgage no. 3	Pelican Mortgage no. 4	Aqua Mortgage no. 1	Pelican Mortgage no. 5	Pelican Mortgage no. 6	Pelican Finance no. 1	Pelican SME no. 2	Total
Domestic credit								
Corporate								
Loans	-	-	-	-	-	-	589 601	589 601
Pledged current account	-	-	-	-	-	-	65 442	65 442
Other loans	-	-	-	-	-	-	32 422	32 422
Retail								
Mortgage	221 813	612 642	116 676	610 494	801 579	-	-	2 363 204
Consumer credit and other	-	-	-	-	-	168 180	55 149	223 329
	221 813	612 642	116 676	610 494	801 579	168 180	742 614	3 273 998
Credit and overdue interest								
Below 90 days	53	1 153	670	815	3 210	228	1 046	7 175
Above 90 days	1 131	1 721	3 353	1 988	7 537	1 912	15 923	33 565
	1 184	2 874	4 023	2 803	10 747	2 140	16 969	40 740
	222 997	615 516	120 699	613 297	812 326	170 320	759 583	3 314 738

Banco Montepio

As at 31 December 2018, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	CEMG's interest held (nominal amount) Euro	Maturity date	Rating (initial) Fitch	Moodys	S&P	DBRS	Rating (current) Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	187 053 150	125 710 929	2054	AAA	Aaa	AAA	n.a.	BBB	A2	BBB-	n.a.
	Class B	14 250 000	4 829 447	4 829 447	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	4 066 903	4 066 903	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	2 160 542	2 160 542	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	438 086 780	438 086 780	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	38 781 082	38 781 082	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	41 925 494	41 925 494	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	17 468 956	17 468 956	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	19 215 852	19 215 852	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	75 110 665	75 110 665	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	23 724 131	23 724 131	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	383 336 834	383 336 834	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	134 258 801	134 258 801	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	18 933 933	18 933 933	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	18 933 933	18 933 933	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	429 751 537	429 751 537	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	121 800 000	69 659 647	69 659 647	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	42 607 740	42 607 740	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 800 000	8 800 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2017, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	CEMG's interest held (nominal amount) Euro	Maturity date	Rating (initial) Fitch	Moodys	S&P	DBRS	Rating (current) Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	210 543 589	120 365 825	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 435 937	5 435 937	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 577 631	4 577 631	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 431 867	2 431 867	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	484 091 607	484 091 607	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	42 853 602	42 853 602	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	46 328 218	46 328 218	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	19 303 424	19 303 424	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	21 233 767	21 233 767	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	423 213 189	423 213 189	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	148 224 982	148 224 982	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	20 903 523	20 903 523	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	20 903 523	20 903 523	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	508 789 579	508 789 579	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	85 732 409	85 732 409	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	26 333 982	26 333 982	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	116 182 334	116 182 334	116 182 334	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	54 700 000	54 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 800 000	8 800 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	233 840 775	55 558 072	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

51 Risk management

Objectives of the Risk Management Policy

Banco Montepio is exposed to a number of risks, including credit, concentration, market, interest rate, currency, liquidity, real estate, operational and pension fund risks. Aditionally, the Group is subject to other risks of non-financial nature, namely the operating, reputation, strategy and business risks. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability regarding risk management measures that have been established in due course. For all risks identified as material, Banco Montepio has implemented a process for identification and review of them, being subject to regular monitoring and mitigation actions in order to reduce potential losses to Banco Montepio Group.

Control and efficient risk management have played a key role in the balanced and sustained development of Banco Montepio. In addition, it contributes to the optimisation of the profitability / risk binomial of the various lines of business, they also ensure the maintenance of a conservative risk profile in solvency and liquidity.

The monitoring of these risks is centralised in the Risk Department, the unit responsible for the risk management function of the Banco Montepio Group, which regularly informs the Board of Directors of the evolution of the risk profile and proposes action measures when necessary.

Banco Montepio's risk management policy is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plans, which is reviewed regularly. It is also the responsibility of the Board to ensure the existence of risk control suitable to the Group, namely through its supervisory boards. The Risk Committee is the non-executive body with the role of risk management supervisory, whose mission is to monitor the design and implementation of the risk strategy and risk appetite of Banco Montepio and to verify if these are aligned with the sustainable strategy in the medium and long term, providing advice to the Board of Directors and Supervisory Board in these areas.

The Board of Directors seeks to ensure sufficient capital to meet regulatory requirements to cover potential losses, with an optimised balance sheet structure that maintains a stable funding capacity and strong liquidity, allowing them to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Particularly, Banco Montepio Group has clear objectives, determined in its strategic plan, for capital ratios, ratio of transformation of deposits into credit and liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with risk appetite.

Risk appetite is based on certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning. CEMG analyzes the risks it faces in its activities and identifies those that are materially relevant. For these, objectives are set according to the desired level of return and strategy, tolerance levels, that is, ranges of risk variation that can lead to discussions and decisions about corrective measures, and limits that are exceeded can lead to immediate corrective measures.

The main concern of the Board of Directors in determining risk appetite is its alignment with other organizational components (business strategy and global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and which may affect risk exposure and its monitoring.

Banco Montepio's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, thus, monitoring and control of the main types of financial risk – credit, market, liquidity real estate and operational – to which Banco Montepio's business is subject are of particular importance.

Credit risk

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, prepared on a set of tools supporting the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business customers and the rating for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modeling, based on the institution's experience in granting various types of credit facilities and, where possible, recovery.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior.

There are scoring models for credit to individual credit portfolios, namely to mortgage loans, individual loans and credit cards.

Individual Entrepreneurs (Empresários em nome individual - ENI) and Micro businesses are considered retail, and therefore the respective scoring models are applied.

There are also behavioral scoring models for retail portfolios, which are used to monitor the credit portfolio and to evaluate new credit proposals, and these are coupled with application scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by business sectors, such as the third sector, or by seniority of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, and this scale composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents and 19th to non-compliance, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to exceed the response of scoring systems, internal ratings and internal price lists, only by higher decision levels, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimise the risk of adverse selection, however there is always a risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the principle that higher hierarchical positions have to approve operations with higher exposures is highlighted. These limits are approved by the Board of Directors, and the highest decision scale corresponds to the Board of Directors. At intermediate stages, it is compulsory to intervene in a collegial system of at least two players, one belonging to the commercial network and the other to the Department of Credit Analysis (independent body of the commercial structure) as well as the Risk Department, which is responsible for the development of credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Risk analysis also involves regular internal reporting on key types of risk. Within credit risk, monthly internal reports are prepared, with the main risk indicators of credit portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system is in place for the main indicators of credit risk tightening (Early Warning Signs).

In July 2014, IASB released the final version of IFRS 9 which replaces IAS 39, which entered into force on 1 January 2018. IFRS 9 is based on three pillars:

- Classification and Measurement;
- Impairment; and
- Hedge accounting.

With respect to impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected loss of credit at one year, or the expected loss of credit until the maturity of the financial instrument (ECL lifetime).

The Expected Loss Model (IFRS9) replaces the Incurred Loss Model (IAS39).

According to this amendment, financial assets are classified into segments, based on the evolution of their credit risk:

- Stage 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since its initial recognition and which are not in default;
- Stage 2: Financial assets with a significant increase in credit risk since initial recognition, based on the criteria set out in internal regulations on the recognition of a significant increase in credit risk or other financial assets (in particular, Amounts receivable, Other debtors, Other receivables or Other assets). It should be noted that credit restructured due to financial difficulties is considered a significant increase driver in credit risk, and therefore, the restructured credit portfolio is included in stage 2;
- Stage 3: Financial assets in default, based on default indicators which are defined in internal regulations on default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purposes of current requirements.

The calculation of expected losses (ECL) for homogeneous populations results from the product of the default probability (PD), the default loss (LGD) and the exposure at default (EAD), deducted from the contract's effective interest rate until the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages refers to PD's time horizon.

The probability of default (PD) is one of the main differences in the impairment calculation under IFRS9 (ECL), and two types of PD can be expected:

- ✓ 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to stage 1);

- ✓ Lifetime PD: it is the probability of a default occurring during the remaining life of the credit (for stage 2 contracts). In such case, lifetime parameters are used and forward looking information is considered; and

- ✓ PD=100% to all stage 3 contracts.

In the group of individually significant customers, customer exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Customers is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows for the customer's various operations, updated according to the interest rates of each operation.

The following information is related to the exposure of Banco Montepio to the credit risk, where the most relevant item in terms of exposure is, so as in terms of the associated risk, is loans to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensinve income is essentially composed of public debt securities of the European Union.

Criteria for the determination of impairment for individually significant loans

All customers or economic groups that meet the following conditions are subject to individual analysis:

1. Exposure above Euro 1 million and classified in stages 2 and 3;
2. Exposure above Euro 2.5 million and classified in stage 1;
3. Customers that currently do not meet the conditions of the previous points but have already been subject to individual analysis.

For the exposure of customers or economic groups, all active credit operations (on balance and off balance) are considered, excluding transactions subject to write-off.

The customers or economic groups that show the following triggers or indicators are considered as having objective signs of impairment:

1) In default situation (delays exceeding 90 days, contracts with capital and interest shortages, insolvent customer / bankruptcy and cross-default)
2) Contract with delay between 60 and 90 days at Banco Montepio;
3) Customer with delay above 30 days capital and interest shortage in Banco Montepio or with credit written-off at Banco Montepio;
4) Customer using overdrafts to pay principal and interest in the last two months at Banco Montepio or customer with rescission of checks use (RUC) or risk user (UTR);
5) Reestructured contracts or with free repayment with 0% rate;
6) Customer with reestructured contracts or with free repayment with 0% rate;
7) Customer in delay above 30 days or with credit written-off in the Commercial Registration Conservatory (CRC) or with restructured credit or with credit in judicial litigation in CRC;
8) Other indications, such as customers in PARI or PERSI situations or with debts to Social Security or to the Tax Authority.

The individual analysis is the responsibility of the Credit Analysis Department and in the evaluation of impairment losses the following factors are considered:

- Total exposure of each customer or economic group and the existence of signs of impairment;
- Economic and financial viability of the customer or economic group and the ability to generate future cash flows to pay the debt;
- Existence of collaterals associated with each credit and their respective evaluation;
- Customers' or guarantors' equity;
- Situation of bankruptcy or insolvency;
- Expectation of the term recovery.

The recoverable amount is determined by the sum of the expected cash flows, estimated in accordance with the contractual conditions in force and according to the underlying collection expectations, discounted at the original effective interest rate of the contract. Impairment adjustment is carried out when the expected cash flows are lower than contractual cash flows.

For the determination of the future cash flows of the customers or economic groups the following recovery strategies are used:

- In case of "going concern" a critical analysis is done to the company's business plans or other elements available for analysis, adjusting the assumptions and applying haircuts to the actual deviations towards the projected ones. For the calculation of the impairment of these customers, are considered the cash flows generated annually after adjustments and the application of the discount rate used.
- In case of "gone concern", an exhaustive analysis of the collaterals, mortgages / pledges, evaluation date and application of haircuts according to the seniority of the evaluation, deadline for execution, deadline for sale, associated maintenance and sale costs. For the calculation of the impairment of these customers, are considered the cash flows generated annually after adjustments and the application of the discount rate.
- For specific cases it is possible to simultaneously use the two strategies, "going concern" and "gone concern", and also in the consideration of alternative scenarios.

Banco Montepio's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	2018	**2017**
Loans and advances to credit institutions repayable on demand	75 572	59 472
Other loans and advances to credit institutions	448 035	558 711
Loans and advances to customers	11 796 170	12 748 717
Financial assets held for trading	23 739	174 175
Financial assets not held for trading mandatorily at fair value through profit or loss	20 370	-
Financial assets at fair value through other comprehensive income	260 032	1 605 618
Hedging derivatives	5 666	-
Other financial assets at amortised cost	1 255 651	-
Other assets	63 789	174 779
Guarantees granted	436 275	463 770
Irrevocable credit facilities	648 040	762 361
	15 033 339	16 547 603

The analysis of the credit risk exposure by sector of activity, for the period ended as at 31 December 2018, can be analysed as follows:

(Thousands of Euro)

Activity	2018														
	Loans and advances to other credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Guarantees granted	Irrevocable credit facilities	Provisions for off-balance sheet liabilities
	Book value	Book value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	78 567	3 492	-	-	-	-	-	-	-	1 049	3 866	114
Mining	-	-	-	13 457	444	-	-	-	-	-	-	-	1 411	1 474	130
Food, beverage and tobacco	-	-	-	201 260	10 233	-	-	-	-	-	-	-	3 009	31 924	108
Textiles	-	-	-	84 302	9 740	-	-	-	-	-	-	-	1 398	7 577	13
Shoes	-	-	-	42 228	4 410	-	-	-	-	-	-	-	3	5 708	1
Wood and cork	-	-	-	32 312	4 296	-	728	-	-	-	-	-	463	4 588	28
Printing and publishing	-	-	-	33 559	4 657	-	-	2 658	5	-	-	-	387	2 599	30
Petroleum refining	-	-	-	817	54	-	-	3 447	7	-	-	-	-	-	-
Chemicals and rubber	-	-	-	90 940	5 292	-	-	3 012	3	-	-	-	5 271	12 887	105
Non-metallic minerals	-	-	-	139 009	5 611	-	-	-	-	-	-	-	744	4 470	47
metallic products	-	-	-	160 941	14 637	-	-	-	-	-	-	-	7 471	17 602	113
Production of machinery	-	-	-	41 130	3 325	-	623	-	-	-	-	-	1 438	4 281	117
Production of transport material	-	-	-	46 318	1 490	-	-	-		-	-	-	3 142	1 522	172
Other manufacturing industries	-	-	-	47 004	9 103	-	-	-	-	-	-	-	375	3 887	16
Energy, gas and water	-	-	-	113 949	2 530	-	10 106	17 366	19	-	-	-	3 175	10 717	95
Construction	-	-	-	765 184	271 917	-	250	-	-	-	-	-	113 525	78 969	5 992
Wholesale and retail	-	-	-	838 549	91 184	-	4 101	5 109	11	-	-	-	66 944	118 440	2 756
Tourism	-	-	-	429 467	13 762	-	-	-	-	-	-	-	8 737	15 305	274
Transport	-	-	-	316 022	35 837	-	-	-	-	-	-	-	11 242	13 765	778
Communication and information	-	-	-	73 513	6 318	-	-	3 018	3	-	-	-	5 911	24 929	68
Financial activities	75 572	451 818	3 783	706 016	53 937	23 739	-	11 623	78	5 666	-	-	134 567	119 908	382
Real estate activities	-	-	-	746 475	120 616	-	-	3 715	6	-	-	-	19 200	80 781	1 858
Services rendered to companies	-	-	-	379 000	23 482	-	-	-	-	-	-	-	31 039	41 639	808
Public services	-	-	-	71 918	3 320	-	4 424	204 158	431	-	1 258 201	2 550	381	2 749	14
Other collective activities	-	-	-	177 092	26 386	-	138	3 452	7	-	-	-	15 003	12 517	1 566
Other	-	-	-	11 508	450	-	-	-	-	-	-	-	390	3 106	12
Retail						-									
Mortgage loans	-	-	-	6 251 951	135 070	-	-	3 045	1	-	-	-	-		-
Other	-	-	-	846 050	80 775	-	-	-	-	-	-	-	-	22 830 -	-
	75 572	451 818	3 783	12 738 538	942 368	23 739	20 370	260 603	571	5 666	1 258 201	2 550	436 275	648 040	15 597

The analysis of the credit risk exposure by sector of activity, for the period ended as at 31 December 2017, can be analysed as follows:

(Thousands of Euro)

Activity	2017									
	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through other comprehensive income		Guarantees granted	Irrevocable credit facilities	Provisions for off-balance sheet liabilities
	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value	Off-balance sheet value	Value
Agriculture, forestry and fishing	-	-	143 027	8 637	-	-	-	2 012	5 301	125
Mining	-	-	18 969	1 095	-	-	-	975	1 438	68
Food, beverage and tobacco	-	-	226 445	13 221	-	1 020	-	2 964	57 796	94
Textiles	-	-	86 223	9 500	-	-	-	1 218	8 688	2
Shoes	-	-	42 492	4 279	-	-	-	31	5 437	-
Wood and cork	-	-	34 298	4 267	-	-	-	476	4 624	39
Printing and publishing	-	-	41 464	6 479	-	907	-	426	3 667	36
Petroleum refining	-	-	501	45	-	2 489	-	-	-	-
Chemicals and rubber	-	-	86 888	5 246	-	-	-	4 681	18 305	95
Non-metallic minerals	-	-	141 906	4 743	-	-	-	1 985	5 440	140
products	-	-	168 997	18 137	-	-	-	10 325	21 695	99
Production of machinery	-	-	42 690	3 114	-	-	-	2 071	5 277	127
Production of transport material	-	-	43 763	1 435	-	-	-	3 109	3 723	190
Other transforming industries	-	-	45 361	4 861	-	-	-	514	4 481	3
Energy, gas and water	-	-	152 361	2 560	-	13 219	-	2 823	26 513	70
Construction	-	-	954 336	302 961	-	-	-	109 740	74 753	6 053
Wholesale and retail	-	-	1 029 245	117 154	-	5 071	-	72 651	130 969	3 082
Tourism	-	-	493 397	19 710	-	-	-	10 628	18 244	238
Tranports	-	-	378 241	62 751	-	-	-	10 580	17 748	327
Communication and information activities	-	-	88 933	6 940	-	2 864		4 954	21 799	275
Financial activities	59 472	558 711	763 877	75 582	24 553	20 411	9 307	151 813	193 159	714
Real estate activities	-	-	837 724	128 761	121 329	4 277	-	15 156	61 335	818
Services rendered to companies	-	-	611 169	40 248	-	-	-	35 304	44 325	237
Public services	-	-	141 654	3 910	28 293	1 560 453	-	527	3 551	11
Other activities of collective services	-	-	435 815	28 656	-	-	-	14 203	20 349	3 134
Mortgage loans	-	-	6 731 514	132 657	-	30 014	25 800	4 017	445	148
Other	-	-	15 688	1 312	-	-	-	587	3 299	22
	59 472	558 711	13 756 978	1 008 261	174 175	1 640 725	35 107	463 770	762 361	16 147

Regarding credit risk, the financial assets portfolio maintain its dominant position in bonds issued by sovereign issuers, mainly from the Portuguese Republic.

In terms of credit quality, there was an increase of the average level counterparties, due to the improvement of the Portuguese public debt rating.

Banco Montepio's total loans portfolio, includes Loans and advances to customers, guarantees provided and documentary credit in the aggregate amount of Euro 436,275 thousand (31 December 2017: Euro 463,770 thousand) and irrevocable commitments amounting to Euro 648,040 thousand (31 December 2017: Euro 762,361 thousand), is presented as follows:

(Thousands of Euro)

	2018		
Stage impacts	**Gross value**	**Impairment**	**Net value**
Collective analysis	**9 021 844**	**377 944**	**8 643 900**
Stage 1	6 137 273	5 876	6 131 397
Stage 2	2 230 430	34 877	2 195 553
Stage 3	654 141	337 191	316 950
Individual analysis	**4 801 009**	**580 021**	**4 220 988**
	13 822 853	**957 965**	**12 864 888**

(Thousands of Euro)

	2018		
Segment	**Gross value**	**Impairment**	**Net value**
Retail	**6 756 287**	**200 094**	**6 556 193**
Mortgage loans	*6 230 191*	*134 635*	*6 095 556*
Stage 1	4 415 532	442	4 415 090
Stage 2	1 545 879	16 662	1 529 217
Stage 3	268 780	117 531	151 249
Consumer credit	*468 272*	*62 589*	*405 683*
Stage 1	255 812	279	255 533
Stage 2	123 268	3 026	120 242
Stage 3	89 192	59 284	29 908
Credit cards	*57 824*	*2 870*	*54 954*
Stage 1	26 303	146	26 157
Stage 2	28 024	737	27 287
Stage 3	3 497	1 987	1 510
Corporate	**2 265 557**	**177 850**	**2 087 707**
Non-construction	*2 037 172*	*135 700*	*1 901 472*
Stage 1	1 328 209	4 521	1 323 688
Stage 2	480 855	13 286	467 569
Stage 3	228 108	117 893	110 215
Construction	*228 385*	*42 150*	*186 235*
Stage 1	111 417	488	110 929
Stage 2	52 404	1 166	51 238
Stage 3	64 564	40 496	24 068
	9 021 844	**377 944**	**8 643 900**

(Thousands of Euro)

	2017
Total loans	14 983 109
Individually significant	
Gross value	5 195 864
Impairment	(638 275)
Net amount	4 557 589
Collective analysis	
Loans with signs of impairment	
Gross value	1 456 431
Impairment	(373 726)
Net amount	1 082 705
Loans without signs of impairment	8 330 814
Impairment (IBNR)	(12 406)
Net amount	13 958 702

As at 31 December 2018 and 2017, impairment is detailed as follows:

(Thousands of Euro)

	2018						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 752 846	564 269	2 265 556	177 849	7 018 402	742 118	6 276 284
Mortgage loans	17 894	435	6 230 191	134 636	6 248 085	135 071	6 113 014
Other loans	30 269	15 317	526 097	65 459	556 366	80 776	475 590
	4 801 009	580 021	9 021 844	377 944	13 822 853	957 965	12 864 888

(Thousands of Euro)

	2017						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	5 144 642	623 899	2 537 837	241 383	7 682 479	865 282	6 817 197
Mortgage loans	17 741	805	6 661 662	72 294	6 679 403	73 099	6 606 304
Other loans	33 481	13 571	587 746	72 455	621 227	86 026	535 201
	5 195 864	638 275	9 787 245	386 132	14 983 109	1 024 407	13 958 702

As at 31 December 2018 and 2017, the fair value analysis of collaterals associated to Banco Montepio's total portfolio, is as follows:

(Thousands of Euro)

Fair value of collaterals	**2018**
Individual analysis	
Securities and other financial assets	*171 486*
Real Estate - Mortgage loans	*28 352*
Real Estate - Construction and CRE	*2 440 942*
Other real estate	*1 699 459*
Other guarantees	*513 066*
Colective analysis - Stage 1	
Securities and other financial assets	*201 624*
Real Estate - Mortgage loans	*9 461 789*
Real Estate - Construction and CRE	*249 138*
Other real estate	*631 702*
Other guarantees	*32 848*
Colective analysis - Stage 2	
Securities and other financial assets	*59 329*
Real Estate - Mortgage loans	*2 981 190*
Real Estate - Construction and CRE	*113 126*
Other real estate	*386 543*
Other guarantees	*8 159*
Colective analysis - Stage 3	
Securities and other financial assets	*5 137*
Real Estate - Mortgage loans	*346 613*
Real Estate - Construction and CRE	*124 892*
Other real estate	*111 817*
Other guarantees	*6 189*
	19 573 401

(Thousands of Euro)	Dec 2017
Individual analysis	
Securities and other financial assets	165 407
Real Estate - Mortgage loans	29 290
Real Estate - Construction and CRE	2 548 752
Other real estate	1 613 006
Other guarantees	494 691
	4 851 146
Collectiva analysis with signs of impairment	
Securities and other financial assets	17 203
Real Estate - Mortgage loans	1 110 592
Real Estate - Construction and CRE	275 404
Other real estate	293 260
Other guarantees	26 611
	1 723 070
Collectiva analysis without signs of impairment	
Securities and other financial assets	263 485
Real Estate - Mortgage loans	12 099 298
Real Estate - Construction and CRE	364 851
Other real estate	961 873
Other guarantees	329 876
	14 019 383
	20 593 599

Banco Montepio Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

Banco Montepio's Group total loans portfolio, by segment and respective impairment, recorded on 31 December 2018 and 2017, is presented as follows:

(Thousands of Euro)

	2018		2017	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	4 890 631	323 598	5 394 266	408 356
Construction and CRE	2 127 771	418 520	2 288 213	456 926
Mortgage loans	6 248 085	135 071	6 679 403	73 099
Other loans	556 366	80 776	621 227	86 026
	13 822 853	957 965	14 983 109	1 024 407

The loans portfolio, by segment and by production year, in 2018, is presented as follows:

(Thousands Euro)

	Corporate			Construction and CRE			Mortgage loans			Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	949	55 813	12 038	1 005	176 538	83 468	52 344	1 719 083	47 452	33 786	21 964	4 251
2005	322	21 748	3 870	265	52 883	32 418	12 481	644 410	16 609	3 856	5 747	926
2006	378	38 729	5 482	308	88 132	40 272	15 112	795 464	22 367	5 464	21 067	6 428
2007	620	47 738	9 916	411	88 655	36 060	15 414	802 600	21 798	33 959	33 221	12 455
2008	2 996	56 491	7 612	764	41 993	10 351	7 961	415 717	12 077	46 041	29 794	4 974
2009	2 879	91 113	8 990	934	83 778	29 601	4 349	255 497	5 215	32 823	26 501	6 374
2010	2 966	167 341	22 567	747	63 917	22 224	4 495	294 712	3 954	13 436	22 349	9 790
2011	3 690	122 871	10 824	877	44 965	13 845	1 666	108 034	1 229	15 679	20 250	8 559
2012	4 052	161 790	18 359	779	46 494	12 766	1 066	69 625	939	8 565	17 311	5 894
2013	8 192	446 349	49 532	1 181	102 762	16 900	1 367	90 785	1 024	12 507	26 676	5 771
2014	12 025	572 461	45 815	3 122	193 832	29 900	1 643	111 180	629	19 292	49 640	7 117
2015	14 382	536 845	33 603	2 101	178 799	9 836	1 932	138 474	376	20 009	53 903	3 465
2016	13 423	773 845	37 473	3 052	273 202	39 982	2 658	213 629	560	26 185	77 157	2 475
2017	13 058	590 011	26 966	2 596	406 346	22 665	3 536	295 012	426	18 767	67 510	1 550
2018	20 201	1 207 486	30 551	3 882	285 475	18 232	3 587	293 863	416	26 325	83 276	747
	100 133	4 890 631	323 598	22 024	2 127 771	418 520	129 611	6 248 085	135 071	316 694	556 366	80 776

The loans portfolio, by segment and by production year, in 2017, is presented as follows:

(Thousands Euro)

	Corporate			Construction and CRE			Mortgage loans			Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 297	77 377	16 057	1 241	228 127	101 081	57 011	1 973 676	23 398	39 797	29 504	6 904
2005	407	27 819	4 497	322	71 153	34 830	13 339	716 498	8 275	4 563	8 217	1 456
2006	530	69 557	6 167	403	104 818	41 345	16 182	886 048	13 501	6 443	23 683	4 232
2007	847	83 451	10 642	539	113 254	38 676	16 387	885 765	12 250	37 260	38 315	13 160
2008	4 714	74 888	9 556	1 016	81 652	20 108	8 558	461 162	7 167	50 613	35 072	5 777
2009	3 916	124 293	15 954	1 146	103 831	31 465	4 679	287 342	2 976	36 305	33 352	7 603
2010	3 965	197 866	28 232	1 102	80 964	24 200	4 883	330 352	2 730	17 470	32 262	11 917
2011	5 064	213 799	58 780	1 174	71 744	19 846	1 829	123 493	556	17 966	28 503	10 102
2012	5 007	216 495	35 227	1 084	57 789	17 319	1 179	80 250	707	9 870	23 657	6 969
2013	11 382	750 429	89 853	1 573	122 777	25 256	1 514	105 868	735	14 961	37 165	6 355
2014	16 322	742 759	53 421	3 832	232 086	31 886	1 822	129 600	333	22 477	66 564	6 704
2015	15 823	716 908	38 725	2 434	209 892	9 868	2 111	159 290	158	23 272	74 116	2 666
2016	15 177	904 294	22 308	3 307	327 743	35 185	2 829	235 225	188	29 391	103 056	1 653
2017	20 764	1 194 331	18 937	3 826	482 383	25 861	3 695	304 834	125	20 104	87 761	528
	105 215	5 394 266	408 356	22 999	2 288 213	456 926	136 018	6 679 403	73 099	330 492	621 227	86 026

The loans gross exposure and impairment, individual and collective, by segment, as at 31 December 2018 and 2017, is analysed as follows:

(Thousands of Euro)

	2018									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 101 352	205 198	1 651 494	359 071	17 894	435	30 269	15 317	4 801 009	580 021
Collective	1 789 279	118 400	476 277	59 449	6 230 191	134 636	526 097	65 459	9 021 844	377 944
	4 890 631	323 598	2 127 771	418 520	6 248 085	135 071	556 366	80 776	13 822 853	957 965

(Thousands of Euro)

	2017									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 394 142	245 845	1 750 500	378 054	17 741	805	33 481	13 571	5 195 864	638 275
Collective	2 000 124	162 511	537 713	78 872	6 661 662	72 294	587 746	72 455	9 787 245	386 132
	5 394 266	408 356	2 288 213	456 926	6 679 403	73 099	621 227	86 026	14 983 109	1 024 407

The loans gross exposure and impairment, individual and collective, by business sector, as at 31 December 2018 and 2017, is analysed as follows:

(Thousands of Euro)

	2018											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	725 531	230 994	576 587	38 652	348 432	44 444	736 649	112 774	2 365 647	137 405	4 752 846	564 269
Collective	228 384	42 149	502 102	34 628	704 636	50 276	115 735	7 952	714 699	42 844	2 265 556	177 849
	953 915	273 143	1 078 689	73 280	1 053 068	94 720	852 384	120 726	3 080 346	180 249	7 018 402	742 118

(Thousands of Euro)

	2017											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	814 895	251 569	573 602	32 544	349 462	37 050	775 845	117 214	2 630 838	185 520	5 144 642	623 897
Collective	268 326	51 536	572 971	45 209	781 023	77 804	125 903	11 157	789 614	55 679	2 537 837	241 385
	1 083 221	303 105	1 146 573	77 753	1 130 485	114 854	901 748	128 371	3 420 452	241 199	7 682 479	865 282

The loans gross exposure, performing and non-performing, in 2018 and 2017, is analysed as follows:

(Thousands of Euro)

	2018												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing loans	of which non-performing				on performing exposure		on non-performing exposure		on non-performing exposure	of which forborne
					of which in default	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	2 132 516	-	-	33 000	33 000	33 000	-	6 851	-	3 082	-	-	-
Other balance sheet credit exposures (b)	14 074 108	51 920	98 991	1 827 255	1 735 346	1 824 602	844 364	77 104	4 060	862 183	394 512	666 472	392 491
Off-balance sheet exposures (c)	1 726 679	2 197	2 650	193 401	175 854	193 401	32 744	3 450	7	12 133	165	-	-

(a) Includes Debt instruments of the portfolio of Financial assets available for sale and commercial paper and bonds recognised under loans and advances to customers.
(b) Includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, Guarantees and Documentary credit provided.

(Thousands of Euro)

	2017												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing loans	of which non-performing				on performing exposure		on non-performing exposure		on non-performing exposure	of which forborne
					of which in default	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	2 271 209	-	-	4 300	4 300	4 300	-	36 387	-	1 806	-	-	-
Other balance sheet credit exposures (b)	15 405 560	64 291	120 542	2 253 998	2 253 998	2 210 619	1 024 280	44 452	4 380	960 722	395 275	951 278	570 920
Off-balance sheet exposures (c)	1 868 634	2 284	1 419	157 188	157 188	155 574	3 590	4 526	131	11 620	43	-	-

(a) Includes Debt instruments of the portfolio of Financial assets at fair value through other comprehensive income and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, Guarantees and Documentary credit provided.

The fair value of the collateral underlying the loans portfolio of the Corporate, Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2018, is presented as follows:

(Thousands of Euro)

	Corporate, Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	3 286	384 219	959	57 686	101 510	12 519 906	341	10 250
>= 0,5 M€ and <1M€	212	147 318	33	21 204	367	227 914	1	500
>= 1 M€ and <5M€	196	409 124	16	29 878	44	65 025	-	-
>= 5 M€ and <10M€	33	232 911	6	44 830	-	5 099	-	-
>= 10 M€ and <20M€	27	366 295	1	13 491	1	-	-	-
>= 20 M€ and <50M€	13	432 369	2	66 000	-	-	-	-
>= 50M€	5	955 862	-	-	-	-	-	-
	3 772	2 928 098	1 017	233 089	101 922	12 817 944	342	10 750

The fair value of the collateral underlying the loans portfolio of the Corporate, Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Corporate, Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 159	502 866	1 034	58 305	106 169	12 961 569	340	11 351
>= 0,5 M€ and <1M€	244	168 262	29	18 105	347	214 551	1	500
>= 1 M€ and <5M€	250	529 758	17	27 517	39	62 709	-	-
>= 5 M€ and <10M€	37	266 903	4	27 453	-	-	-	-
>= 10 M€ and <20M€	29	399 339	2	26 099	-	-	-	-
>= 20 M€ and <50M€	14	396 579	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 738	3 188 623	1 088	223 479	106 555	13 238 829	341	11 851

The LTV (loan to value) ratio of the Corporate, Construction and CRE and Mortgage segments, as of 31 December 2018 and 2017, is presented as follows:

(Thousands of Euro)

Segment/ Ratio	2018			2017		
	No. of real estate	Total exposure	Impairment	No. of real estate	Total exposure	Impairment
Corporate						
Without real estate (*)		3 798 257	211 422		4 269 400	308 521
< 60%	2 146	368 389	24 647	2 201	374 454	20 752
>= 60% and < 80%	820	466 678	27 331	984	412 304	20 961
>= 80% and < 100%	885	211 817	33 717	1 015	264 699	28 422
>= 100%	21	45 490	26 481	105	73 409	29 700
Construction and CRE						
Without real estate (*)		939 562	161 135		979 050	185 546
< 60%	1 401	511 869	109 767	1 784	479 582	74 311
>= 60% and < 80%	906	349 903	54 658	988	315 003	47 311
>= 80% and < 100%	1 068	216 969	40 695	1 387	327 548	44 686
>= 100%	397	109 468	52 265	579	187 030	105 072
Mortgage						
Without real estate (*)		527 085	34 500		569 304	22 234
< 60%	64 492	2 576 393	29 004	64 940	2 582 221	6 230
>= 60% and < 80%	26 024	2 121 153	24 825	27 096	2 208 224	8 255
>= 80% and < 100%	10 536	946 844	23 945	12 735	1 163 967	12 708
>= 100%	870	76 610	22 797	1 784	155 687	23 672

The fair value and net value of real estate receivables, by type of asset, as of 31 December 2018 and 2017, are presented as follows:

(Thousands of Euro)

Assets	2018		
	No. of real estate	Fair value	Book value
Land	**1 792**	**368 389**	**333 060**
Urban	1 558	309 703	277 912
Rural	234	58 686	55 148
Buildings under construction	**676**	**122 471**	**110 943**
Commercial	71	6 518	5 194
Housing	511	115 301	105 119
Other	94	652	630
Constructed buildings	**2 481**	**290 886**	**261 348**
Commercial	869	120 377	107 848
Housing	1 106	163 419	147 374
Other	506	7 090	6 126
	4 949	781 746	705 351

(Thousands of Euro)

Assets	2017		
	No. of real estate	Fair value	Book value
Land	**1 834**	**382 118**	**342 167**
Urban	1 598	272 687	247 579
Rural	236	109 431	94 588
Buildings under construction	**695**	**99 048**	**89 486**
Commercial	86	7 267	6 527
Housing	483	90 323	81 574
Other	126	1 458	1 385
Constructed buildings	**2 689**	**316 533**	**282 478**
Commercial	837	115 853	103 737
Housing	1 363	184 035	164 446
Other	489	16 645	14 295
	5 218	797 699	714 131

The time lapse since the transfer / execution of properties received, as of 31 December 2018 and 2017, is presented as follows:

(Thousansa of Euro)

Elapsed time since transfer/ execution	2018				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**17 605**	**84 570**	**78 546**	**152 339**	**333 060**
Urban	13 982	75 866	65 879	122 185	277 912
Rural	3 623	8 704	12 667	30 154	55 148
Buildings under construction	**32 979**	**20 260**	**33 856**	**23 848**	**110 943**
Commercial	146	1 413	1 974	1 661	5 194
Housing	32 740	18 847	31 853	21 679	105 119
Other	93	-	29	508	630
Constructed buildings	**29 164**	**47 404**	**83 753**	**101 027**	**261 348**
Commercial	10 181	19 944	34 517	43 206	107 848
Housing	18 660	24 934	47 783	55 997	147 374
Other	323	2 526	1 453	1 824	6 126
	79 748	152 234	196 155	277 214	705 351

(Thousands of Euro)

Elapsed time since transfer/ execution	2017				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**69 202**	**60 119**	**162 799**	**50 047**	**342 167**
Urban	63 844	38 789	101 406	43 540	247 579
Rural	5 358	21 330	61 393	6 507	94 588
Buildings under construction	**5 374**	**20 558**	**42 221**	**21 333**	**89 486**
Commercial	114	1 508	3 147	1 758	6 527
Housing	5 260	18 628	38 372	19 314	81 574
Other	-	422	702	261	1 385
Constructed buildings	**45 649**	**60 504**	**126 783**	**49 542**	**282 478**
Commercial	14 023	16 331	60 135	13 248	103 737
Housing	30 444	37 567	61 561	34 874	164 446
Other	1 182	6 606	5 087	1 420	14 295
	120 225	141 181	331 803	120 922	714 131

Concentration Risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or in the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing and maintaining this risk in suitable solvability levels. In Banco Montepio Group, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Concentration risk in credit is the most important risk to Banco Montepio Group and, as such, there are several procedures related to its identification, measurement and management. In order to control concentration risk of exposure to a related customer / group of customers, maximum exposure limits were set for the aggregate positions of credit and investment portfolios for the various Banco Montepio's entities.

In order to reduce concentration risk, Banco Montepio seeks to diversify, as far as possible, its areas of activity and sources of income, as well as to diversify its exposures and sources of financing.

The concentration risk management is carried out in a centralised way, with regular monitoring of the concentration indexes by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the individual concentration level and the degree of diversification of the quality of the portfolio of companies are regularly monitored by the Risk Department. Maximum exposure limits are established per customer / group of customers related to each other, as well as limits for the concentration of the largest depositors.

Market Risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and / or prices of the different financial instruments that comprise it, considering both existing correlations between them, and respective volatilities.

The Group calculates its own portfolios "VaR", given a 10-day horizon and a 99% confidence interval, by the method of historical simulation. The types of risk considered in this methodology are the risk of interest rate, exchange rate risk, price risk, spread risk and commodities risk.

The Group's investment portfolio is mainly concentrated in bonds, and as of 31 December 2018 represented 62.4% (31 December 2017: 63.5%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese Republic.

With regard to credit derivatives, Banco Montepio held no position in these instruments at 31 December 2018 and 2017.

Regarding the credit quality of debt securities, it is important to note the improvement of the Greek public debt rating (rated B-). In addition, we highlight the downgrade of the Italian public debt from BBB to BBB-. Concerning the composition of the portfolio, the major changes resulted from a reduction in exposure to Italian and Spanish sovereign debt and an increase in exposure to Portuguese sovereign debt.

The distribution of the bond portfolio, recognised under financial assets held for trading, financial assets at fair value through other comprehensive income and other financial assets at amortised cost, is presented as follows:

(Thousands of Euro)

Rating	2018		2017		Change	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
AAA	-	-	-	-	-	-
AA+	1 091	0.1	-	-	1 091	-
AA	-	-	1 798	0.1	(1 798)	(100.0)
AA-	-	-	1 728	0.1	(1 728)	(100.0)
A+	1 718	0.1	1 528	0.1	190	12.4
A	-	-	1 033	0.1	(1 033)	(100.0)
A-	2 024	0.1	860	-	1 164	135.3
BBB+	211 026	13.9	295 102	16.8	(84 076)	(28.5)
BBB	12 452	0.8	575 362	32.8	(562 910)	(97.8)
BBB-	1 267 919	83.7	846 720	48.2	421 199	49.7
BB	234	-	-	-	234	-
B-	-	-	17 164	1.0	(17 164)	(100.0)
NR	19 219	1.3	13 945	0.8	5 274	37.8
Total	1 515 683	100.0	1 755 240	100.0	(239 557)	(13.6)

The amount of securities recognised in the Financial assets at fair value through other comprehensive income portfolio amounts to Euro 260,032 thousand (31 December 2017: Euro 1,605,618 thousand) and the amount of securities recognised in Financial assets at amortised cost amounts to Euro 1,255,651 thousand. As at 31 December 2017, the amount of securities recognised in the trading portfolio amounted to Euro 149,622 thousand.

Regarding trading portfolio, which as at 31 December 2018 did not include open positions in equity securities and bonds, the main VaR indicators are as follows:

(Thousands of Euro)

	2018	Average	Minimum	Maximum	2017
Market VaR	5	586	5	1 213	2 857
Interest rate risk	5	168	5	1 039	121
Exchange risk	-	63	-	84	93
Price risk	-	513	-	448	479
Spread risk (loans)	-	650	-	1 438	2 349
Diversification risk	-	*(808)*	-	*(1 796)*	*(185)*

Bank Portfolio Interest Rate Risk

The assessment of interest rate risk caused by banking portfolio operations is performed by a sensitivity analysis to the risk, in a consolidated view for Banco Montepio's entities (including subsidiaries recognised in discontinuing operations).

Interest rate risk is measured according to the impact on net interest income, net worth and equity caused by changes in market interest rates. The main risk factors arise from the term adjustments of the interest rate reset and / or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indexes with the same term of repricing (basis risk) and the options associated with instruments enabling a different performance of the players/participants depending on the level of rates contracted and practiced at the moment (option risk).

Based on the financial characteristics of each contract, it is made its projection of expected cash flows, according to the dates of rate reset and any behavioral assumptions considered.

Aggregation, for each currency analysed the expected cash flows in each of the time intervals to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps, from a consolidated perspective, for 2018 and 2017:

(Thousands of Euro)

	Below 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Above 5 years
31 December 2018					
Assets	9 125 649	2 993 924	742 143	1 267 688	850 588
Off-balance sheet	6 200	9 850	13 920	753 300	-
Total	9 131 849	3 003 774	756 063	2 020 988	850 588
Liabilities	3 026 605	1 696 200	1 945 611	5 261 574	51 245
Off-balance sheet	758 300	9 850	13 920	-	1 200
Total	3 784 905	1 706 050	1 959 531	5 261 574	52 445
GAP (Assets - Liabilities)	5 346 944	1 297 724	(1203 468)	(3240 586)	798 143
31 December 2017					
Assets	8 075 087	3 275 709	644 347	1 606 709	925 727
Off-balance sheet	9 990	-	-	782 972	-
Total	8 085 077	3 275 709	644 347	2 389 681	925 727
Liabilities	4 816 938	1 876 262	2 417 660	7 814 534	274 933
Off-balance sheet	758 550	9 850	9 740	14 822	-
Total	5 575 488	1 886 112	2 427 400	7 829 356	274 933
GAP (Assets - Liabilities)	2 509 589	1 389 597	(1783 053)	(5439 675)	650 794

The following table presents the interest rate gaps for 2018 and 2017:

(Thousands of Euro)

	2018				2017			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate gap	2 998 668	1 589 557	2 998 668	(1107 590)	(2672 748)	(1763 934)	(855 120)	(2672 748)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve.

As at 31 December 2018, based on interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a change in the economic value expected in the banking portfolio in the amount of Euro 10,798 thousand (31 December 2017: in the negative amount of Euro 18,633 thousand).

The following table presents the average interests, in relation to the Banco Montepio's major assets and liabilities categories for the years 2018 and 2017, as well as the average balances and income and expense for the year:

(Thousands of Euro)

	2018			2017		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Deposits at central banks and OCI	1 378 707	1.00	14 033	469 507	-	4
Other loans and advances to credit institutions	561 441	0.69	3 905	586 921	0.40	2 385
Loans and advances to customers	13 375 771	2.21	299 353	14 576 598	2.37	350 302
Other fair value assets	11 443	2.16	251	-	-	-
Securities portfolio	1 679 553	0.60	10 137	2 389 738	1.44	34 828
Other (includes derivatives)			19 238	-	-	16 561
	17 006 915	**2.01**	**346 917**	**18 022 764**	**2.21**	**404 080**
Interest liabilities generators						
Deposits from ECB	1 539 715	0.32	5 001	2 310 827	0.04	1 003
Deposits from OCI	1 849 183	0.98	18 420	2 352 664	0.73	17 381
Deposits from customers	12 405 170	0.44	54 713	11 877 000	0.68	82 010
Senior debt	1 132 749	1.47	16 923	1 394 451	2.60	36 697
Subordinated debt	91 438	1.24	1 152	236 620	1.27	3 051
Other (includes derivatives)			16 182	-	-	13 864
	17 018 255	**0.65**	**112 391**	**18 171 562**	**0.84**	**154 006**
Net interest income		**1.36**	**234 526**		**1.37**	**250 074**

Currency Risk

Regarding currency risk, the procedure is the application of funds raised in various currencies through active money market and for terms not exceeding those of the resources. Thus, existing exchange rate gaps are essentially due to possible mismatches between the terms of the applications and of the resources.

The breakdown of assets and liabilities, by currency, as at 31 December 2018 and 2017, is analysed as follows:

(Thousands of Euro)

	2018							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Swiss Franc	Brazilian Real	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	1 590 380	14 110	1 512	1 027	2 988	-	617	1 610 634
Loans and advances to credit institutions repayable on demand	46 227	18 557	5 566	1 081	703	-	3 438	75 572
Other loans and advances to credit institutions	447 768	267	-	-	-	-	-	448 035
Loans and advances to customers	11 680 245	114 837	1 069	-	19	-	-	11 796 170
Financial assets held for trading	23 727	12	-	-	-	-	-	23 739
Financial assets not held for tranding mandatorily at fair value through profit or loss	803 908	-	-	-	-	-	-	803 908
Financial assets a fair value through other comprehensive income	345 279	-	-	-	-	47 310	-	392 589
Hedging derivatives	5 666	-	-	-	-	-	-	5 666
Other financial assets at amortised cost	1 255 651	-	-	-	-	-	-	1 255 651
Investment in subsidiaries and associates companies	346 723	-	-	-	-	-	-	346 723
Non-current assets held for sale	705 351	-	-	-	-	-	-	705 351
Property, plant and equipment	217 741	-	-	-	-	-	-	217 741
Intangible assets	31 657	-	-	-	-	-	-	31 657
Current tax assets	6 144	-	-	-	-	-	-	6 144
Deferred tax assets	484 147	-	-	-	-	-	-	484 147
Other assets	68 085	174	1	-	-	-	158	68 418
Total Assets	18 058 699	147 957	8 148	2 108	3 710	47 310	4 213	18 272 145
Liabilities by currency								
Deposits from central banks	1 395 320	-	-	-	-	-	-	1 395 320
Deposits from other credit institutions	1 366 336	49 377	3 943	22 707	98	-	87	1 442 548
Deposits from customers	12 517 900	82 053	6 291	15 115	1 837	-	3 382	12 626 578
Debt securities issued	939 674	-	-	-	-	-	-	939 674
Financial liabilities held for trading	13 486	10	-	-	-	-	-	13 496
Provisions	30 756	-	-	-	-	-	-	30 756
Current tax liabilities	4 241	-	-	-	-	-	-	4 241
Other subordinated debt	50 044	-	-	-	-	-	-	50 044
Other liabilities	187 888	1 447	296	52	1 770	-	49	191 502
Total Liabilities	16 505 645	132 887	10 530	37 874	3 705	-	3 518	16 694 159
Exchange forward transactions		(38 257)	2 236	35 950	4	-	(175)	
Exchange gap		(23 187)	(146)	184	9	47 310	520	
Stress Test		4 637	29	(37)	(2)	(9 462)	(104)	

(Thousands of Euro)

	2017							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Swiss Franc	Brazilian Real	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	1 715 638	11 761	1 473	909	2 815	102	928	1 733 626
Loans and advances to credit institutions repayable on demand	46 218	11 670	394	272	416	-	502	59 472
Other loans and advances to credit institutions	547 748	10 963	-	-	-	-	-	558 711
Loans and advances to customers	12 629 477	119 045	167	-	28	-	-	12 748 717
Financial assets held for trading	180 662	3 006	-	193	215	-	-	184 076
Financial assets at fair value through other comprehensive income	2 544 708	372	-	-	-	57 614	97	2 602 791
Investment in subsidiaries and associates companies	315 903	-	-	-	-	-	-	315 903
Non-current assets held for sale	714 133	-	-	-	-	-	-	714 133
Property, plant and equipment	220 002	-	-	-	-	-	-	220 002
Intangible assets	30 092	-	-	-	-	-	-	30 092
Current tax assets	6 589	-	-	-	-	-	-	6 589
Deferred tax assets	458 864	-	-	-	-	-	-	458 864
Other assets	176 353	259	3	-	-	-	-	176 615
Total Assets	19 586 387	157 076	2 037	1 374	3 474	57 716	1 527	19 809 591
Liabilities by currency								
Deposits from central banks	1 557 840	-	-	-	-	-	-	1 557 840
Deposits from other credit institutions	1 948 506	33 848	3 913	24 816	18	-	96	2 011 197
Deposits from customers	12 459 824	70 006	7 516	13 096	1 871	-	3 012	12 555 325
Debt securities issued	1 389 774	225	-	-	-	-	-	1 389 999
Financial liabilities held for trading	15 694	477	-	-	-	-	-	16 171
Hedging derivatives	1 663	-	-	-	-	-	-	1 663
Provisions	26 207	-	-	-	-	-	-	26 207
Current tax liabilities	1 104	-	-	-	-	-	-	1 104
Other subordinated debt	237 016	-	-	-	-	-	-	237 016
Other liabilities	281 291	1 322	287	166	980	-	12	284 058
Total Liabilities	17 918 919	105 878	11 716	38 078	2 869	-	3 120	18 080 580
Exchange forward transactions		(49 974)	9 919	37 037	769	-	2 507	
Exchange gap		1 224	240	333	1 374	57 716	914	
Stress Test		(245)	(48)	(67)	(275)	(11 543)	(183)	

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring significant losses arising from a deterioration in financing conditions (financing risk) and / or the sale of its assets at lower values to market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which are defined exposure limits. This control is reinforced with weekly execution of stress tests, in order to characterize the risk profile of Banco Montepio and ensure that the Group fulfills its obligations in a liquidity crisis scenario. The calculation of the CRL prudential ratio is performed on a weekly basis.

As at 31 December 2018, the recorded amount in LCR was 154.1%. (31 December 2017: 153.8%).

As at 31 December 2018, Banco Montepio's financing structure was as follows:

(Thousands of Euro)

Liabilities	2018	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 395 320	-	-	-	-	1,395,320
Deposits from other credit institutions	1 442 548	-	307 999	122 915	661 228	350 406
Deposits from customers	12 626 578	-	4 870 270	2 949 118	1 834 236	2 972 954
Debt securities issued	939 674	-	97 117	55	21 701	820 801
Financial liabilities held for trading	13 496	-	100	10	152	13 234
Other subordinated debt	50 044	-	-	-	44	50 000
Other liabilities	191 502	191 502	-	-	-	-
Total Liabilities	**16 659 162**	**191 502**	**5 275 486**	**3 072 098**	**2 517 361**	**5 602 715**

As at 31 December 2017, Banco Montepio's financing structure was as follows:

(Thousands of Euro)

Liabilities	2017	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 557 840	-	-	-	-	1,557,840
Deposits from other credit institutions	2 011 197	-	362 167	66 904	419 480	1 162 646
Deposits from customers	12 555 325	-	4 865 405	3 485 232	2 231 157	1 973 531
Debt securities issued	1 389 999	-	109 036	65 201	80 578	1 135 184
Financial liabilities held for trading	16 171	-	902	1	221	15 047
Hedging derivatives	1 663	-	-	-	-	1 663
Other subordinated debt	237 016	-	111 934	4 206	120 876	-
Other liabilities	248 058	248 058	-	-	-	-
Total Liabilities	**18 017 269**	**248 058**	**5 449 444**	**3 621 544**	**2 852 312**	**5 845 911**

Within the Instruction no. 28/2014 of Bank of Portugal, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation by the European Systemic Risk Committee, we present the following information, as at 31 December 2018 and 2017, on the assets and related collaterals:

(Thousands of Euro)

Assets	2018			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	3 996 499	-	14 275 647	-
Equity instruments	-	-	916 095	917 321
Debt securities	768 038	735 169	1 354 545	1 394 300
Other assets	-	-	2 084 182	-

(Thousands of Euro)

Assets	2017			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	5 516 327	-	14 293 264	-
Equity instruments	-	-	1 007 075	1 187 263
Debt securities	1 177 559	1 173 674	1 205 079	7 791 741
Other assets	-	-	2 019 494	-

(Thousands of Euro)

Collateral received	2018	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	46 398	
Equity instruments	-	-
Debt securities	46 398	
Other collateral received	-	-
Own securities issued that are not own covered bonds próprias or ABS	-	-

(Thousands of Euro)

Collateral received	2017	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	77 463	48 894
Equity instruments	-	-
Debt securities	77 463	48 894
Other collateral received	-	-
Own securities issued that are not own covered bonds próprias or ABS	-	-

Encumbered assets, encumbered collateral received and associated liabilities	2018
	Carrying amount of selected financial liabilities
Associated liabilities, encumbered collateral and securities borrowed	2 609 154
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	4 015 260

Encumbered assets, encumbered collateral received and associated liabilities	2017
	Carrying amount of selected financial liabilities
Associated liabilities, encumbered collateral and securities borrowed	3 653 294
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 565 871

The encumbered assets are mostly related to collateralise financing of Banco Montepio Group, in particular the ECB's, repo transactions, issuance of covered bonds and securitisation programs. The type of assets used as collateral of these financing transactions, whether placed outside the Group, whether to improve the pool of collateral with the ECB, are customer's loans contracts. Repo transactions in the money market are collaterised, mainly by covered bonds and securitisation programs in which Banco Montepio is the originator, and by debt securities issued operations.

The amounts presented previously correspond to the position as at 31 December 2018 and 2017 and reflect the high level of collateralisation of the wholesale funding of Banco Montepio Group. The buffer of eligible assets for the ECB, after haircuts, less net borrowing at the ECB, as at 31 december 2018 amounts to Euro 1,238,170 thousand (31 December 2017: Euro 1,018,419 thousand).

It should be noted that the total amount of collaterals available at the European Central Bank (BCE) on 31 December 2018 amounts to Euro 2,586,660 thousand (31 December 2017: Euro 2,539,595 thousand) with a usage of Euro 1,395,320 thousand (31 December 2017: Euro 1,557,840 thousand):

(Thousands of Euro)

	2018	2017
Total eligible collateral	**3 865 925**	**4 254 568**
Total collateral in the pool	2 586 660	2 539 595
Total collateral outside the pool	1 279 265	1 714 973
Used collateral	**2 627 755**	**3 236 149**
Collateral used for ECB	1 395 320	1 557 840
Collateral committed to other financing operations	1 232 435	1 678 309
Collateral available for ECB	**1 191 340**	**981 755**
Total available collateral	**1 238 170**	**1 018 419**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate, whether from credit recovery processes or from real estate fund units held in securities portfolio. These exposures are monitored through scenario analyses that attempt to estimate potential impacts of changes in real estate markets in portfolios of these real estate assets and make available the information elements needed for the definition of the policy for real estate management.

As at 31 December 2018 and 2017, exposure to real estate and real estate investment units presented the following values:

(Thousands of Euro)

	2018	2017
Real estate received as loan guarantee	705 092	714 131
Real estate investment fund units	676 521	729 410
	1 381 613	1 443 541
	(138 161)	(144 354)

Stress test

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% variation in values of real estate and real estate funds.

Operating Risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

Banco Montepio Group has the approval from Bank of Portugal for the use of the standard method for quantifying its own capital requirements for operating risk. An integrated continuing business plan is implanted, based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk.

The risk department has the corporate function of operational risk management of Banco Montepio Group which is supported by the existence of responsible employees in the different organic units that ensure the proper implementation of Banco Montepio's operating risk management.

The operating risk profile assessment for new products, processes and systems and the consequent follow-up, on a regular basis, has allowed the prior identification and mitigation of potential risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the evaluation of the exposure to Operating Risk and the preparation of periodic reports on the profile of Operational risk of the Institution. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. An annual report is prepared annually, which includes the analysis of all operating risk management instruments.

Within the mitigation phase, Action Plans were suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, Banco Montepio has implemented a business continuity management process, supported by a set of evaluation, design, implementation and monitoring activities, integrated into a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing to ensure the continuity of operations in the event situations that cause the interruption of the activity, considering the established Recovery Time Objective (RTO).

Pension Fund Risk

The pension fund risk results from the potential devaluation of the fund's assets portfolio or the decrease in the expected returns, as well as the increase in the fund's liabilities as a result of the evolution of the different actuarial assumptions. In such scenarios, Banco Montepio will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular monitoring and analysis of Banco Montepio's Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the Pension Fund portfolio's market value and associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and different legal provisions, the control of these limits is monitored daily by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures that are performed may the limits be exceeded.

Subsequently, the Risk Department monitors the effect of the measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has decided to strengthen control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows monitoring the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on VaR calculation, with a confidence/reliability interval of 99.5% for one-year time horizon. Since VaR does not totally guarantees that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose to calculate the impact of several extreme scenarios on the value of the portfolio.

The shareholder liquidity level and bond component of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days to settle, considering the assets in the portfolio. This test consists of verifying the liquidity of the shareholder segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond segment, the cash receipts (positive cash-flows) resulting from bond coupon (interest) payments and amortisations or possible call exercises for one month are calculated. All these tests allow to assess the degree of liquidity in the short term and to monitor or act before a possible shortage of liquidity in a timely manner.

Other risks

With regard to other risks – reputation, compliance, strategy and business risk - these are also monitored by the Board of Directors, and risks are controlled and corrective measures taken based on the results obtained against the objectives / limits established in the risk appetite, namely the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees, and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral.

In terms of direct reduction of the exposure value, credit transactions collateralised by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market risk and foreign exchange risk of the assets is considered, and, when applicable, the value adjustment of the collateral is carried out.

Regarding real mortgage guarantees, Banco Montepio has defined valuation and revaluation models to be applied to properties that may constitute collateral for credit operations. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a structuring unit of the Institution, regardless of the commercial area. In accordance with (EU) Regulation no. 575/2013 (CRR), the requirements for the validation and reassessment of the asset's value, depending on the cases, either by statistical and computerised methods or by review or revaluation of the valuation value by the expert.

For credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided that does not originate credit derivatives on the portfolio exposure.

Banco Montepio Group does not usually use on-balance sheet and off-balance sheet processes, nor does it generate credit derivatives on exposure in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the total risk of operations or the partial or total sale of exposures to reduce exposure or cancel it completely.

With regard to banking portfolio, interest rate and foreign exchange risk mitigation techniques are the negotiation of hedging transactions with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of Banco Montepio Group are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (CRR) adopted by the European Parliament and by the Council, and the Notice no. 6/2013 of Bank of Portugal. Own funds include own funds of level 1 (tier 1) and own funds of level 2 (tier 2). Tier 1 includes own funds core of level 1 (common equity tier 1 – CET1) and the additional own funds of level 1 with the following composition:

- Own Funds Core of Level 1 or Common Equity Tier 1 (CET1): this category includes the realised capital (with deduction of own funds), eligible reserves (including fair-value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover Banco Montepio Group's capital requirements attributable to minority shareholders. The balance value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, is deducted between the asset and the pension fund responsibility. The amount of the prudent valuation calculated in accordance with CRR Articles no. 34 and 105 is also deducted. The deferred tax assets related to tax losses are also deducted. Concerning financial investments on financial sector entities and deferred tax assets arising from temporary differences on which depends the future profitability, the values in these accounts are deducted when, individually, overcome 10% of CET1, or posteriorly 15% of CET1 when considered as aggregated (only on the non-deducted part on the first barrier of 10% and considering only significant participations). Non-deducted values will be subject to weight of 250% for the fullness of risk-weighted assets. Regarding investments in financial institutions, the eventual deduction is proportionally realised on the respective held capital levels. As part of the implementation of this new prudential regulation (EU no. 575/2013), a transition period will be set out that will allow to gradually acknowledge the majors impacts of this new regulation. This transition plan reached total recognition in 2018 (i.e. 100%) for almost all captions. For deferred tax assets, which do not depend on future profitability, the transitional cumulative recognition plan is maintained on a 10% annual basis, on the balance sheet as at 1 January 2014. In 2018 it will be of 40%;

- Own Funds of Level 1 or Tier 1 (T1): includes capital equivalent instruments, whose conditions are in accordance with Article no. 52 from Regulation no. 575/2013 and approved by Bank of Portugal. Non-controlled interests relating to additional own funds minimum requirements of the institutions for which the Banco Montepio Group does not hold full ownership are also eligible. The eventual detentions of capital T1 from financial institutions subjected to deduction are deducted from this capital.
- Own Funds of Level 2 or Tier 2 (T2): includes capital equivalent instruments, whose conditions are in accordance with the Article no. 63 from Regulation no. 575/2013 and approved by Bank of Portugal. Non-controlled interests relating to the minimum own fund’s requirements of the institutions for which Banco Montepio does not hold full ownership are also eligible. The eventual detentions of capital T2 from financial institutions subjected to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels previous referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risks requirements, a particular reference to the weighting of 250% of deferred tax assets from temporary differences that depend on future earnings and investments that are within the established limit for non-deduction to CET1. With respect to deferred tax assets arising from temporary differences that do not depend on future profitability, these are subject to a 100% weighting for capital requirements. CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2018, Banco Montepio recognises prudently only 5% of the impact related to the IRS 9 adoption.

As referred in 2018, the effects of Basel III's new regulation will gradually being introduced. This process is usually named as Phasing-in. The full assumption of the new regulation, without considering transitory plans, is named as Full Implementation. Phasing-in process is currently in force, and it is on this basis that an entity verifies that has its own funds for an amount not below its own funds, thus certifying the adequacy of its capital. This relation is reflected on the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (formerly designated by solvability ratio, represented by the percentage of capital level correspondent to the amount of 12.5 times the own funds requirements).

For these ratios, regulatory minimums are indicated by CRD IV / CRR of 4.5% for CET1, 6% for Tier 1 and 8% for total Capital. However, on these regulatory minimums, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, the value of which is defined by Bank of Portugal. In 2018, Bank of Portugal defined a 0% Counter-cyclical Reserve. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transition plan set out in Article no. 160 of CRD IV, thus the value of this reserve in 2018 is 1.875% and 2.5% after 1 January 2019. Pursuant to these provisions, as of 31 December 2018, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 6.375%, 7.875% and 9.875%, respectively, including Own Fund Reserves, referred to above.

The summary of the calculation for Banco Montepio Group's capital requirements as at 31 December 2018 and 2017, under phasing-in, is presented as follows:

(Thousands of Euro)

	2018	2017
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit, reserves and retained earnings not distributed	(848 337)	(697 312)
Other regulatory adjustments	(383 917)	(373 712)
	1 187 746	1 348 976
Capital Tier 1	1 187 746	1 348 976
Capital Tier 2		
Subordinated loans	56 323	24 250
Regulatory adjustments	(700)	(24 250)
	55 623	-
Total own funds	1 243 369	1 348 976
Own fund requirements		
Credit risk	697 765	748 227
Market risk	3 851	17 718
Operating riks	50 484	46 334
Other requirements	50 416	39 397
	802 516	851 676
Prudential ratios		
Common Equity Tier 1 Ratio	11.84%	12.67%
Tier 1 Ratio	11.84%	12.67%
Total Capital Ratio	12.39%	12.67%

It should be noted that ratios, as at 31 December 2018, consider the impact of admission to the deferred tax assets special regime, as described in note 31.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period.

Therefore, in 2018, Banco Montepio recognises prudently only 5% of the impact related to the IRS 9 adoption. If Banco Montepio did not applied this transition plan, Banco Montepio's prudential ratios as at 31 December 2018 would be:

	(Thousands of Euro) 2018
Capital Common Equity Tier 1	1 031 289
Capital Tier 1	1 031 289
Total own funds	1 086 912
Own fund requirements	787 997
Prudential ratios	
Common Equity Tier 1 Ratio	10.47%
Tier 1 Ratio	10.47%
Total Capital Ratio	11.03%

52 Accounting standards recently issued

The recently issued accounting standards and interpretations already in force and which Banco Montepio applied in the preparation of its financial statements are as follows:

IFRS 9 – Financial instruments (issued in 2009 and amended in 2010, 2013 and 2014)

IFRS 9 was adopted by European Commission Regulation 2067/2016, of 22 November 2016, defining the entry into force no later than the date of the beginning of the first financial year beginning on or after 1 January 2018.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces the hedging requirements. IFRS 9 (2014) introduces limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three measurement categories for financial assets: amortised, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL). A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding. If the debt instrument that are SPPI are held under a business model whose objective achieved both by collecting contractual cash flows and by selling, the measurement would be at fair value through other comprehensive income (FVOCI), keeping the revenue form interest presenting in profit or loss.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI (FVOCI). Those amounts recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment.

All other financial assets, either the financial assets held under a business model of trading, either other financial instruments who do not comply with SPPI criteria, would be measured at fair value through profit or loss (FVTPL).

In this situation, includes Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI that would be measured at fair value with changes in fair value recognised in profit or loss (FVTPL).

The standard requires embedded derivatives in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety, confirming the existence of embedded derivatives, it should be measured at fair value through profit or loss (FVTPL).

The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

IFRS 9 (2014) established a new impairment model base on "expected losses" that replace the current "incurred losses" in IAS 39.

So, loss event will no longer need to occur before an impairment allowance is recognised. This new model will accelerate recognition of losses form impairment on debt instruments held that are measured at amortised cost or FVOCI.

If the credit risk of financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12 month expected credit losses.

If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses thereby increasing the amount of impairment recognised.

As soon as the loss event occur (what is current define as "objective evidence of impairment"), the impairment allowance would be allocated directly to financial asset affected, which provide the same accounting treatment, from that point, similar to the current IAS 39, including the treatment of interest revenue.

The mandatory effective date of IFRS 9 is 1 January 2018.

IFRS 15 – Revenue from Contracts with Customers

IASB issued on 28 May 2014 the standard IFRS 15 - Revenue from Contracts with Costumers. IFRS 15 was adopted by Regulation of the European Commission no. 1905/2016, of 22 September 2016 with mandatory application for periods beginning on or after 1 January 2018.

This standard will revoke IAS 11 Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 provides a model based on 5 steps of analysis in order to determine when revenue should be recognised and in what amount. The model specifies that the revenue should be recognised when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of certain criteria, revenue is recognised:

iii) At a time when the control of the goods or services is transferred to the customer; or

iv) Over the period, to the extent that represents the performance of the entity.

None of these amendments had an impact on Banco Montepio’s financial statements.

IFRIC 22 – Foreign Currency Translations and Advance Consideration

It has been issued on 8 December 2016, IFRIC 22, with mandatory application for annual periods beginning on or after 1 January 2018.

This new IFRIC 22 defines that, has been an advance in foreign currency for an asset, expense or revenue, applying paragraphs 21-22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (or if there are multiple payments or receives, the foreign currency exist at each advance consideration date).

None of these amendments had an impact on Banco Montepio’s financial statements.

It was also endorsed by UE Commission the amendments issued by IASB:

- On 20 June 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IFRS 2 on Classification and Measurement of Share-based Payment Transactions;

- On 8 December 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IAS 40 - Transfers of Investment Property to clarify whether an entity should transfer property under construction or development to, or from, investment property when there is a change in the use of such property which is supported by evidence other than specifically listed in paragraph 57 of IAS 40;

- The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments, with effective date for annual periods beginning on or after, 1 July 2018, to the standards IFRS 1 (deletion of short-term exemption for first-time adopters) and IAS 28 (measuring an associate or joint venture at fair value).

None of these amendments had an impact on Banco Montepio's financial statements.

Banco Montepio Group has decided not to early apply the following standards and / or interpretations adopted by the European Union:

IFRS 16 - Leases

Banco Montepio Group is required to apply IFRS 16 - Leases, issued by the IASB on 13 January 2016, for periods beginning on or after 1 January 2019. Banco Montepio Group has assessed the estimated impact that the initial application of IFRS 16 will have in its Financial Statements, as described below. The impacts resulting from the adoption of IFRS 16 as of 1 January 2019 may change because:

- Banco Montepio Group has not yet finalized the set of tests and evaluation of controls on the new IT systems; and
- the new accounting policies are subject to changes until Banco Montepio Group presents its first financial statements including the date of initial application.

IFRS 16 introduces a single accounting model for the classification of leases from the lessee's perspective. A lessee recognises an asset on right of use, which represents the right to use the underlying asset, and a lease liability that represents the obligation to make lease payments. There are exceptions in recognition for short-term leases and low value leases. The accounting policy in the view of the lessor remains similar to that envisaged in the current standard - that is, lessors continue to classify leases as financial or operating.

IFRS 16 revokes the current guidance on leases, including IAS 17 - Leases, IFRIC 4 - Determine whether an Agreement contains a Lease, SIC 15 - Operational Leases - Incentives and SIC 27 - Evaluation of Transactions Substance that Involve the Legal Form of a Rental.

i. Leases in which Banco Montepio presents itself as lessee

Banco Montepio Group will recognise the new assets and liabilities for its operating leases related to branch and central services facilities. The nature of the expenditures related to these operating leases will be changed since IFRS 16 replaces linear operating lease expenses by depreciation for assets under rights of use and interest charges related to the lease liabilities.

Previously Banco Montepio Group recognised operating lease expenses on a straight-line basis over the term of the lease agreement and recognised assets and liabilities only to the extent that it observed a difference in the period of time between lease payments and expense recognition.

As at 31 December 2018, the minimum amount of the future lease payments of Banco Montepio Group on non-cancellable operating leases corresponds to Euro 3,857 thousand (note 12), on an undiscounted basis, in which Banco Montepio estimates that it will recognise it as an additional lease liability.

ii. Leasesin which Banco Montepio presents itself as lessor

No significant impacts are expected for the lease contracts in which Banco Montepio Group presents itself as lessor. However, in 2019 a set of additional disclosures will be required.

iii. Transition

Banco Montepio Group plans to apply IFRS 16 initially as of 1 January 2019, using the simplified retrospective approach, without the restatement of comparative information. The transition approach used allows the selection of a set of practical exceptions for the non-application of IFRS 16, namely: (i) Short-term leasing, leasing contracts with a period of less than 12 months (including renewal options); and ii) Low value lease, lease contracts whose value of the asset corresponds to ≤ EUR 5,000.

Banco Montepio Group plans to apply the practical exception regarding the definition of a lease on the transition date, that is, it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as a lease in accordance with IAS 17 and IFRIC 4. Thus, for leases previously classified as operating leases under IAS 17, the asset under right of use is measured by an amount equal to the lease liability, adjusted by the amount of any prior or increased lease payments related to that lease, recognised in the balance sheet immediately before the initial date of application. Therefore, as of 1 January 2019, the impact on retained earnings will be nil.

Banco Montepio Group is conducting a qualitative and quantitative evaluation of the impacts resulting from the lease contracts under IFRS 16. The methodology used to determine the adjustments to be made in the financial statements follows the following steps:

1. High-level evaluation, by conducting meetings and completing questionnaires;
2. Analysis of the income statement items to identify situations that may meet the criteria defined by IFRS 16 for the recognition of leases;
3. Preliminary quantification of impacts of adopting IFRS 16 based on several assumptions;
4. Collection and analysis of a sample of contracts, representative of the population, in order to identify the impacts for each type of contract;
5. Review and identification of the main differences in the disclosures to be considered under the application of IFRS 16; and
6. Final quantification of impacts of adopting IFRS 16 based on previously identified gaps.

The main challenges for the adoption of IFRS 16 identified in this analysis are the identification of the lease contracts population, namely the leasing components existing in service contracts, the definition of the lease term of each contract and the determination of the discount rate to be used to project the payment amounts of the lease contracts up to the respective expiry date of the lease.

In summary, the estimated impacts arising from the adoption of IFRS 16 are as follows:

Impact in the Balance sheet as at 31 December 2018,

	(Thousands of Euro)
	Increase/ (Decrease)
Assets	
Property, plant and equipment (Right-of-use assets)	30 740
Liabilities	
Other liabilities (Lease liabilities)	(30 740)
Net impact on Equity	-

Impact in the income statement for the year ended as of 31 December 2018,

	(Thousands of Euro)
	Increase/ (Decrease)
Operating lease expenses (included in Other administrative expenses)	(8 810)
Depreciation of right-of-use assets	8 172
Operating income/ (expense)	**638**
Interest charges related to lease liabilities	1 065
Net interest income	**1 065**
Net profit/ (loss) for the period	(427)

With the adoption of IFRS 16, the operating income of Banco Montepio Group will increase, but in return, the net interest income will decrease. This situation results from the fact that IFRS 16 replaces linear expenses of operating leases by depreciation of assets under rights of use and interest charges related to the lease liabilities.

Based on the guidelines of the Basel Committee, for the calculation of regulatory capital, the assets under right of use will be subject to a 100% risk weight in cases where the underlying asset is a tangible asset and deducted from regulatory capital in cases where the underlying assets are intangible assets. Accordingly, at 31 December 2018, the adoption of IFRS 16 is expected to result in a decrease in the regulatory capital ratio of approximately 0.04%.

IFRIC 23 – Uncertainty over Income Tax Treatment

On 7 June 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to appeal a tax examination which resulted in a payment to a taxation authority.

The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned.

In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method.

IFRIC 23 was endorsed by EU Commission Regulation 2018/1595, of 23 October, and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

Banco Montepio Group does not expect significant changes in the adoption of this interpretation.

Recently issued pronouncements that are not yet effective for Banco Montepio

The annual improvements cycle 2015-2017, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards IFRS 3 (remeasure its previously held interest in a joint operation when it obtains control of the business), IFRS 11 (not remeasure its previously held interest in a joint operation when it obtains joint control of the business), IAS 12 (accounts for all income tax consequences of dividend payments in the same way), IAS 23 (treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale).

Other Amendments issued by IASB that are expected to be applied on or after 1 January 2019:

- Long-term interests in Associates and Joint Ventures (Amendment to IAS 28, issued on 12 October 2017), clarifying the interaction with impairment model defied by IFRS 9;

- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19, issued on 7 February 2018), where on the amendment, curtailment or settlement of a defined benefit plan, a company now used updated actuarial assumptions to determine its current service and net interest and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI);

- Definition of Business (Amendments to IFRS 3 Business Combinations, issued on 22 October 2018);

- Definition of Material (Amendments to IAS 1 and IAS 8, issued on 31 October 2018).

Banco Montepio Group expects no impact from the adoption of these amendments on its financial statements.

53 Sovereign debt of European Union countries subject to bailout

During the first half of 2018, all Greek debt securities were sold in the total amount of Euro 17,021 thousand, with a loss of Euro 412 thousand.

As at 31 December 2017, the exposure of Banco Montepio to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	2017						
Issuer/ portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate %	Average maturity Years	Measurement level
Greece							
Financial assets at fair value through other comprehensive income	17 164	17 164	(1 128)	-	2.51%	20.28	1

As at 31 December 2017, the value of the securities includes respective accrued interest in the amount of Euro 52 thousand.

54 Transfer of assets

Banco Montepio performed a set of transactions of sale of financial assets (namely loans and advances to customers) for specialised Funds in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

Financial assets sold under these transactions are derecognised from the balance sheet of Banco Montepio, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialised funds that acquire financial assets to Banco Montepio are closed funds, in which the holders of the mutual funds have no possibility to request the reimbursement of its investment throughout the useful life of the Funds.

These mutual funds are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, each bank does not hold more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from the seller's banks and that is selected on the date of establishment of the Funds.

The management structure of the Funds has as main responsibilities:

- Determine the objective of the Funds; and
- Manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Funds.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in most transactions (in which Banco Montepio holds minority positions) establish companies under the Portuguese law in order to acquire the loans to the Group, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds fully subscribed by the funds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by Banco Montepio, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions that occurred, Banco Montepio subscribed:

- Investment units of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where the Group has clearly a minority interest). These securities are booked in the Financial assets at fair value through other comprehensive income portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at each year end; and
- Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, Banco Montepio, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, Banco Montepio performed the derecognition of the assets transferred under the scope of IAS 39.20 c (i) and the recognition of the assets received as follows:

(Thousands of Euro)

	2018			2017		
	Amounts associated with the transfer of assets			Amounts associated with the transfer of assets		
	Net assets transferred	Amount received	Result obtained with the transfer	Net assets transferred	Amount received	Result obtained with the transfer
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Vallis Construction Sector Fund	-	-	-	23 506	26 776	3 270
Fundo de Reestruturação Empresarial, FCR	21 549	21 590	41	21 549	21 590	41
	49 406	64 714	15 308	72 912	91 490	18 578

As at 31 December 2018 and 2017, the assets received under these transactions are as follows:

(Thousands of Euro)

	2018
	Senior bonds
Fundo Vega, FCR	26 008
Fundo de Reestruturação Empresarial, FCR	11 466
	37 474

(Thousands of Euro)

	2017				
	Senior bonds	Junior bonds	Total	Impairment	Net amount
Fundo Vega, FCR	28 839	-	28 839	(2 043)	26 796
Vallis Construction Sector Fund	19 269	7 838	27 107	(27 107)	-
Fundo de Reestruturação Empresarial, FCR	12 863	-	12 863	(889)	11 974
	60 971	7 838	68 809	(30 039)	38 770

As at 31 December 2017, impairment losses amounting to Euro 5,864 thousand, Euro 2,043 thousand, Euro 178 thousand were recorded relating to the devaluation of the investment units in Vallis Construction Sector Fund, Fundo Vega, FCR and Fundo de Reestruturação Empresarial, FCR.

As at 31 December 2017, junior securities refer to mutual funds on the amount of Euro 7,838 thousand, which are fully provided.

As at 1 January 2018, the investment units in the Vallis Construction Sector Fund were transferred from the portfolio of Financial assets available for sale to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss in accordance with the IFRS 9 adoption. As at 1 January

2018 (reclassification date), the fair value of these investment units is nil. This fund was settled on 27 December 2018.

Although junior bonds are fully provided, Banco Montepio Group still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of shares and investment units of the funds (denominated in the table as senior bonds).

55 Transition to IFRS 9 – Financial instruments

As referred in the accounting policy described in Note 1 a), Banco Montepio adopted IFRS 9 "Financial Instruments" for the first time on 1 January 2018. This led to changes in the classification and valuation of certain financial assets and liabilities, with the following impacts:

(Thousands of Euro)

	IAS 39						IFRS 9		
31 December 2017	**Measurement basis**	**Book value**	**Reclassification**	**Notes**	**Remeasurement**	**Notes**	**Book value**	**Measurement basis**	**1 January 2018**
Assets		**19 809 591**	**-**		**(92 289)**		**19 717 302**	**-**	
Cash and deposits at central banks	Amortised cost	1 733 626	-		-		1 733 626	Amortised cost	Cash and deposits at central banks
Loans and advances to credit institutions repayable on demand	Amortised cost	59 472	-		-		59 472	Amortised cost	Loans and advances to credit institutions repayabl
Financial assets held for trading	Fair value through profit or loss	184 076	-		-		184 076	Fair value through profit or loss	Financial assets held for trading
Financial assets available for sale	Fair value through other comprehensive income	2 602 791	(836 750)	**A**	-		1 766 041	Fair value through other comprehensive income	Financial assets at fair value through other comprehensive income
			862 073	**A and B**	(1 496)	**B**	860 577	Fair value through profit or loss	Financial assets not held for trading mandatorily at fair value through profit or loss
Other loans and advances to credit institutions	Amortised cost	558 711	-		(915)	**C**	557 796	Amortised cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortised cost	12 748 717	(25 323)	**B**	(140 980)	**D**	12 582 414	Amortised cost	Loans and advances to customers
Non-current assets held for sale		714 133	-		-		714 133		Non-current assets held for sale
Property, plant and equipment		220 002	-		-		220 002		Property, plant and equipment
Intangible assets		30 092	-		-		30 092		Intangible assets
Investment in subsidiaries and associates companies		315 903	-		-		315 903		Investment in subsidiaries and associates companies
Current tax assets		6 589	-		-		6 589		Current tax assets
Deferred tax assets		458 864	-		54 610	**G**	513 474		Deferred tax assets
Other assets		176 615	-		(3 508)	**E**	173 107		Other assets
Liabilities		**18 080 580**	**-**		**944**		**18 081 524**		
Deposits from central banks	Amortised cost	1 557 840	-		-		1 557 840	Amortised cost	Deposits from central banks
Financial liabilities held for trading	Fair value through profit or loss	16 171	-		-		16 171	Fair value through profit or loss	Financial liabilities held for trading
Deposits from other credit institutions	Amortised cost	2 011 197	-		-		2 011 197	Amortised cost	Deposits from other credit institutions
Deposits from customers	Amortised cost	12 555 325	-		-		12 555 325	Amortised cost	Deposits from customers
Debt securities issued	Amortised cost	1 389 999	-		-		1 389 999	Amortised cost	Debt securities issued
Hedging derivatives	Fair value through profit or loss	1 663	-		-		1 663	Fair value through profit or loss	Hedging derivatives
Provisions		26 207	-		944	**D**	27 151		Provisions
Current tax liabilities		1 104	-		-		1 104		Current tax liabilities
Other subordinated debt	Amortised cost	237 016	-		-		237 016		Other subordinated debt
Oither liabilities		284 058	-		-		284 058		Oither liabilities
Equity		**1 729 011**	**-**		**(93 233)**		**1 635 778**		
Share capital		2 420 000	-		-		2 420 000		Share capital
Other equity instruments		6 323	-		-		6 323		Other equity instruments
Fair value reserves		27 976	(12 438)	**F**	-		15 538		Fair value reserves
Other reserves and retained earnings		(782 948)	12 438		(93 233)	**H**	(863 743)		Other reserves and retained earnings
Net profit/ (loss) for the period		57 660	-		-		57 660		Net profit/ (loss) for the period
Total Liabilities and Equity		**19 809 591**	**-**		**(92 289)**		**19 717 302**		

On 1 January 2018, Banco Montepio reclassified its financial assets and liabilities to the portfolios established in IFRS 9:

A. Reclassification of investment fund units in the amount of Euro 836,750 thousand classified, in accordance with IAS 39, in the portfolio of Financial assets available for sale, to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. This reclassification resulted from Banco Montepio's assessment on the characteristics of these financial instruments, in accordance with the requirements and classification criteria of IFRS 9.

B. Reclassification of loans and advances to customers in the amount of Euro 25,323 thousand, whose contractual cash flows do not represent solely payments of principal and interest (SPPI) over the outstanding capital, and that according to the IFRS 9 requirements, should be classified to Financial assets not held for trading mandatorily at fair value through profit or loss. The remeasurement of this caption in the amount of Euro 1,496 thousand, results from the revaluation of these loans at fair value.

C. Impact arising from the application of the "expected credit losses" (ECL) model to the portfolio of Other loans and advances to credit institutions, in accordance with IFRS 9.

D. Remeasurements of Loans and advances to customers and Provisions, in the amount of Euro 140,980 thousand and Euro 944 thousand, respectively, result from the replacement of the "incurred losses" model of IAS 39 with a forward-looking model of "expected credit losses" (ECL), in accordance with IFRS 9.

E. Impairment increase arising from the application of the "expected credit losses" (ECL) model to the debtors's balance classified under Other assets, in accordance with IFRS 9.

F. The breakdown of reclassifications made between fair value reserve and retained earnings is presented as follows:

	(Thousands of Euro)
Reclassification of the investment units' fair value reserve, net of taxes	(15 534)
Impairment increase for debt instruments - ECL	2 809
Recognition of own credit risk in other comprehensive income	287
	(12 438)

G. Impact on deferred tax assets, in the amount of Euro 54,610 thousand, as a result of the IFRS 9 adoption as of 1 January 2018.

H. Total effect of the IFRS 9 adoption in equity.

The impairment reconciliation in accordance with IAS 39 and 37 as at 31 December 2017 with impairment as at 1 January 2018:

(Thousands of Euro)

	IAS 39 and 37 impairment 31 December 2017	Amendment introduced by adoption of IFRS 9	IFRS 9 impairment 1 January 2018
Financial assets at fair value through other comprehensive income			
- Fixed income securities	35 107	2 809	37 916
- Variable income securities	137 217	(137 217)	-
Other loans and advances to customers	-	915	915
Loans and advances to customers	1 008 261	140 980	1 149 241
Other assets	25 183	3 508	28 691
Provisions	16 147	944	17 091
	1 221 915	**11 939**	**1 233 854**

Financial assets at fair value through other comprehensive income – Variable income securities records the amount related to the charge-off of impairment recorded for investment fund units classified in accordance with IAS 39 in the portfolio of Financial assets available for sale and reclassified in accordance with the classification criteria of IFRS 9 for the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. All other items record the remeasurement effect calculated in accordance with IFRS 9 criteria.

56 Contingences

Resolution Fund

Resolution measure of Banco Espírito Santo, S.A. (BES)

Bank of Portugal applied a resolution measure to Banco Espírito Santo, SA on 3 August 2014, pursuant to the provisions of Article 145 C (1.b) of the General Regime for Credit Institutions and Financial Companies (RGICSF), in the partial transfer method of assets, liabilities, off-balance sheet assets and assets under management to a transition bank, Novo Banco, S.A. (Novo Banco). As part of this process, the Resolution Fund made a capital injection in Novo Banco in the amount of Euro 4,900,000 thousand, becoming the sole shareholder, and contracted loans in the amount of Euro 4,600,000 thousand, of which Euro 3,900,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a group of credit institutions, of which Euro 70,000 thousand were granted by Banco Montepio.

On 29 December 2015, Bank of Portugal transferred to the Resolution Fund the emerging liabilities from possible negative effects of future decisions arising from the resolution process, resulting in liabilities or contingencies.

On 7 July 2016, the Resolution Fund stated that it would review and assess the proceedings to take following the disclosure of the report on the results of the independent evaluation exercise, which was carried out to estimate the level of credit recovery for each class of creditors in the possible scenario of a normal BES insolvency procedure on 3 August 2014.

Thus, under the applicable law, and where it is found that at the time of BES settlement, creditors whose credit facilities have not been transferred to Novo Banco, assume a loss higher than would have been hypothetically if BES had entered into a settlement procedure immediately prior to the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund. To date, there is a relevant body of legal proceedings underway against the Resolution Fund.

Bank of Portugal announced on 20 February 2017 that it has decided to choose the potential Lone Star investor for a definitive phase of negotiations and in conditions of exclusivity aiming to complete the terms in which the sale of the Fund's share Resolution on Novo Banco, SA would come about/will be held, and on 31 March 2017, a further statement was issued stating:

“Today, the Bank of Portugal choose Lone Star to complete the sale of the Novo Banco and the Resolution Fund signed the transaction’s contract documents.

Under the terms of the agreement, Lone Star will make capital injections in Novo Banco for a total amount of Euro 1,000,000 thousand, of which Euro 750,000 thousand at the time of the transaction completion and Euro 250,000 thousand within a period of up to 3 years.

Due to this capital injection, Lone Star will hold 75% of the capital stock of the Novo Banco and the Resolution Fund will maintain 25% of the capital.

The conditions agreed also include the existence of a contingent capitalisation mechanism, under which the Resolution Fund, as a shareholder, commits to make capital injections in the event of certain cumulative conditions, related to: i) the performance of a delimited set of assets of Novo Banco and ii) with the development of the Bank’s capitalisation levels.

Possible capital injections to be made pursuant to this contingent mechanism benefit from a capital buffer resulting from the planned injection to be made under the terms of the operation and are subject to an absolute ceiling.

The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund, the alignment of benefits and supervision, despite the restrictions arising from the application of the State aid rules.

The completion of the sale is dependent on obtaining the usual regulatory authorizations (including the European Central Bank and the European Commission) and a liability management exercise, subject to the approval of the bondholders, which will cover non-subordinated bonds of Novo Banco and that, by offering new bonds, it will generate at least Euro 500 million of own funds eligible for the calculation of the CET1 ratio. "

On 18 October 2017, the Bank of Portugal announced the sale of the Novo Banco, stating that:

- “Bank of Portugal and the Resolution Fund concluded today the sale of Novo Banco to Lone Star through the injection of Euro 750 million by the new shareholder, which will be followed by a new capital injection of Euro 250 million, to be completed by the end of 2017”.
- “The conclusion of this operation entails a complex process of negotiations with the new shareholder, the European institutions and other national institutions, in close cooperation with the Government.”
- “The completion of the operation announced on 31 March allows a very significant strengthening of the equity of Novo Banco and ceases the transition status applicable to the bank since its inception.”

- "As of this date, Novo Banco will be held by Lone Star and by the Resolution Fund, with holdings of 75% and 25%, respectively, and will be provided with the necessary means to execute a plan guaranteeing that the bank will continue to play its decisive role in financing the national economy."

On 28 March 2018, the Resolution Fund issued a statement on the payment to be made to Novo Banco about the results of 2017, from which is about the activation of the contingent capitalisation mechanism provided for in the contracts celebrated for Novo Banco's sale. The amount to be paid to Novo Banco in 2018 by the Resolution Fund in relation to 2017 financial statements amounts to Euro 792 million.

The conditions agreed with the sale of Novo Banco, S.A. also include a contingent capitalisation mechanism, under which the Resolution Fund undertakes to make payments to Novo Banco, S.A. if certain cumulative conditions materialise, related to: i) the performance of a delimited set of assets and ii) an increase of the Bank's capitalisation levels. In case these conditions are met, the payments are subject to a maximum limit of Euro 3,890 thousand. However, payment will only be made after the statutory clearance of accounts and after a verification procedure to be made by an independent entity, which aims to confirm that the amount to be paid by the Fund is correctly calculated.

Firstly, the Fund will use the available financial resources, resulting from contributions paid, directly or indirectly by the banking sector. These resources will be complemented by a loan to be obtained from the State, on the agreed terms in October 2017, as it was disclosed back then. The concrete amount of this loan is not yet accurate, but it is estimated to be a maximum Euro 450 million, below the annual limit of Euro 850 million, with budget.

The Fund has already disbursed a total of Euro 4,900 million of financial support to the resolution measure applied to Banco Espírito Santo, S.A., corresponding to the realization of capital of the new bank in August 2014. The Fund did not make any other payment, but has already registered in its 2017 accounts a provision of Euro 792 million, payment due in 2018.

Resolution measure of Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of Bank of Portugal decided on 19 December 2015 to declare that Banif was "at risk or in a situation of insolvency" and to start an urgent resolution of the institution by the partial or total disposal method of its activity, which has materialized, on 20 December 2015, in the disposal of rights and obligations, representing assets, liabilities, off-balance sheet assets and assets under management of Banif to Banco Santander Totta S.A. (BST).

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. (Oitante), created specifically for this purpose, which has as sole shareholder the Resolution Fund, with the Oitante proceeding to the issuance of debt bonds in the amount of Euro 746,000 thousand, and a guarantee provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

The transaction involved public support, of which Euro 489,000 thousand by the Resolution Fund. The Euro 489,000 thousand assumed by the Resolution Fund were financed through a mutual agreement granted by the State.

Other relevant conditions

The resolution measures applied to BES and Banif referred to above determined that, as at 31 December 2016, the Resolution Fund held the entire capital stock of Novo Banco and Oitante, at the same time as the Resolution Fund contracted a loan and assumed other liabilities and contingent liabilities, namely:

- Effects of the application of the principle that no institutions' creditor under resolution may incur greater loss than it would have assumed may that institution had entered into settlement.

- Negative effects arising from the resolution process resulting in additional liabilities or contingencies for the Novo Banco, S.A., which must be neutralized by the Resolution Fund.

- Legal proceedings against the Resolution Fund.

- Guarantee provided to the bonds issued by Oitante SA for a total amount of Euro 746,000 thousand, counter-guaranteed by the Portuguese State, for which Oitante, S.A. made an early repayment of Euro 90,000 thousand.

In order to satisfy the responsibilities of the Resolution Fund, in particular to repay the loans obtained and to meet other responsibilities that may arise, the Resolution Fund essentially has revenues from initial and periodic contributions of the participating institutions and the banking sector established by Law no. 55-A/2010. In this regard, the possibility of the Government establishing, through an ordinance, that participating institutions make special contributions is also expected, in the situations provided for in applicable legislation, particularly in the event that the Resolution Fund does not have its own resources to satisfy its obligations.

Banco Montepio's financial statements of 31 December 2018 mirror the expectation that no new special or extraordinary contributions will be required to the institutions participating in the Resolution Fund.

In the 2018 accounts, Novo Banco explains that a compensation in the amount of Euro 1,149 million will be requested under the Contingent Capital Facility (CCA). 69% of this amount results from losses incurred on assets included in the CCA (Euro 795 million) and 31% from regulatory capital requirements (Euro 354 million), within the transition period adjustment of capital ratios and also due to the impact of IFRS 9.

According to non-confidential information from the European Comission, the three support measures of the Resolution Fund and the State that compose the sale agreement of Novo Banco and that are connected to a portfolio of loans with uncertain coverage are as follows:

(i) Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning of that portfolio until the maximum of Euro 3,89 thousand million, subject to several conditions, namely in terms of reduction of the capital ratio CET1;

(ii) Novo Banco may issue debt until Euro 400 million, from Tier 2, that the Resolution Fund will subscribe for lack of investors, and which is deducted from the Euro 3,89 billion related to the contingent capital mechanism;

(iii) In case the total capital ratio reaches values below those defined in the Supervisory Review and Evaluation Process ("SREP"), the Portuguese State may inject adicional capital in Novo Banco, subject to determined conditions.

In the future, in case of need to use these contributions, may have relevance to the financial statements.

Since 2013, the Group has made mandatory contributions, as established in Decree-Law no. 24/2013, of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund provided for in the RGICSF.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which clarified that the periodic contribution to the RF should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in the Article 9 of the aforementioned Decree-Law. Banco Montepio is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: “it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to Banco Espírito Santo (BES). Therefore, the eventual collection of a special contribution appears to be unlikely”.

In accordance with Decree-Law no. 24/2013, of 19 February, it is Bank of Portugal’s responsibility to determine, by instruction, the rate to be applied in each year based on the objective incidence of periodic contributions. Instruction no. 20/2017 of the Bank of Portugal, of 19 December, sets the base rate to be effective in 2018 for the determination of periodic contributions to the Resolution Fund by 0.0459%.

As at 31 December 2018, Banco Montepio made regular contributions to the Resolution Fund in the amount of Euro 4,886 thousand (31 December 2017: Euro 3,473 thousand) and paid the contribution to the banking sector in the amount of Euro 10,642 thousand (31 December 2017: Euro 11,406 thousand) and were recognised as expense in April and June, in accordance with IFRIC 21 – Levies.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of Euro 3,900,000 thousand originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from materialization of future contingencies will determine the maturity adjustment of Portuguese State and Bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

The announcement made by the Resolution Fund at 21 March 2017 states:

- “The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amounted to Euro 4,953,000 thousand, of which Euro 4,253,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a set of banks.
- “Those loans will due in December 2046, without loss/prejudice to the possibility of early/anticipated repayment based on the use of revenues/receipts from the Resolution Fund. The maturity will be adjusted in conditions that guarantee the ability of the Resolution Fund to fully meet its obligations based on regular revenues/income and without the need for special contributions or any other

extraordinary contributions. Following the resolution measures of BES and Banif, liabilities arising from contracts obtained by the Resolution Fund with the Portuguese State and the banks, compete in pari passu among themselves."

- “The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund."
- “The new conditions allow for full payment of the Resolution Fund's liabilities and their remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

Following these changes to the loans contracted by the Resolution Fund, as at 31 December 2018 and 2017, the amount of credit and interest owed to the Group amounted to Euro 70,000 thousand. This loan generated interest in the amount of Euro 1,419 thousand (31 December 2017: Euro 1,641 thousand).

In this context, considering the above-mentioned exposure, it is not possible at this date to estimate the effects on the Resolution Fund arising from the application of the principle that no creditor of the credit institution under resolution may incur greater loss than the one it would have assumed may that institution entered into settlement of liabilities or additional contingences for Novo Banco, S.A. that have to be neutralized by the Resolution Fund, legal proceedings against the Resolution Fund, including the so-called Harmed BES process; and the guarantee given to the bonds issued by Oitante.

Thus, and regardless the possibility provided for in the applicable legislation for the collection of special contributions, given the recent developments regarding the renegotiation of the conditions of loans granted to the Resolution Fund by the Portuguese State and by a group of banks, Banco Montepio included, and to the public announcements made by the Resolution Fund and by the Minister of Finance which state that this possibility will not be used. The financial statements, as of 31 December 2018, reflect Banco Montepio’s expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif.

Single Resolution Fund

Under the Single European Resolution Fund ('FUR') the Group made an initial contribution of Euro 8,452 thousand in 2015, which, under the Intergovernmental Agreement on the transfer of the mutualisation of contributions to FUR, was not transferred to FUR but used for the compliance with obligations of the Resolution Fund resulting from the application of resolution measures prior to the date of application of the Agreement. This amount will have to be re-set over an 8-year period (starting in 2016) through periodic contributions to FUR. The amount of the cash contribution as at 31 December 2018 attributable to the Group was Euro 8,051 thousand (31 December 2017: Euro 9,645 thousand). The Group also opted for the settlement of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) in the form of irrevocable payment commitment, in accordance with note 10.

57 Subsidiary and associated companies

As at 31 December 2018, companies directly or indirectly held by Banco Montepio, are as follows:

Subsidiary	Head office	Share capital	Currency	Activity	Group		Bank
					% of control	% of effective participation	% of direct participation
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde Escudo	Banking	100.00%	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Porto	175 000 000	Euro	Management of shareholdings	100.00%	100.00%	100.00%
Casa da Sorte - Organização Nogueira da Silva, S.A	Lisboa	5 000 000	Euro	Lotteries and other betting services	89.628%	89.628%	89.628%
Herdeiros de Manuel Martins Travassos, Lda.	Lisboa	160 000	Euro	Lotteries and other betting services	100.00%	100.00%	100.00%
Pataca da Sorte - Bingos e Animação Unipessoal, Lda.	Lisboa	5 000	Euro	Lotteries and other betting services	100.00%	100.00%	100.00%
Augusto da Silva Carvalho, Lda.	Lisboa	24 940	Euro	Lotteries and other betting services	99.50%	99.50%	99.50%
Binganimus - Bingos e Animação, S.A.	Lisboa	50 000	Euro	Lotteries and other betting services	100.00%	100.00%	100.00%
Carlos Augusto Lança & Filhos, Lda.	Lisboa	23 954	Euro	Lotteries and other betting services	100.00%	100.00%	100.00%
Torre da Sorte, Lda.	Lisboa	5 000	Euro	Lotteries and other betting services	100.00%	100.00%	100.00%

(Euro)

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	10 000 000	Accomodation, catering and similar/ Hotels with restaurant	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	2 449 707	Management of Real Estate	26.00%
CESource, ACE	Lisboa	-	Management of IT systems	18.00%

Banco Montepio acquired 89.628% of Casa da Sorte - Nogueira da Silva, S.A., as mentioned in note 27.

As at 31 December 2018, Banco Montepio held investment units of special purpose entities and investment funds as follows:

Subsidiary	Establishment year	Acquisition year	Head office	% of controlling interest	Consolidation method
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full

58 Relevant facts

Election of the Corporate Bodies of Banco Montepio

Banco Montepio's General Meeting, in its extraordinary session of 16 March 2018, changed the nature of its governance model, leading Banco Montepio governing bodies to include, namely, a Board of Directors and an Audit Committe, and elected new members of governing bodies for the 2018-2021 period.

On 4 April 2018, the Bank of Portugal granted the final endorsement, including its composition, of the following corporate bodies: General Meeting, Board of Directors and Audit Committee.

The above-mentioned corporate bodies came into effect on the 21 March 2018 and Mr. Carlos Manuel Tavares da Silva will exercise, under the authorised terms of the Bank of Portugal, functions of Chairman of the Board of Directors and Chairman of the Executive Committee.

On 23 November 2018, by written unanimous decision of the shareholder Montepio Geral - Associação Mutualista, Mrs. Dulce Maria Pereira Cardoso Mota Jorge Jacinto was elected for the position of executive member of the Board of Directors of Banco Montepio, functions of Chairman of the Executive Committee.

Banco Terra, S.A.

As part of the strategic remake of its international shareholdings, on 31 August 2018, Banco Montepio announced that its subsidiary Montepio Holding, SGPS, SA agreed to sell 45.78% of the share capital of Banco Terra, S.A. to Arise, a joint venture formed together by the Norwegian sovereign trust fund Norfund, by the Dutch development bank FMO and by Rabobank to support growth in Africa through investments in African financial institutions.

The sale operation of this shareholding was completed in December 2018, with the Banco Montepio Group no longer holding any interest in Banco Terra S.A. Therefore, as at 31 December 2018, Banco Terra S.A. is not included in the Group's consolidation perimeter.

The shareholding's disposal held by the Group in BTM resulted in a gain of Euro 2.8 million in the 2018 consolidated financial statements. The completion of this operation led to the loss of control of this subsidiary, which in accordance with applicable accounting standards, a negative reserve of Euro 6.8 million was recorded against the cincome statement for the period. Therefore, the consolidated net profit was unfavorably affected by Euro 3.7 million.

With regards to Banco Montepio's capital ratio levels, this operation provides positive impacts of 9 basis points in the Core Tier 1 (Common Equity Tier 1) and 6 basis points in the Total Capital ratio, in both cases supported by the decrease in the risk weighted assets.

Casa da Sorte - Organização Nogueira da Silva, S.A.

On 24 April 2019, Banco Montepio performed a sale operation to the entire capital of the subsidiary Casa da Sorte - Organização Nogueira da Silva, S.A. This investment had been acquired in a credit recovery process, with a view to its subsequent disposal, and is recorded as a discontinuing operation, in accordance with note 57. Following this disposal, the Casa da Sorte Group is no longer included in the consolidation perimeter of Banco Montepio.

Access to the special scheme applicable to deferred tax assets

In the first half of 2018, Banco Montepio joined the special scheme applicable to deferred tax assets approved by Law no. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in the taxation periods beginning on or after 1 January 2015, as well as deferred tax assets recorded in the financial statements for the last reporting period prior to that date and to the portion of associated negative variations in net equity, in accordance with the Extraordinary General Meeting of Banco Montepio, which took place on 6 July 2016.

59 Subsequent events

In addition to the information disclosed in this document, there were no significant transactions and / or relevant events to be disclosed.

60 Note added for translation

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

Statement of Compliance of the Financial Information Issued by the Board of Directors

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS

This declaration is issued pursuant to paragraph c) of No. 1 of article 245 of the Securities Code approved by Decree-Law no. 486/99, dated 13 November, and republished by Law no. 35/2018.

It is the responsibility of the Board of Directors to prepare the management report and prepare the financial statements and present them, in a true and appropriate manner, the financial position of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG), the result of operations as well as the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system to prevent and detect any errors or irregularities.

We confirm, to the best of our knowledge and belief, that:

- All individual and consolidated financial information contained in the accounting documents, with reference to 31 December 2018, was prepared in accordance with the applicable accounting standards, giving a true and proper image of the assets and liabilities, the financial situation and the results of CEMG and the companies included in the consolidation perimeter;
- The management report gives a true account of the evolution of the business, the performance and the position of the institution and of the companies included in the consolidation perimeter, and contains a description of the main risks and uncertainties they face.

CONSELHO DE ADMINISTRAÇÃO

Dulce Maria Pereira Cardoso Mota Jorge Jacinto
(Executive Vice-Chairman)

Carlos Manuel Tavares da Silva
(Chairman)

Nuno Cardoso Correia da Mota Pinto
(Executive Member)

Luís Eduardo Henriques Guimarães
(Non-Executive Member)

José Carlos Sequeira Mateus
(Executive Member)

Amadeu Ferreira de Paiva
(Non-Executive Member)

Pedro Miguel Nunes Ventaneira
(Executive Member)

Manuel Ferreira Teixeira
(Non-Executive Member)

Carlos Miguel López Leiria Pinto
(Executive Member)

Vítor Manuel do Carmo Martins
(Non-Executive Member)

Helena Catarina Gomes Soares de Moura Costa Pina
(Executive Member)

Rui Pedro Brás de Matos Heitor
(Non-Executive Member)

Leandro Rodrigues da Graça Silva
(Executive Member)

Pedro Jorge Gouveia Alves
(Non-Executive Member)

Carlos Francisco Ferreira Alves
(Non-Executive Member)

Lisbon, 29 April 2019

Compliance with the Recommendations Regarding Information Transparency and Asset Valuation

COMPLIANCE WITH THE RECOMMENDATIONS REGARDING INFORMATION TRANSPARENCY AND ASSET VALUATION

The Banco de Portugal, through circular letter 97/08/DSBDR of 3 December 2008 and 58/09/DSBDR of 5 August 2009, recommends the need for institutions to comply appropriately with the recommendations of the Financial Stability Forum (FSB) and the Committee of European Banking Supervisors (CEBS) relative to the transparency of information and valuation of assets, taking into account the principle of proportionality, by preparing a specific annex to the Annual Report and Accounts aimed at replying to the questionnaire attached to circular letter 46/08/DSBDR of Banco de Portugal on the subject.

This chapter serves the purpose of complying with the Banco de Portugal recommendation, using references to the detailed information presented in the various chapters of this Report and Accounts, whenever applicable.

I.	Business Model	Document, Chapter and Page
1.	Description of the business model (i.e. reasons for the development of the activities/businesses and respective contribution to the process of value creation) and, if applicable, of any changes made (for example as a result of the period of turbulence).	**MR** – Business Segments, page 43, Transformation Plan, page 3939
2.	Description of strategies and objectives (including those specifically related to the undertaking of securitisation operations and operations with structured products);	**MR** – Message from the President, page 7, Transformation Plan, page 39
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms).	**MR** – Business Segments, page 43, Financial analysis, page 65, **FSNO** – Indicators of the balance sheet and income statement by operating segment (NOTE 54)
4.	Description of the type of activities developed, including a description of the instruments used, their functioning and qualifying criteria that products/investments have to meet.	**MR** – Business Segments, page 43, Financial analysis, page 65, Risk Management, page 88 **FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Hedging derivatives (NOTE 26), Other financial assets at amortised cost (NOTE 27)
5.	Description of the objective and extent of the involvement of the institution (i.e. commitments and obligations assumed) relative to each activity developed.	
II.	**Risks and Risk Management**	
6.	Description of the nature and extent of risks incurred in relation to the activities developed and instruments used.	**MR** – Risk Management, page 88 **FSNO** – Risk Management (NOTE 55)
7.	Description of risk management practices (including, in particular, under current circumstances, liquidity risk) of relevance to the activities, description of any identified weaknesses and corrective measures that have been adopted.	**MR** – Risk Management, page 88 **FSNO** – Risk Management (NOTE 55)
III.	**Impact of the period of financial turbulence on net income**	
8.	Qualitative and quantitative description of net income, with emphasis on losses (when applicable) and impact of write-downs on net income.	**MR** – Financial analysis, page 65

		Document, Chapter and Page
9.	Breakdown of write-downs/losses by type of product and instrument affected by the period of turbulence, namely, the following: commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), collateralised debt obligations (CDO) and asset-backed securities (ABS).	**MR** – Financial analysis, page 65, Risk Management, page 88 **FSNO** – Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (NOTE 6), Net gains / (losses) from financial assets at fair value through other comprehensive income (NOTE 7), Risk Management (NOTE 55)
10.	Description of the reasons and factors responsible for the impact incurred.	**MR** – Business Environment page 33, Financial analysis, page 65
11.	Comparison of i) impacts between (relevant) periods; and ii) financial statements before and after the impact of the period of turbulence.	**MR** – Financial analysis, page 65 **FSNO** – Financial Statements, page 127
12.	Breakdown of write-downs between realised and unrealised amounts.	**MR** – Financial Analysis, page 65 **FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27)
13.	Description of the influence of the financial turbulence on the entity's share price.	Not applicable.
14.	Disclosure of maximum loss risk and description of how the institution's situation could be affected by the prolonging or worsening of the period of turbulence or by a market recovery.	**MR** – Risk Management, page 88 **FSNO** – Risk Management (NOTE 55)
15.	Disclosure of the impact that the evolution of the spread associated to the institution's own liabilities had on net income, as well as the methods used to determine this impact.	**MR** – Financial Analysis, page 65 **FSNO** – Fair Value (NOTE 49), Risk Management (NOTE 55)
IV.	**Levels and types of exposure affected by the period of turbulence**	
16.	Nominal amount (or amortised cost) and fair values of outstanding exposures.	**FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27), Risk Management (NOTE 55)
17.	Information on mitigation of credit risk (i.e. through credit default swaps) and the respective effect on existing exposure.	**MR** – Risk Management, page 88 **FSNO** – Risk Management (NOTE 55)
18.	Detailed disclosure on exposures, with breakdown by: - Seniority level of exposure/tranches held; - Level of credit quality (e.g. ratings, vintages); - Geographic origin; - Activity sector; - Source of the exposure (issued, retained or acquired); - Product characteristics: e.g. ratings, weight/portion of associated subprime assets, discount rates, spreads, funding; - Characteristics of the underlying assets: e.g. vintages, loan-to-value ratio, information on liens, weighted average life of the underlying asset, assumptions on the evolution of situations of prepayment, and expected losses.	**MR** – Risk Management, page 88 **FSNO** – Loans and advances to customers (NOTE 22), Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27), Indicators of the balance sheet and income statement by operating segment (NOTE 54), Risk Management (NOTE 55)
19.	Movements that have occurred in exposures between relevant reporting periods and the underlying reasons for these variations (sales, write-downs, purchases, etc.).	**MR** – Financial Analysis, page 65 **FSNO** – Financial assets and liabilities held for trading (NOTE 23), Financial assets at fair value through other comprehensive income (NOTE 25), Other financial assets at amortised cost (NOTE 27)

		Document, Chapter and Page
20.	Explanation of exposure (including "vehicles" and, in this case, the respective activities) that have not been consolidated (or that have been recognised during the crisis) and the associated reasons.	The CEMG Group consolidates all the exposures in which it holds the majority of the capital or a significant influence. Additional information on Special Purpose Vehicles (SPV) can be found in **FSNO** – Securitisation of assets (NOTE 53)
21.	Exposure to monoline insurers and quality of insured assets: - Nominal value (or amortised cost) of the insured exposure, as well as of the amount of acquired credit protection; - Fair values of outstanding exposures, as well as the related credit protection; - Amount of write-downs and losses, broken down into realised and unrealised amounts; - Breakdown of exposure by rating or counterpart.	Not applicable.
V.	**Accounting policies and valuation methods**	
22.	Classification of the transactions and structured products for accounting purposes and the related accounting treatment.	**FSNO** – Accounting policies (NOTE 1)
23.	Consolidation of the Special Purpose Entities (SPE) and other "vehicles", and their reconciliation with structured products affected by the period of turbulence.	**FSNO** – Accounting policies (NOTE 1), Securitisation of assets, page (NOTE 53)
24.	Detailed disclosures on fair values of financial instruments: - Financial instruments to which fair value is applied; - Fair value hierarchy (a breakdown of all exposures at fair value by different levels of the fair value hierarchy and a breakdown between cash and derivative instruments, as well as disclosures on migrations between the different levels); - Treatment of day 1 profits (including quantitative information); - Use of the fair value option (including its conditions for use) and related amounts (with appropriate breakdowns).	**FSNO** – Accounting policies (NOTE 1)
25.	Disclosures on the modelling techniques used for the valuation of financial instruments, including information about: - Modelling techniques and the instruments to which they are applied; - Valuation processes (including in particular the assumptions and inputs on which the models are based); - Types of adjustment applied to reflect model risk and other valuation uncertainties; - Sensitivity of the fair value (namely to variations in key assumptions and inputs); - Stress scenarios.	**MR** – Risk Management, page 88 **FSNO** – Risk Management (NOTE 55)
VI.	**Other relevant aspects in disclosures**	
26.	Description of the disclosure policies and principles used in the reporting of disclosures and in financial reporting.	**FSNO** – Accounting policies (NOTE 1)

Caption: MR – Management Report; FSNO – Financial Statements, Explanatory Notes and Opinions on the Accounts.

Alternative Performance Measures

ALTERNATIVE PERFORMANCE MEASURES

On October 5, 2015, the European Securities and Markets Authority published a set of guidelines – ESMA/2015/1415 – addressing the disclosure of information by entities, other than States, whose securities are admitted to trading on a regulated market and to which is required the disclosure of information as set out by the Transparency Directive 2004/109/EC of the European Parliament and of the Council.

The aforementioned guidelines aim to promote transparency and clarify the relevance of the indicators disclosed by those entities to measure their performance – Alternative Performance Measures (APM) – contributing to improve comparability, credibility and understanding of the APM.

This chapter serves the purpose of complying with the ESMA guidelines on APM related to the 2018 financial reporting, with references to the various chapters of this Report.

BALANÇO E EXTRAPATRIMONIAIS

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS (PAGE 69, 70, 72, 73)

Definition	Sum of the items 'Financial assets held for trading', 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets not held for trading mandatorily at fair value through profit or loss'.
Relevance	Assess the relative weight of this item from an assets' structure perspective.
Reference to FSNO	Page 128, (notes 23, 25, 27, 24)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Financial assets held for trading	78 168	184 076	23 739
(b)	Financial assets at fair value through other comprehensive income	2 399 504	13 029 318	444 073
(c)	Other financial assets at amortised cost	1126 125	-	1255 651
(d)	Financial assets not held for trading mandatorily at fair value through profit or loss*	-	-	492 594
(e)	Securities portfolio and other financial assets* (a+b+c+d)	3 603 797	13 213 394	2 216 057
(f)	Total net assets	21345 909	20 200 024	18 351327
	% Securities portfolio and other financial assets (e / f)	**16.9%**	**65.4%**	**12.1%**

* In 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest) and derivatives.

OTHER INVESTMENTS (PAGE 70)

Definition	Total assets excluding 'Cash and deposits at central banks and loans and advances to credit institutions', 'Loans to customers', 'Financial assets held for trading' , 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets not held for trading mandatorily at fair value through profit or loss'.
Relevance	Assess the relative weight of this item compared to Loans to customers and Securities portfolio from an assets' structure perspective.
Reference to FSNO	Page 128, (notes 22, 23, 25, 27, 24)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Total net assets	21345 909	20 200 024	18 351327
(b)	Cash and deposits at central banks and loans and advances to credit institutions	1009 948	2 096 036	1898 655
(c)	Net loans to customers	13 861034	13 029 318	12 123 212
(d)	Financial assets held for trading	78 168	184 076	23 739
(e)	Financial assets at fair value through other comprehensive income	2 399 504	2 200 893	444 073
(f)	Other financial assets at amortised cost	1126 125	-	1255 651
(g)	Financial assets not held for trading mandatorily at fair value through profit or loss	-	-	492 594
(h)	Other investments(a - b - c - d - e - g)	2 871130	2 689 701	2 113 403
	% of Other investments (g / a)	**13.5%**	**13.3%**	**11.5%**

ISSUED DEBT (PAGE 69, 74, 76)

Definition	Sum of the balance sheet items 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item from a funding structure perspective.
Reference to FSNO	Page 128, (notes 38, 40)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Debt securities issued	1920 035	1544 054	1093 934
(b)	Other subordinated debt	251028	236 193	50 044
(c)	Issued debt (a +b)	2 171063	1780 247	1143 978
(d)	Total liabilities	19 889 411	18 437 103	16 814 394
	% of Issued debt (c / d)	**10.9%**	**9.7%**	**6.8%**

COMPLEMENTARY RESOURCES (PAGE 74)

Definition	Total liabilities excluding 'Central bank resources and OCI, 'Customers' resources', 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item compared to Customers' resources and Issued debt from a funding structure perspective.
Reference to FSNO	Page 128, (notes 37, 38, 40)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Total liabilities	19 889 411	18 437 103	16 814 394
(b)	Central bank resources and OCI	4 598 887	3 344 557	2 640 755
(c)	Customers' resources	12 467 819	12 561 040	12 575 224
(d)	Debt securities issued	1 920 035	1 544 054	1 093 934
(e)	Other subordinated debt	251 028	236 193	50 044
(f)	Complementary resources (a - b - c - d - e)	5 250 529	4 095 816	3 095 192
	% of Complementary resources (e / a)	**26.4%**	**22.2%**	**18.4%**

OFF-BALANCE SHEET RESOURCES (PAGE 75, 76)

Definition	Assets under management by the Groups' subsidiaries being a constituent part of Total customers' resources.
Relevance	Contribute to the analysis of the evolution of total customers' resources.
Reference to FSNO	(note 51)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Securities investment funds	177 402	169 202	131 428
(b)	Real estate investment funds	294 436	292 058	294 536
(c)	Pension funds	205 839	220 773	227 964
(d)	Capitalization Insurance	45 415	26 913	22 072
	Off-balance sheet resources (a + b + c + d)	**723 092**	**708 946**	**676 000**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME (PAGE 78)

Definition	Results arising from interest received on loans granted to customers and interest paid on customers' resources.
Relevance	Assess the evolution of the banking activity of financial intermediation between granting loans and deposit taking.
Reference to FSNO	(note 3)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Interest received from loans to customers	394 449	363 701	313 856
(b)	Interest paid on customers' deposits	131 147	84 696	56 912
	Commercial net interest income (a - b)	**263 302**	**279 005**	**256 944**

OPERATING COSTS (PAGE 78, 82, 83)

Definition	Sum of staff costs, general and administrative expenses and depreciation and amortisations.
Relevance	Assess the evolution of the operating costs underlying the banking activity.
Reference to FSNO	Page 127, (notes 11, 12, 13)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Staff costs	165 505	156 207	156 004
(b) General and administrative expenses	94 024	87 005	77 726
(c) Depreciation and amortisation	24 270	24 809	25 897
Operating costs (a + b + c)	**283 799**	**268 021**	**259 627**

RESULTS FROM THE COMMERCIAL ACTIVITY (PAGE 78)

Definition	Sum of the Commercial net interest income and Net fees and commissions, subtracted by the Operating costs required to develop the business.
Relevance	Assess the evolution of the core banking activity.
Reference to FSNO	Page 127, (notes 3, 5)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Commercial net banking income	263 302	279 005	256 944
(b) Net commissions	101489	119 808	118 399
(c) Operating costs	283 799	268 021	259 627
Results from the commercial activity (a + b - c)	**80 992**	**130 792**	**115 716**

RATIOS

CTD RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMERS' RESOURCES (PAGE 13, 67)

Definition	Percentage of net loans to customers funded by the total amount of on-balance sheet resources from customers.
Relevance	Asses the leverage degree of the banking activity through the relationship between funds raised with customers and loans granted to customers.
Reference to FSNO	Page 128, (notes 22, 37, 38)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Net loans to customers	13 861034	13 029 318	12 123 212
(b) Customers' resources	12 467 819	12 561040	12 575 224
(c) Debt securities issued	1920 035	1544 054	1093 934
Net loans to customers / On-balance sheet customers' resources (a / (b + c))	**96.3%**	**92.4%**	**88.7%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT SPECIFIC IMPACTS (PAGE 13, 82, 83)

Definition	Operating efficiency ratio measured by the portion of the total operating income that is absorbed by operating costs, excluding results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
Relevance	Assess the evolution of operating efficiency underlying the banking activity, removing the volatility effect of results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
Reference to FSNO	Page 127, (notes 6, 7, 8, 9, 10, 11, 12, 13)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Tota operating income	371522	505 267	377 352
(b)	Results from financial operations (i + ii + iii)	36 987	70 737	10 899
(i)	Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(18 194)	(14 807)	12 273
(ii)	Net gains / (losses) from financial assets at fair value through other comprehensive income	53 736	83 622	5 626
(iii)	Net gains / (losses) from foreign exchange differences	1445	1922	(7 000)
(c)	Other income (i + ii)	(31774)	35 885	(8 130)
(i)	Net gains / (losses) arising from the sale of other financial assets	12 161	37 850	9 075
(ii)	Other operating income / (expenses)	(43 935)	(1965)	(17 205)
(d)	Operating costs	283 799	268 021	259 627
	Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**77.5%**	**67.2%**	**69.3%**

COST OF CREDIT RISK (PAGE 13, 83)

Definition	Ratio that measures the cost recognized in the period, recorded as loan impairment in the income statement, to cover the risk of default of loans granted to customers.
Relevance	Assess the quality of the loan portfolio given the cost borne with the risk of loan default.
Reference to FSNO	(notes 14, 22)
Components and calculus	

(thousand euros)

		2016	2017	2018
(a)	Loan impairments (annualized[1])	182 479	160 711	73 191
(b)	Average gross loans to customers[2]	15 318 362	14 738 284	13 709 146
	Cost of credit risk (a / b)	**1.2%**	**1.1%**	**0.5%**

1) Annualized values considering the total number of days elapsed and total days of the year. 2) Average balance for period (2016: 366 days / 2017: 365 days / 2018 : 365 days).

RATIO OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS (PAGE 13, 95)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of credit and interest overdue for more than 90 days in relation to the total loan portfolio.
Reference to FSNO	(note 22)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Loans and interest overdue by more than 90 days	1371620	1146 222	913 885
(b) Gross loans to customers	15 040 651	14 063 139	13 067 788
Ratio of loans and interest overdue by more than 90 days (a / b)	**9.1%**	**8.2%**	**7.0%**

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 13, 95)G

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the total amount of loans and interest overdue by more than 90 days.
Relevance	Assess the institution's ability to absorb potential losses arising from loans and interest overdue by more than 90 days.
Reference to FSNO	(note 22)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Impairment for balance sheet loans	1179 617	1033 821	944 576
(b) Loans and interest overdue by more than 90 days	1371620	1146 222	913 885
Coverage of loans and interest overdue by more than 90 days (a / b)	**86.0%**	**90.2%**	**103.4%**

NON-PERFORMING EXPOSURES / GROSS LOANS TO CUSTOMERS (PAGE 13, 71, 94, 95)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of non-performing exposures (NPE, according to EBA's definition) in relation to the total customer loan portfolio.
Reference to FSNO	(note 55)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Stock of Non-performing exposures	2 805 189	2 304 759	1879 079
(b) Gross customer loans	15 040 651	14 063 139	13 067 788
Non-performing exposures / Gross loans to customers (a / b)	**18.7%**	**16.4%**	**14.4%**

COVERAGE OF NON-PERFORMING EXPOSURES BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 13, 71, 94, 95)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the balance of non-performing exposures (NPE, according to the EBA definition).
Relevance	Assess the institution’s capacity to absorb potential losses arising from the NPE portfolio.
Reference to FSNO	(note 55)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Impairment for balance sheet loans	1 179 617	1 033 821	944 576
(b) Stock of Non-performing exposures	2 805 189	2 304 759	1 879 079
Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**42.1%**	**44.9%**	**50.3%**

COVERAGE OF NON-PERFORMING EXPOSURES BY IMPAIRMENT FOR BALANCE SHEET LOANS AND ASSOCIATED COLLATERALS AND FINANCIAL GUARANTEES (PAGE 13, 71, 94, 95)

Definition	Ratio that measures the proportion between the sum of the impairment for loans accumulated on the balance sheet and associated collaterals and financial guarantees in relation to the balance of non-performing exposures (NPE, according to EBA's definition).
Relevance	Assess the institution’s capacity to absorb the potential losses arising from the NPE portfolio.
Reference to FSNO	(note 55)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Impairment for balance sheet loans	1 179 617	1 033 821	944 576
(b) Associated collaterals and financial guarantees	1 282 693	970 986	675 440
(c) Stock of Non-performing exposures	2 805 189	2 304 759	1 879 079
Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	**87.8%**	**87.0%**	**86.2%**

FORBORNE EXPOSURES / GROSS CUSTOMER LOANS (PAGE 13, 71, 95)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of Forborne exposures (according to EBA's definition) in relation to the total loan portfolio.
Reference to FSNO	(nota 55)
Components and calculus	

(thousand euros)

	2016	2017	2018
(a) Stock of Forborne exposures	1 335 661	1 159 129	941 589
(b) Gross customer loans	15 040 651	14 063 139	13 067 788
Forborne exposures / Gross loans to customers (a / b)	**8.9%**	**8.2%**	**7.2%**

Activity Report and Opinion of the Supervisory Body

ACTIVITY REPORT AND OPINION OF THE SUPERVISORY BODY

ANNUAL REPORT OF THE AUDIT COMMITTEE

I - INTRODUCTION

The General Meeting of Caixa Económica Montepio Geral (hereinafter referred to as “CEMG” or “Banco Montepio”), in an extraordinary session dated 16 March 2018, changed the governance model from a two-tier system to a one-tier system, including a Board of Directors and Audit Committee, and to this end elected new corporate members for the term of office 2018-2021. The new governing bodies took office on 21 March 2018.

The Audit Committee (CAD) was constituted under the terms of the provisions in article 16 of the Articles of Association of Banco Montepio, dated 16 March 2018, and in subparagraph b) of number 1 of article 278 of the Commercial Companies Code, with the powers foreseen, namely, in article 423 - F of that diploma.

The Regulations of the Audit Committee were approved by the Board of Directors at a meeting held on 22 May 2018.

The Audit Committee's mission, under the terms established in the law and articles of association, is to supervise the company's administration, supervise the audit activities, the process of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management, control of compliance and the activity and independence of the statutory auditor.

The Audit Committee should ensure that the persons in charge of the internal control function can operate in an independent manner and are able to warn the supervisory function about adverse developments in terms of risk, as well as the supervision of the implementation and maintenance of policies on detection, management and mitigation of potential conflicts of interest.

The Audit Committee continued to ensure the mission established for the previous General and Supervisory Board and particularly for the Financial Matters Committee, namely with respect to scrutiny of certain financial operations and the monitoring of the limits established in article 109 of the RGICSF by the supervisory body.

The Remunerations, Nominations and Assessment Committee which, pursuant to number 1 of article 17 of the Articles of Association of Caixa Económica Montepio Geral, should be composed of three members appointed by the Board of Directors from among its non-executive members or among the members of the Audit Committee, was not constituted during 2018, so, the Audit Committee performed the functions relative to assurance of the candidate members to governing bodies being 'fit and proper'.

The Audit Committee was composed of four members, a Chairman and three Members, in 2018.

Composition of the Audit Committee

- Luís Eduardo Henriques Guimarães, Chairman
- Amadeu Ferreira de Paiva
- Manuel Ferreira Teixeira
- Vítor Manuel do Carmo Martins

From 15 January 2019, the Audit Committee changed to being composed of five members following the entry of one more Member, Carlos Francisco Ferreira Alves, with two of its members belonging to the Risk Committee, and has a representative on the Asset and Liability Committee (ALCO).

The Audit Committee holds meetings, under the terms of article 4 of its Regulations, at least once a month, with the minutes being drawn with the topics discussed and decisions taken.

Its meetings are regularly attended, by invitation of the Audit Committee, by the heads of the Audit and Inspection Division (present at six meetings), the Risk Division (present at two meetings), the Compliance Division (present at eight meetings), the Strategic Planning, Control and Accounting Division (present at five meetings), the Credit Recovery Division (present at three meetings), and by the Statutory Auditor (present at five meetings).

During 2018, the members of the Audit Committee attended an institutional integration programme (induction), consisting of various training actions, in the perspective of Know Your Environment (regulatory & market trends).

Duties

The Audit Committee, in addition to all its other duties attributed by the law and articles of association, also performs the following duties:

a) Selecting and submitting to the deliberation of the General Meeting the election of the Statutory Auditor, as well as issuing an opinion on the fees for provision of legal review of accounts services to the CEMG Group and additional services to be rendered by the Statutory Auditor;

b) Annually appraising the audit plan for the individual and consolidated accounts and for the internal control system of Banco Montepio and the CEMG Group, as well as supervising the review of accounts;

c) Appraising, with the Board of Directors and Statutory Auditor, any issues and decisions of material relevance for the preparation of the documents presenting the accounts, including any significant changes of regulatory rules and accounting policies;

d) Annually preparing an opinion for Banco de Portugal, issuing a detailed opinion on the adequacy and efficacy of the internal control system of Banco Montepio and the CEMG Group;

e) Complying with all other attributions contained in the regulatory provisions of Banco de Portugal and the "Comissão do Mercado de Valores Mobiliários" (Securities Market Commission), namely, promoting, at CEMG and all other companies of the Group subject to supervision on a consolidated basis, the pursuit of the fundamental objectives established on matters of internal control and risk management.

The Audit Committee is also responsible for:

f) Approving, under proposal of the Executive Committee, the annual plans and organisational rules of the Internal Audit, Risk Management and Compliance Divisions, as well as appraising with the Executive

Committee and each Director of these areas, the respective responsibilities, allocation of resources, methods of action and annual reports;

g) Supervising the internal audit and compliance activity of Banco Montepio and giving the Executive Committee a prior opinion on the appointment, replacement and dismissal of the persons in charge of the internal audit and compliance function;

h) Issuing opinions on share capital increases by deliberation of the Board of Directors;

i) Calling the General Meeting when the Chairman of its board does not do so;

j) Supervising the efficacy of the internal audit, risk management and control of compliance activities and, especially, the action of the internal audit Division with respect to monitoring the internal control work;

k) Confirming and ensuring the independence of internal audit, being informed of any restriction of scope or difficulties in access to the required information;

l) Appraising the most significant reports, in particular those implying reputation risks or effective or real relevant losses, presented by internal audit to the Executive Committee and the subsequent action taken;

m) Monitoring all the inspection actions of Banco de Portugal, the "Comissão de Mercado de Valores Mobiliários" (Securities Market Commission), the "Autoridade de Supervisão de Seguros e Fundos de Pensões" (Insurance and Pension Funds Supervisory Authority) and the "Autoridade Tributária e Aduaneira" (Tax and Customs Authority) conducted to CEMG and all other companies of the Group subject to supervision on a consolidated basis.

II – SUMMARY OF THE ACTIVITIES UNDERTAKEN IN 2018

The Audit Committee, which took office on 21 March 2018, carried out 29 meetings, during the nine months in which it performed duties in 2018, having issued 80 opinions and held regular meetings with the Audit and Inspection Division, Risk Division, Compliance Division, Credit Recovery Division and Strategic Planning, Control and Accounting Division.

The minutes of Internal Audit's twenty-nine meetings provide a proper account of the topics discussed and decisions taken.

The main activities developed during 2018 are indicated below.

Regulations of the Audit Committee

The Audit Committee prepared its Regulations taking into account the provisions in article 16 of the Articles of Association of Banco Montepio, subparagraph b) of number 1 of article 278 of the Commercial Companies Code, with the powers foreseen, namely, in article 423 - F of that diploma, and the guidelines described in GL/1017/11 of 21 March 2018.

Work Plan 2018

The Audit Committee, considering i) the duties, powers and obligations derived from the Articles of Association of Caixa Económica Montepio Geral; ii) its own Regulations; iii) the applicable legislation; iv) the determinations of Banco de Portugal; and v) the Work Plans of the Divisions functionally reporting to it – Audit and Inspection, Compliance and Risk – as well as the Strategic Planning, Control and Accounting, prepared its own Work Plan for 2018.

The Work Plan for 2018 covered the minimum activities that must be ensured by the Audit Committee, including at least one monthly meeting, in addition to a series of other activities.

Appraisal of the Internal Audit Plan for 2018

The Audit Committee analysed the Internal Audit Plan for 2018 submitted by the Audit and Inspection Division, having issued a favourable opinion, although having indicated a set of recommendations, which were included in the final version of the document.

Regulations on the provision of services by the Statutory Auditor or Statutory Audit Firm

The Audit Committee, considering the need to define an internal policy on selection and assessment of the adequacy of the Statutory Auditor, and on the procedures for the Statutory Auditor's selection, prepared the Regulations on the provision of services by the Statutory Auditor or Statutory Audit Firm, in light of the legislation and regulations on the matter, namely article 16 of Regulation (EU) 537/2014, of the European Parliament and Council of 16 April 2014, article 5 of Regulation 537/2014 of 6 April, of the European Parliament, subparagraph m) of article 423 – F of the Commercial Companies Code, and article 77, number 8 of Law 140/2015.

Relations with the External Auditor and Statutory Auditor

The Statutory Auditor attended five meetings of the Audit Committee, particularly at the presentation of the different reports issued by KPMG, whose analysis and discussion enabled elucidation of the issues reported.

Non-audit services provided by the Statutory Auditor or by any member of the network

The Audit Committee issued nine opinions during 2018 relative to the provision of non-audit services, provided by KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. and by other companies of its network, requested by various organic areas of Caixa Económica Montepio Geral and by other subsidiaries of Banco Montepio.

The Audit Committee considered that the assumptions of independence of the Statutory Auditor were complied with in all the operations presented, under the terms of Law 140/2015 of 7 September, having issued a favourable opinion on them.

Appraisal of the Risk, Compliance and Audit Functions

In performing its duties, the Audit Committee appraised the activities developed by the three areas, based on the information contained in the Annual Activity Plans of the Functions, having taken into account the guidelines defined in Banco de Portugal Notice number 5/2008 and in the EBA Guidelines on Internal

Governance (GL44) of 27 September 2011, which was later replaced by EBA GL/2017/11, whose guidelines entered into force on 30 June 2018.

In addition, supplementary information and clarifications were collected through presentations made in meetings by the persons in charge of these areas.

Monthly reports of the Audit and Compliance Divisions

The Audit Committee held regular meetings with the heads of the Audit and Inspection Division (DAI) and of Compliance, for analysis of the respective monthly reports, including the degree of accomplishment of the actions foreseen in the Annual Activity Plan.

The Audit Committee also analysed all the Internal Audit Reports (RAI) arising from the audits conducted by the DAI.

Issue of the Opinion on the Management Report and Individual and Consolidated Accounts relative to 2017

Pursuant to the regulatory terms and its statutory duties, the Audit Committee appraised the Management Report and Accounts relative to the year ended on 31 December 2017 of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG) prepared by the Board of Directors which took office on 21 March 2018.

The Audit Committee appraised the Legal Certifications of Accounts and Audit Reports, as well as the Additional Report on the Supervisory Body, all drawn up without reservations or emphases by KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A. (KPMG), on an individual and consolidated basis.

The Audit Committee monitored the preparation of the Management Report and Accounts, drawn up in accordance with the International Financial Reporting Standard (IFRS) for the year ended on 31 December 2017, namely their final version approved by the Board of Directors. For the preparation of the opinion, the Audit Committee held a meeting with all the other members of the Board of Directors, with the Strategic Planning, Control and Accounting Division, the Risk Division, the Compliance Division, the Audit and Inspection Division, and the Statutory Auditor, having requested all the information and clarifications that it considered relevant for compliance with the applicable legal and statutory rules.

The Audit Committee agreed with the content of the Legal Certifications of the Accounts and Audit reports prepared by KPMG, and gave a favourable opinion of the Management Report and Accounts of Banco Montepio, which includes the financial statements, on an individual and consolidated basis, for the year ended on 31 December 2017, approved on 10 May 2018 by the Board of Directors, in which the members of the Audit Committee are incorporated.

Appraisal of the Internal Control System

The Audit Committee appraised and approved the Annual Plan of the Internal Audit Function, whose operational director reports functionally to the Audit Committee.

The Audit Committee proceeded in a regular form with the analysis of the Monitoring Report of the Plan to Resolve Internal Control Flaws of the Banco Montepio Group, discussing the existing flaws, the opportunities for improvement detected, the foreseen measures of implementation or validated in the respective month, in a detailed manner in order to assess its efficacy.

The Audit Committee also held meetings with the Risk Division, to analyse and sum up the situation on developments and reporting to the Supervision Authorities, on Audits and Recommendations of Banco de Portugal, on the main risk indicators in the context of Risk Appetite, and also be learn about the main models of monitoring Credit Risk (Small Business, Mid and Large Corporate).

The Audit Committee held regular meetings with the Compliance Division (DCOMP), which provided information about the progress of the work carried out and the coordination and supervision of compliance activity, with a view to ensuring the consistency of the underlying rules and practices.

The Audit Committee analysed the annual reports and discusses their conclusions, in particular the existing flaws, the opportunities for improvement detected in the period or in previous periods and that have not yet been resolved, the attributed risk level, the corrective or improvement actions suggested and their timing.

The Audit Committee issued an opinion, considering that the internal control system identifies the risk indicators in an appropriate and effective fashion pursuant to the precise terms defined by Banco de Portugal Notice 5/2008, being certain that it recognises opportunities for improvement between the stage of formulating the flaws and the implementation of corrective measures.

Appraisal of the Monitoring Reports of the Plan to Resolve Internal Control Flaws

The Audit Committee analysed the Monitoring Reports of the Plan to Resolve Internal Control Flaws on a monthly basis, giving particular attention to the level of implementation of the recommendations relative to the different areas of the Bank.

Appraisal of the Financial Information

During 2018, the Audit Committee maintained a regular monitoring of the financial information of Caixa Económica Montepio Geral, especially the process of preparation of the disclosure of the quarterly accounts (desktop review).

To this end, the Audit Committee held meetings with the Statutory Auditor and the head of the Strategic Planning, Control and Accounting Division.

Appraisal of the Reports on impairment of the loan portfolio, reported as at 30 September 2018

Banco de Portugal established, in Instruction 5/2013, republished in Instruction 18/2018, the mandatory requirement of regular assessment by the external auditors of the process of quantification of the loan portfolio's impairment.

The Audit Committee appraised the loan impairment reports as at 30 September 2018 prepared by KPMG on Caixa Económica Montepio Geral, Grupo Caixa Económica Montepio Geral, Montepio Crédito and Finibanco Angola.

Credit recovery and sale of the non-performing loan portfolio (ATLAS)

The Audit Committee held regular meetings with the Credit Recovery Division, monitoring the work developed by the Bank in relation to recovery of loans in default, including the sale of the non-performing loan (NPL) portfolio of around 239 million euros, considering on and off-balance sheet positions. This portfolio was named ATLAS, and was composed of secured and unsecured loans, and this operation concentrated loans in default for more than 4 years.

Credit

During 2018, the Audit Committee pursued the mission established by Banco de Portugal for the pervious Financial Matters Committee, namely with respect to scrutiny of certain financial operations of a value above twenty million euros, debt issuance above this amount and the monitoring of the limits established in article 109 of the "Regime Geral das Instituições de Crédito e Sociedades Financeiras" (Legal Framework of Credit Institutions and Financial Companies - RGICSF).

Since 21 March 2018, the Audit Committee has issued 80 opinions, with 61 of these opinions having arisen from compliance with the determinations of Banco de Portugal, and are summarised below:

	Nr.	**€ M**
Loan operations above € 20 M	46	1 204.8
Debt issuance above € 20 M	1	50.0
Loan operations with related parties	6	8.0
Monitoring of compliance with article 109 of the RGICSF	8	202.6
	61	**1 465.4**

The Audit Committee did not issue any opinion under the terms of article 85 of the RGICSF.

Recommendations and Requests of the Audit Committee to the Board of Directors of Banco Montepio

At the end of 2018, the Audit Committee sent the Board of Directors a summary of the recommendations and requests drawn up in the different minutes of their meetings, relative to the various topics and situations identified in the context of monitoring Banco Montepio's activity.

Monitoring of the KPIs of the Recovery Plan

The Audit Committee regularly monitored the monthly reporting relative to the Key Performance Indicators (KPI) of the Recovery Plan, noting this in its minutes.

Monitoring of the subsidiaries of Banco Montepio

The Audit Committee held meetings with the subsidiaries of Banco Montepio, under the terms of number 4 of article 23 of Banco de Portugal Notice 5/2008 and pursuant to the guidelines of the EBA/GL/2017 (know your structure), taking into account the duty of knowledge about all the subsidiary companies.

In its meetings, the Audit Committee was attentive to the following points:

i) the purpose and strategy of each entity of the Group;

ii) the activities developed;

iii) the analysis of results relative to the same period of the previous year (June 2018);

iv) the financial and operational connections between entities of the Group;

v) the impact on financing, capital and liquidity and on the Group's risk profile of each entity;

vi) monitoring the efficacy of internal control;

vii) ensuring that the institution complies with the regulations and rules.

The Audit Committee also regularly monitored the portfolio of financial holdings of Montepio, with a view to optimising the risk-weighted assets and own funds, as well as their profitability or strategic value. In particular, it monitored the sale of Banco Terra and the steps already taken relative to the stake held in Finibanco Angola, which is stated under discontinued operations.

The Audit Committee also analysed the reports presented by the Audit and Inspection Division on Finibanco Angola, namely the report to follow-up of the Financial Matters Committee's report on the visit to Finibanco Angola, dated 19 September 2017.

The Audit Committee also monitored the process relative to Banco de Portugal's request to the internal audit function (FAI) of Banco Montepio to make an analysis of the CEMG Group's total involvement with customers with relevant exposure.

Monthly appraisal of compliance with the limits established in article 109 of the RGICSF

The Audit Committee appraised the compliance with the provisions in article 109 of the RGICSF relative to the framework for credit operations granted to holders of qualifying stakes.

Review of the Regulations on Whistleblowing and change of the Policy on Conflicts of Interest

The Audit Committee promoted and monitored the preparation of the updated version of the Policy on Conflict of Interest and the preparation of the Regulations on the Communication of Irregularities (Whistleblowing), having issued the necessary opinions, with both documents having already been approved and entering in force in the beginning of 2019.

Action plan of Banco de Portugal's inspection of market risk

The Audit Committee monitored the implementation of the corrective measures identified by Banco de Portugal in the context of the inspection to the market risk management system.

Appraisal of Prudential and Other Reports

The Audit Committee made an analysis of various reporting obligations to the supervisor, among which the following stand out due to their significance:

- Recovery Plan;
- Capital and Funding Plan;
- ICAAP – Internal Capital Adequacy Assessment Process;
- ILAAP – Internal Liquidity Adequacy Assessment Process;
- SREP – Supervisory Review and Evaluation Process;
- Institutional Distinction.

The Audit Committee gave particular attention to reputation risks – market perception – derived from the image arising from press releases, the attitude perceived by the media and, above all, from rumours.

III – CONCLUSION

In completing its annual report, the Audit Committee highlights the good institutional cooperation and fruitful relations established with the Commissions and Committees of the Board of Directors and with all the other members of this body, with the Divisions belonging to the organic structure of Caixa Económica Montepio Geral, and with the Statutory Auditor.

The Audit Committee also notes, with great appreciation, the sense of cooperation, the technical quality and the dedication to Caixa Económica Montepio Geral of the heads and employees of all the Divisions with which it worked directly, as well as acknowledging everyone else's contribution to the achieved results.

On a final note, emphasis is given to the appropriateness and timeliness of all the written and oral information provided by the aforesaid entities, being an indispensable support to the exercise of the duties and responsibilities inherent to the activity of this Audit Committee, with this fact having greatly contributed to its good operational functioning as a supervisory body.

Lisbon, 24 April 2019

THE AUDIT COMMITTEE

Luís Eduardo Henriques Guimarães
(Chairman)

Amadeu Ferreira de Paiva

Manuel Ferreira Teixeira

Vítor Manuel do Carmo Martins

OPINION OF THE AUDIT COMMITTEE

OPINION OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR OF 2018

1. Pursuant to the regulatory terms and its statutory duties, the Audit Committee appraised the Management Report and Accounts relative to the year ended on 31 December 2018 of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG), prepared by the Board of Directors.

   The Audit Committee appraised the Legal Certifications of Accounts and Audit Reports, as well as the Additional Report for the Audit Committee, drawn up by KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A. (KPMG), on the financial statements, on an individual and consolidated basis, issued without reservations or emphases.

   The proposed appropriation of net income is not contrary to the applicable legal and statutory provisions.

2. The Audit Committee monitored the preparation of the Management Report and Accounts, drawn up in accordance with the International Financial Reporting Standard (IFRS) for the year ended on 31 December 2018, namely their final version approved by the Board of Directors. For the preparation of the opinion, the Audit Committee held a meeting with all the other members of the Board of Directors, with the Strategic Planning, Control and Accounting Division, the Risk Division, the Compliance Division, the Internal Audit Division and with the Statutory Auditor, having requested all the information and clarifications that it considered relevant for compliance with the applicable legal and statutory rules.

3. To the best of the Audit Committee knowledge, the financial information was prepared in accordance with the applicable accounting standards, including compliance with the accounting policies defined in IFRS 9, giving a true and fair image of the financial position and the results of CEMG and the companies included in its consolidation perimeter, and the Management Report and Accounts correctly reflect the business and relevant associated risks to CEMG.

4. The Legal Certification of Accounts and Audit Reports, prepared according to the formats pursuant to EU Regulation (EU) 537/2014, 16 April, and Law 140/2015, of September 7, include referred to as "'Relevant Auditing Matters'' which KPMG identified as:

   (i) Impairment of the customer loan portfolio;
   (ii) Recoverability of the deferred tax assets;
   (iii) Measurement of the non-current assets held for sale and investment properties;
   (iv) Measurement of liabilities related to employment benefits; and
   (v) Resolution fund.

   All these topics were monitored by CEMG's Audit Committee, which was kept up to date on these issues under the Board of Directors, by the heads of the divisions referred to in point 2 and by the External Auditors.

5. To conclude:

The Audit Committee agrees with the content of the Legal Certifications of the Accounts and Audit reports prepared by KPMG, and has a favourable opinion of the Management Report and Accounts of CEMG, which includes the financial statements, on an individual and consolidated basis, for the year ended on 31 December 2018, approved on 29 April 2019 by the Board of Directors, in which the members of the Audit Committee are incorporated.

6. In view of the above, the Audit Committee is of the opinion that CEMG's General Meeting should approve:
   a) The Management Report and all the other documents presenting the financial statements, both individual and consolidated, for the year ended on 31 December 2018;
   b) the information on corporate governance for the year 2018;
   c) the Board of Directors' proposal on appropriation of the positive net income recorded in the individual balance sheet for the year 2018, of the value of 2,018,835.12 euros, as follows:

To the Legal Reserve	201,883.51 euros
To be transferred to Retained Earnings	1,816,951.61 euros

Lisbon, 30 April 2019

Luis Eduardo Henriques Guimarães, Chairman

Amadeu Ferreira de Paiva, Member

Manuel Ferreira Teixeira, Member

Vitor Manuel do Carmo Martins, Member

Carlos Francisco Ferreira Alves, Member

Statutory Auditors' Report and Auditors' Report to the Consolidated Financial Statements

KPMG

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STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of **Caixa Económica Montepio Geral, caixa económica bancária, S.A.** (the Group), which comprise the consolidated balance sheet as at 31 December 2018 (showing a total of 18,351,327 thousands of euros and total equity attributable to the shareholder of 1,521,382 thousands of euros, including a profit for the year attributable to the shareholder of 12,512 euros), and the consolidated income statement by nature, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **Caixa Económica Montepio Geral, caixa económica bancária, S.A.** as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

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

Key audit matters

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

Loans' portfolio impairment losses

As at 31 December 2018, impairment losses to cover the credit risk of the loans portfolio and provisions for guarantees and commitments assumed amount to 944,576 thousands of euros and 14,438 thousands of euros, as referred to in notes 22 and 39.

The Risk

In order to determine the loan's portfolio impairment losses of clients measured at amortized cost, the exposures are classified in three categories (Stage 1, or 3) considering the identification or not of a significant risk increase since its first recognition or if they are loans with impairment. For the Group, the determination of this effect it is a relevant process as it influences the levels of associated Expected Credit Loss ('ECL').

The impairment is calculated based on the expected loss estimated for the Group on an individual and consolidated basis, in accordance with the accounting policy detailed in note 1.c) to the financial statements.

The individual analysis is based on the evaluation of the existence of impairment losses for the case by case analysis, considering the total exposure of a determined client and the expectation about the evolution of the activity performance, the fair value of the collaterals and the expectation of evolution of future macroeconomic conditions.

Our response to the identified risk

Our audit procedures included, amongst others:

- Inquiries to the management about the process and identification of impairment losses;
- Evaluation of design and implementation and test of the operational effectiveness of the key controls defined by the Group related to the identification and measurement of the impairment losses;
- Analysis of the compliance of the accounting policies with the defined on IFRS 9;
- Analysis of the classification process of financial assets based on the credit risk (Stage 1, 2 and 3);
- Evaluation of the ECL estimation process;
- For a sample of selected individually assessed loans, analysis of the exposures, evaluating the assumptions used to determine and measure impairment, including (i) the valuation of the collaterals if applicable and (ii) the estimate of the recovery in case of non-performing;

Loans portfolio impairment losses (continued)

As at 31 December 2018, impairment losses to cover the credit risk of the loans portfolio and provisions for guarantees and commitments assumed amount to 944,576 thousands of euros and 14,438 thousands of euros, as referred to in notes 22 and 39.

The Risk

The process of impairment evaluation presents a high level of complexity in its design and implementation and includes some estimates and judgment by the Group. This process takes into consideration factors as the probability of default, the ratings, the collateral value for each credit loan, the recovery rates and the estimates of the future cash flows and the moment of its reimbursement.

In accordance with the accounting policy detailed in note 1.aa) the usage of alternative methodologies and other assumptions and estimates might result in different levels of impairment losses, with the consequent impact of the Group results.

Our response to the identified risk

- For credits subject to collective impairment assessment, we tested, with the support of our specialists, the underlying models, including its approval e validation process. Additionally, we tested the adequacy and accuracy of the significant assumptions used in the model, including the key data for the classification; and,
- Review the disclosures made by the Group, in accordance with the applicable accounting framework, including the related with the transition.

Recoverability of deferred tax assets

As at 31 December 2018, deferred tax assets amount to 460,268 thousands of euros, as referred to in note 33 to the consolidated financial statements.

The Risk

Deferred taxes are calculated in accordance with the liability method based on the balance sheet (i) on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and (ii) on the tax losses carried forward to be used in future periods, using the tax rates approved or substantially approved at the balance sheet date and that are expected to be applied when the temporary differences are reversed, in accordance with the accounting policy detailed in note 1.w) to the consolidated financial statements. Deferred tax assets are recognized to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including tax losses carried forward).

This area involves a significant judgment performed by the Board of Directors of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG). The Group assessed the recoverability of the deferred tax assets based on the profit estimates presented on the Plan and Budget for 2019, that includes the profit before taxes increase between 2020 and 2026.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of design and implementation of the key controls defined by the Group associated with the determination and measurement of deferred tax assets;
- Involvement of our tax specialists in the analysis of the reasonableness of current tax estimate and deferred taxes;
- Analysis and confirmation of the nature of the main temporary differences underlying the recognition of deferred tax assets and its recoverability under the legal timeframe applicable;
- Analysis of the reasonableness of the projections of taxable income prepared by the Board of Directors that support the analysis of the recoverability of deferred tax assets and the underlying assumptions;
- Analysis of the communications with the Portuguese Tax Authorities; and,
- Review the disclosures made by the Group, in accordance with the applicable accounting framework.

Recoverability of deferred tax assets (continued)

As at 31 December 2018, deferred tax assets amount to 460,268 thousands of euros, as referred to in note 33 to the consolidated financial statements.

The Risk

As referred to in note 1.aa), significant interpretations and estimates are required in determining the global amount of income taxes. Different interpretations and estimates would result in a different level of current and deferred income taxes, recognized by the Group with the consequent impact on the net income and equity.

Measurement of non-current assets held for sale and of investment properties

As at 31 December 2018, non-current assets held for sale net of impairment amount to 737,937 thousands of euros and investment properties amount to 253,097 thousands of euros, as referred to in notes 29 and 30 to the consolidated financial statements.

The Risk

Non-current assets held for sale are classified like that when there is an intention to sell, these assets are available for immediate sale and its sale is highly probable.

In accordance with the accounting policy referred to in note 1.j) to the consolidated financial statements, non-current assets held for sale are measured at the lower of their cost and fair value less costs to sell. Investment properties are measured at fair value as referred in note 1.q).

The fair value is based on market value being the expected selling price estimated through periodic valuations performed by independent experts. This area involves a significant judgment performed by the Board of Directors of the Group.

As referred to in note 1.aa), the use of alternative methodologies and different assumptions and estimates could result in different valuations and different level of impairment losses with a consequent impact in the income statement and equity of the Group.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of design and implementation and test of the operating effectiveness of the key controls defined by the Group associated with the non-current assets held for sale measurement process;
- Verification for a selected sample, of the reasonableness of the measurement to non-current assets held for sale based on the valuations performed including assumptions used by independent experts, and related impairment recognized;
- Verification to the investment properties held through real estate investment funds, of the auditors reports of the financial statements of the real estate investment funds with reference to 31 December 2018;
- For a selected sample, confirmation of the ownership of non-current assets held for sale; and,
- Review the disclosures made by the Group, in accordance with the applicable accounting framework.

Measurement of employee benefits liabilities

As at 31 December 2018, employee benefits liabilities, including pensions, health and death benefits, amount to 742,496 thousands of euros, as referred to in note 50 to the financial statements.

The Risk

The Group attributed benefits to its employees namely, retirement pensions, health benefits and death subsidy, in accordance with the collective labor agreement applicable to the Entity, as referred in note 1.v) to the consolidated financial statements.

The present value of the liabilities related to the benefits referred above, is determined based on assumptions and estimates, including the use of actuarial projections and other factors, such as discount rate, growth rate of pensions and wages, mortality table, expected return on investments covering the liabilities, among other.

As referred to in note 1.aa), the use of different assumptions and estimates could significantly impact the determination of the present value of the past service liabilities recognized by the Group.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of design and implementation of the key controls defined by the Group associated with the process of determination of the main assumptions used in the determination of past service liabilities;
- Analysis of the benefits plan attributed to employees and corporate bodies and respective accounting rules applied;
- Analysis of the reasonableness of the actuarial assumptions used in the determination of the present value of the liabilities;
- Read the actuarial valuation performed by the responsible actuary and discussion of the main actuarial assumptions used in the determination of the present value of past service liabilities;
- Reconciliation of the information analysed with the accounting records; and,
- Review the disclosures made by the Group, in accordance with the applicable accounting framework.

Resolution fund

As at 31 December 2018, as referred to in note 60, the Group holds a loan granted to the Resolution Fund (“RF”) in the amount of 70,000 thousands of euros.

The Risk

In 2013 and within the scope of the changes in legislation as a result of the Decree-law nr 24/2013, the Resolution Fund was created (“RF”), which in result of the resolution measures approved on 3 August 2014 and 19 December 2015 in relation to Banco Espírito Santo, S.A. (‘BES’) and Banco Internacional do Funchal, S.A. (‘BANIF’), respectively, become the sole shareholder of the capital of the Entities that resulted from the referred measures (Novo Banco, S.A. and Oitante, S.A.).

In order to perform the capital contributions to assume other obligations and contingent liabilities, the RF contracted loans granted by the Portuguese State and by a syndicate of credit institutions (including the Group) (i) in the amount of 3,900 thousand of euros and 700 thousands of euros respectively to Novo Banco, S.A. and (ii) 489 thousand of euros to Oitante, S.A. The loans obtained within the scope of BES resolution were initially contracted with a maturity in 4 August 2016 extended to December 2017. The loan obtained within the scope of BANIF resolution was initially contracted with a maturity up to 2020.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of the public communications of the Resolution Fund and the Minister of Finance in relation to the changes occurred in 2018 and 2019 on the RF position, namely resulting from the sale of Novo Banco;
- Reading of the last RF Annual Report available;
- Review of the accounting rules application to the contributions made to RF; and,
- Review the disclosures made by the Group, in accordance with the applicable accounting framework.

Resolution fund (continued)

As at 31 December 2018, as referred to in note 60, the Group holds a loan granted to the Resolution Fund ("RF") in the amount of 70,000 thousands of euros.

The Risk

On 21 March, 2017 the renegotiation of the loans granted by the Portuguese Estate and by the bank syndicate was concluded, determining a new maturity date in December 2046 and updated conditions. The main objective of this change was to requiring that the RF would be able to meet its commitments based on the annual contributions to be performed by its participants and reducing the risk of requiring extraordinary contributions. In accordance with the new contracts RF obligations to the Portuguese State and to the bank syndicate will be treat *pari passu.*

Notwithstanding the change in the maturity of the loans to mitigate the risk of extraordinary contributions, it should be taken into consideration that the RF has limited sources of income, being those restricted to the periodic contributions from participants and the contribution to the banking sector, which are the same that are used to fulfill any other obligation that the RF may assume.

Additionally, there is the possibility of the Portuguese Government determine that the participating institutions make special contributions as it is stated of the applicable regulation, namely in the case that RF does not have own funds available.

KPMG

Resolution fund

As at 31 December 2018, as referred to in note 60, the Group holds a loan granted to the Resolution Fund ("RF") in the amount of 70,000 thousands of euros.

The Risk

The valuation of the credit granted to the RF use of some assumptions and estimates assumed by RF and by the Group management, namely the RF's ability to generate the necessary cash flows for the responsibilities assumed. To be noted that, in the end of 207, RF sold to Lone Star 75% of the equity of Novo Banco, S.A. Additionally, in the scope of this sold e as forecast on the signed contracts on 28 March 2018, RF communicated about the payment to be made to Novo Banco regarding the net losses from 2017, of which the existing contingent capitalization mechanism is activated. The amount to be paid to Novo Banco in 2018 by RF, concerning 2017 results, is 792 thousands of euros¸ of which 430 thousands of euros with a loan granted by the State. Concerning 2018 performance it will be necessary additional payments in 2019 on the total amount 1,149 million of euros. There is no information about the additional loan amount to be granted by the State.

As a result, for the purposes of the preparation of the financial statements as of 31 December 2018, it was considered that no additional extraordinary contributions will be requested to the Group, apart from those that results from the ordinary contributions accounted for in accordance with the applicable framework (IFRIC 21).

Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements

Management is responsible for:

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

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code, as well as the verification that the non-financial information was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. e) of the Portuguese Companies' Code, it is our, opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and, the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements. As defined in the article 451, nr. 7 of the Portuguese Companies' Code, this opinion is not applicable to the non-financial statement that is included in the management report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Group to provide under article 245 – A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d) , f), h), i) and m) of that article.

On the non-financial information defined in the article 508-G of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Group has included in its management report the non-financial information statement defined in article 508-G of the Portuguese Companies' Code.

On the additional matters provided in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (parent Entity of the Group) in the shareholders general assembly held on September 2002. We were reappointed as auditors in the shareholders general assembly held on 30 December 2015 for the current mandate from 2015 to 2018.
- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the consolidated financial statements due to fraud.

- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Group on 30 April 2019.
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Group in conducting the audit.

SIGNED ON THE ORIGINAL

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Hugo Jorge Gonçalves Cláudio (ROC nr. 1597)

Statutory Auditors’ Report and Auditors’ Report to the Financial Statements

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
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1069-006 Lisboa – Portugal
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STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of **Caixa Económica Montepio Geral, caixa económica bancária, S.A.** (the Entity), which comprise the balance sheet as at 31 December 2018 (showing a total of 18,272,145 thousands of euros and total equity of 1,577,986 thousands of euros, including a profit for the year of 2,019 euros), and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of **Caixa Económica Montepio Geral, caixa económica bancária, S.A.** as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Loans portfolio impairment losses

As at 31 December 2018, impairment losses to cover the credit risk of the loans portfolio and provisions for guarantees and commitments assumed amount to 942,368 thousands of euros and 15,596 thousands of euros, as referred to in notes 21 and 37.

The Risk

In order to determine the loan portfolio impairment losses of clients measured at amortized cost, the exposures are classified in three categories (Stage 1, or 3) considering the identification or not of a significant risk increase since its first recognition or if they are loans with impairment. For the Entity, the determination of this effect it is a relevant process as it influences the levels of associated Expected Credit Loss ('ECL').

The impairment is calculated based on the expected loss estimated for the Entity on an individual and consolidated basis, in accordance with the accounting policy detailed in note 1.b) to the financial statements.

The individual analysis is based on the evaluation of the existence of impairment losses for the case by case analysis, considering the total exposure of a determined client and the expectation about the evolution of the activity performance, the fair value of the collaterals and the expectation of evolution of future macroeconomic conditions.

Our response to the identified risk

Our audit procedures included, amongst others:

- Inquiries to the management about the process and identification of impairment losses;
- Evaluation of design and implementation and test of the operational effectiveness of the key controls defined by the Entity related to the identification and measurement of the impairment losses;
- Analysis of the compliance of the accounting policies with the defined on IFRS 9;
- Analysis of the classification process of financial assets based on the credit risk (Stage 1, 2 and 3);
- Evaluation of the ECL estimation process;
- For a sample of selected individually assessed loans, analysis of the exposures, evaluating the assumptions used to determine and measure impairment, including (i) the valuation of the collaterals if applicable and (ii) the estimate of the recovery in case of non-performing;

Loans portfolio impairment losses (continued)

As at 31 December 2018, impairment losses to cover the credit risk of the loans portfolio and provisions for guarantees and commitments assumed amount to 944,576 thousands of euros and 14,438 thousands of euros, as referred to in notes 22 and 39.

The Risk	Our response to the identified risk
The process of impairment evaluation presents a high level of complexity in its design and implementation and includes some estimates and judgment by the Entity. This process takes into consideration factors as the probability of default, the ratings, the collateral value for each credit loan, the recovery rates and the estimates of the future cash flows and the moment of its reimbursement. In accordance with the accounting policy detailed in note 1.z) the usage of alternative methodologies and other assumptions and estimates might result in different levels of impairment losses, with the consequent impact of the Entity results.	• For credits subject to collective impairment assessment, we tested, with the support of our specialists, the underlying models, including its approval e validation process. Additionally, we tested the adequacy and accuracy of the significant assumptions used in the model, including the key data for the classification; and, • Review the disclosures made by the Entity, in accordance with the applicable accounting framework, including the related with the transition.

Recoverability of deferred tax assets

As at 31 December 2018, deferred tax assets amount to 484,147 thousands of euros, as referred to in note 31 to the financial statements.

The Risk

Deferred taxes are calculated in accordance with the liability method based on the balance sheet (i) on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and (ii) on the tax losses carried forward to be used in future periods, using the tax rates approved or substantially approved at the balance sheet date and that are expected to be applied when the temporary differences are reversed, in accordance with the accounting policy detailed in note 1.v) to the financial statements. Deferred tax assets are recognized to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including tax losses carried forward).

This area involves a significant judgment performed by the Board of Directors of the Entity. The Entity assessed the recoverability of the deferred tax assets based on the profit estimates presented on the Plan and Budget for 2019, that includes the profit before taxes increase between 2020 and 2026.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of design and implementation of the key controls defined by the Entity associated with the determination and measurement of deferred tax assets;
- Involvement of our tax specialists in the analysis of the reasonableness of current tax estimate and deferred taxes;
- Analysis and confirmation of the nature of the main temporary differences underlying the recognition of deferred tax assets and its recoverability under the legal timeframe applicable;
- Analysis of the reasonableness of the projections of taxable income prepared by the Board of Directors that support the analysis of the recoverability of deferred tax assets and the underlying assumptions;
- Analysis of the communications with the Portuguese Tax Authorities; and,
- Review the disclosures made by the Entity, in accordance with the applicable accounting framework.

Recoverability of deferred tax assets (continued)

As at 31 December 2018, deferred tax assets amount to 484,147 thousands of euros, as referred to in note 31 to the financial statements.

The Risk

As referred to in note 1.z), significant interpretations and estimates are required in determining the global amount of income taxes. Different interpretations and estimates would result in a different level of current and deferred income taxes, recognized by the Entity with the consequent impact on the net income and equity.

Measurement of non-current assets held for sale and participation on real estate investment funds

As at 31 December 2018, non-current assets held for sale net of impairment amount to 705,351 thousands of euros and real estate held through participation units of real estate investment funds accounted for as available for sale financial instruments amount to 676,521 thousands of euros, as referred to in notes 28 and 23 to the financial statements, respectively.

The Risk

Non-current assets held for sale are classified like that when there is an intention to sell, these assets are available for immediate sale and its sale is highly probable.

In accordance with the accounting policy referred to in note 1.j) to the financial statements, non-current assets held for sale are measured at the lower of their cost and fair value less costs to sell.

The participation units of the real estate investment funds are measured at fair value as referred in note 1.c).

The fair value is based through periodic valuations performed by independent experts.

This area involves a significant judgment performed by the Board of Directors of the Entity.

As referred to in note 1.z), the use of alternative methodologies and different assumptions and estimates could result in different valuations and different level of impairment losses with a consequent impact in the income statement and equity of the Entity.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of design and implementation and test of the operating effectiveness of the key controls defined by the Entity associated with the non-current assets held for sale measurement and participation units of the real estate investment funds measurement process;
- Verification for a selected sample, of the reasonableness of the measurement to non-current assets held for sale based on the valuations performed including assumptions used by independent experts, and related impairment recognized;
- Verification for the real estate investment funds, the auditors reports of the financial statements of the funds with reference to 31 December 2018; and,
- Review the disclosures made by the Entity, in accordance with the applicable accounting framework.

Measurement of employee benefits liabilities

As at 31 December 2018, employee benefits liabilities, including pensions, health and death benefits, amount to 733,844 thousands of euros, as referred to in note 47 to the financial statements.

The Risk

The Entity attributed benefits to its employees namely, retirement pensions, health benefits and death subsidy, in accordance with the collective labor agreement applicable to the Entity, as referred in note 1.u) to the financial statements.

The present value of the liabilities related to the benefits referred above, is determined based on assumptions and estimates, including the use of actuarial projections and other factors, such as discount rate, growth rate of pensions and wages, mortality table, expected return on investments covering the liabilities, among other.

As referred to in note 1.z), the use of different assumptions and estimates could significantly impact the determination of the present value of the past service liabilities recognized by the Entity.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of design and implementation of the key controls defined by the Entity associated with the process of determination of the main assumptions used in the determination of past service liabilities;
- Analysis of the benefits plan attributed to employees and corporate bodies and respective accounting rules applied;
- Analysis of the reasonableness of the actuarial assumptions used in the determination of the present value of the liabilities;
- Read the actuarial valuation performed by the responsible actuary and discussion of the main actuarial assumptions used in the determination of the present value of past service liabilities;
- Reconciliation of the information analysed with the accounting records; and,
- Review the disclosures made by the Entity, in accordance with the applicable accounting framework.

Resolution fund

As at 31 December 2018, as referred to in note 56, the Entity holds a loan granted to the Resolution Fund (“RF”) in the amount of 70,000 thousands of euros.

The Risk

In 2013 and within the scope of the changes in legislation as a result of the Decree-law nr 24/2013, the Resolution Fund was created (“RF”), which in result of the resolution measures approved on 3 August 2014 and 19 December 2015 in relation to Banco Espírito Santo, S.A. (‘BES’) and Banco Internacional do Funchal, S.A. (‘BANIF’), respectively, become the sole shareholder of the capital of the Entities that resulted from the referred measures (Novo Banco, S.A. and Oitante, S.A.).

In order to perform the capital contributions to assume other obligations and contingent liabilities, the RF contracted loans granted by the Portuguese State and by a syndicate of credit institutions (including the Entity) (i) in the amount of 3,900 thousand of euros and 700 thousands of euros respectively to Novo Banco, S.A. and (ii) 489 thousand of euros to Oitante, S.A. The loans obtained within the scope of BES resolution were initially contracted with a maturity in 4 August 2016 extended to December 2017. The loan obtained within the scope of BANIF resolution was initially contracted with a maturity up to 2020.

Our response to the identified risk

Our audit procedures included, amongst others:

- Analysis of the public communications of the Resolution Fund and the Minister of Finance in relation to the changes occurred in 2018 and 2019 on the RF position, namely resulting from the sale of Novo Banco;
- Reading of the last RF Annual Report available;
- Review of the accounting rules application to the contributions made to RF; and,
- Review the disclosures made by the Entity, in accordance with the applicable accounting framework.

Resolution fund (continued)

As at 31 December 2018, as referred to in note 60, the Entity holds a loan granted to the Resolution Fund ("RF") in the amount of 70,000 thousands of euros.

The Risk

On 21 March, 2017 the renegotiation of the loans granted by the Portuguese Estate and by the bank syndicate was concluded, determining a new maturity date in December 2046 and updated conditions. The main objective of this change was to requiring that the RF would be able to meet its commitments based on the annual contributions to be performed by its participants and reducing the risk of requiring extraordinary contributions. In accordance with the new contracts RF obligations to the Portuguese State and to the bank syndicate will be treat *pari passu.*

Notwithstanding the change in the maturity of the loans to mitigate the risk of extraordinary contributions, it should be taken into consideration that the RF has limited sources of income, being those restricted to the periodic contributions from participants and the contribution to the banking sector, which are the same that are used to fulfill any other obligation that the RF may assume.

Additionally, there is the possibility of the Portuguese Government determine that the participating institutions make special contributions as it is stated of the applicable regulation, namely in the case that RF does not have own funds available.

Resolution fund

As at 31 December 2018, as referred to in note 60, the Entity holds a loan granted to the Resolution Fund ("RF") in the amount of 70,000 thousands of euros.

The Risk

The valuation of the credit granted to the RF use of some assumptions and estimates assumed by RF and by the Entity management, namely the RF's ability to generate the necessary cash flows for the responsibilities assumed. To be noted that, in the end of 2017, RF sold to Lone Star 75% of the equity of Novo Banco, S.A. Additionally, in the scope of this sold e as forecast on the signed contracts on 28 March 2018, RF communicated about the payment to be made to Novo Banco regarding the net losses from 2017, of which the existing contingent capitalization mechanism is activated. The amount to be paid to Novo Banco in 2018 by RF, concerning 2017 results, is 792 thousands of euros¸ of which 430 thousands of euros with a loan granted by the State. Concerning 2018 performance it will be necessary additional payments in 2019 on the total amount 1,149 million of euros. There is no information about the additional loan amount to be granted by the State.

As a result, for the purposes of the preparation of the financial statements as of 31 December 2018, it was considered that no additional extraordinary contributions will be requested to the Entity, apart from those that results from the ordinary contributions accounted for in accordance with the applicable framework (IFRIC 21).

Responsibilities of Management and the Supervisory Body for the Financial Statements

Management is responsible for:

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

The supervisory body is responsible for overseeing the Entity's financial reporting process.

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code as well as the verification that the non-financial information was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. e) of the Portuguese Companies' Code, it is our, opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and, the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements. As defined in the article 451, nr. 7 of the Portuguese Companies' Code, this opinion is not applicable to the non-financial statement that is included in the management report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Entity to provide under article 245 – A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d) , f), h), i) and m) of that article.

On the non-financial information defined in the article 66-B of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Entity has included in its management report the non-financial information statement defined in article 66-B of the Portuguese Companies' Code.

On the additional matters provided in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of the Entity in the shareholders general assembly held on September 2002. We were reappointed as auditors in the shareholders general assembly held on 30 December 2015 for the current mandate from 2015 to 2018.
- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Entity on 30 April 2019.
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Entity in conducting the audit.

30 april 2019

SIGNED ON THE ORIGINAL

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Hugo Jorge Gonçalves Cláudio (ROC nr. 1597)

Part III

Information on Corporate Governance

PART III – INFORMATION ON CORPORATE GOVERNANCE

CONTENTS

1. INTRODUCTION

In September 2017, in accordance with the provisions in number 4 of article 6 of Decree-Law 190/2015 of 10 September, Caixa Económica Montepio Geral, up until then a savings bank, was transformed into a public limited company with the corporate name of "Caixa Económica Montepio Geral, caixa económica bancária, S.A.", maintaining the siglum CEMG.

In an extraordinary session held on 16 March 2018, the General Meeting of the then CEMG changed the nature of the governance model, up until this date two-tiered (General and Supervisory Board and Executive Board of Directors), to a one-tiered model (Board of Directors), with the new Articles of Association having been approved and the members of the Board of the General Meeting, the Board of Directors and the Audit Committee having been elected, taking up office on 21 March 2018.

On 30 October 2018, CEMG's General Meeting, at an extraordinary session, approved various amendments to the new Articles of Association, aimed at complying with the recommendations and regulatory directives for the financial sector, as well as the practices followed by other banking institutions of the market in which CEMG operates. The change of address of the registered office was also approved, to Rua Castilho, n. 5 in Lisbon.

Culminating the year of 2018, following the changes occurred with CEMG's transformation into a public limited company and alteration of its institutional capital to share capital, represented by shares, the conditions were created for the entry into the institution's share capital, as at 31 December 2018, of new shareholders, entities of the social sector, but without qualifying holdings.

Also during 2018, the Board of Directors approved a new strategy for the institution, based on a Transformation Plan to be applied up to 2021, accompanied by a brand makeover, adopting the brand "Banco Montepio" from February 2019, following the procedural requirements.

Accordingly, hereafter this institution uses and is identified by the brand Banco Montepio.

This information on Corporate Governance seeks to comply with the duty to disclose annual information about the corporate governance structure and practices, stipulated in subparagraphs c), d), f), h), i) and m) of number 1 of article 245-A of the "Código dos Valores Mobiliários" (Securities Market Code), applicable via the provisions in number 6 of this code. Banco Montepio is an issuer of bonds listed for trading on regulated markets in the jurisdictions of Portugal, Ireland and Luxemburg.

2. MISSION AND OBJECTIVES

Banco Montepio is a savings bank qualified as a credit institution by the "Regime Jurídico das Caixas Económicas" (Legal Framework of Savings Banks) (Decree-Law 190/2015 of 10 September), being governed by the rules of this legal framework and, subsidiarily, by the "Regime Geral das Instituições de Crédito e Sociedades Financeiras" (Legal Framework of Credit Institutions and Financial Companies - RGICSF), approved by Decree-Law 298/92 of 31 December, and respective related legislation. Its transformation into a public limited company, occurred in 2017, marks the change of its Articles of Association and consequent governance model. In a scenario of more demanding regulatory requirements and tougher competition, Banco Montepio remains bound to the fundamental values of its foundation, in 1844, namely regarding the important role that it performs in the context of the social economy, grounded in mutualist roots.

Thus, Banco Montepio stands firmly as a unique financial institution in the national panorama due to its origin and mutualist foundations, and, consequently, due to its vocation as an institution geared towards savings and provision of universal financial services for its individual customers, at all stages of their life cycle, for all customers of the business sector and, in particular, institutions of the social economy and social entrepreneurs, based locally, regionally and nationally.

In the development of its different business segments, Banco Montepio stands out as a trustworthy institution, attentive to the needs of its customers and the national economy, boosting the full use of their diverse capabilities. The Banco Montepio Group's structure already reflects this diversity, distinguishing between the branches of its retail banking and corporate banking, enhancing the opportunity of the autonomous and specialised development of these two major areas, while ensuring the necessary articulation and respect for the Group's common goals.

As Banco Montepio's priority is the domestic market, it ensures a prudent management of the existing international holdings – namely in the Portuguese-speaking countries – seeking possible alliances with international institutions with a similar philosophy, in particular of the cooperative and social economy sectors.

Banco Montepio's social vocation imprints a particular importance to interpersonal relations. Its activity is founded on «banking of relations» between people, both in terms of geographical presence and through remote channels, with an intergenerational and interclass positioning. The deepening of the relations of trust with its customers is the highest generator of value for Banco Montepio and, consequently for the group in which it is placed. Therefore, the improvement of service levels, of efficiency and the adequacy of the offer to the needs of all its customers are the pathways to follow with determination and persistence. In this context, it is crucial to adapt the business models, using technological innovation which enables combining increased efficiency with preservation of personalised relations with its customers.

The commitments undertaken by Banco Montepio are based on the pillars of high standards, rigour and ethics, in strict compliance with respect for human values and for the people who work for the institution, boosting their human capital and talent as irrefutable factors for sustained development.

The driving force underlying Banco Montepio's destinations always bears in mind the principles of ethics in business, the primacy of the customers' interest and protection of the savings they entrust; loyalty to customers, investors and supervision authorities; but also, the solidarity and social responsibility that its vocation and centenary origin require.

3. SHAREHOLDER STRUCTURE

- **Qualifying holdings in the share capital of the company** (article 245-A, subparagraph c) of the "Código dos Valores Mobiliários" (Securities Market Code - CVM)

As at 31 December 2018, the share capital of Banco Montepio (Caixa Económica Montepio Geral, caixa económica bancária, S.A.) is 2,420,000,000.00 euros, represented by the same number of shares, with 2,419,841,080 shares being held by Montepio Geral - Associação Mutualista (MGAM), corresponding to a qualifying stake of 99.99% in the share capital, and the rest being dispersed among entities of the social economy.

- **Identification of shareholders with special rights and description of those rights** (article 245-A, subparagraph d) of the CVM)

There are no shareholders with special rights.

- **Powers of the management body, namely with respect to deliberations to increase share capital** (article 245-A, subparagraph I) of the CVM)

The General Meeting is responsible for deliberating on share capital increases, under proposal of the Board of Directors. However, the Board of Directors can deliberate a share capital increase, by cash entries, once or more times, up to the maximum amount corresponding to 10% of the share capital in force.

- **Any restrictions on the right to vote, such as limitations on voting rights depending on ownership of a certain number or percentage of shares, deadlines for exercising voting rights or systems highlighting ownership rights** (article 245-A, subparagraph f) of the CVM)

The General Meeting is composed of the shareholders with the right to vote and each share corresponds to one vote. Shareholders may exercise their right to vote by correspondence, but voting by electronic means is not permitted (pursuant to articles 6 and 7 of Banco Montepio's Articles of Association).

Pursuant to article 10 of Banco Montepio's Articles of Association, the deliberations of the General Meeting are taken by simple majority of the votes cast. Deliberations of the General Meeting taken at an extraordinary session concerning amendment of articles of association, merger, demerger, dissolution and incorporation of or in Banco Montepio, require the approval of a majority of third thirds of the votes cast.

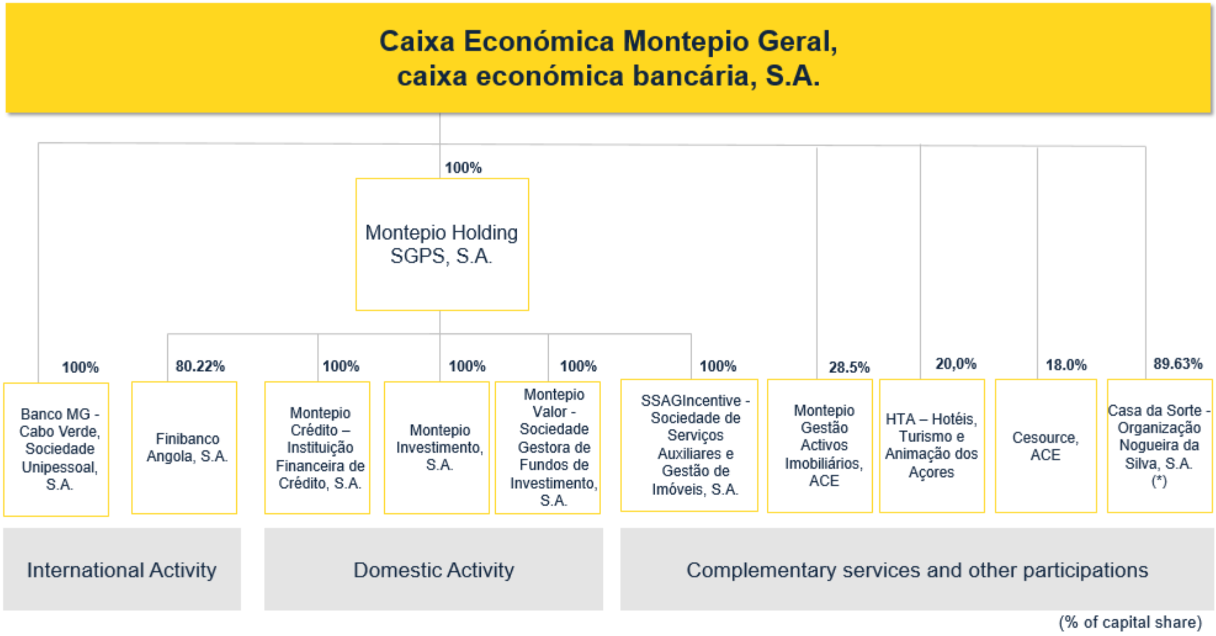
- **Rules applicable to the appointment and replacement of members of the management body and amendment of the articles of association of the company** (article 245-A, subparagraph h) of the CVM)

The General Meeting is responsible for electing the members of the governing bodies and approving amendment of the Articles of Association, while the Board of Directors is responsible for appointing directors by co-optation.

4. GOVERNANCE MODEL

4.1 – BANCO MONTEPIO GROUP

As at 31 December 2018, the Banco Montepio Group was composed of the following companies, with which Banco Montepio is related:



(*) Group Casa da Sorte includes the companies Herdeiros de Manuel Martins Travassos, Lda. (100%), Augusto da Silva Carvalho, Lda. (100%), Binganimus - Bingos e Animação, S.A. (100%), Carlos Augusto Lança & Filhos, Lda. (100%), Torre da Sorte, Lda. (100%) and Pataca da Sorte - Bingos e Animação Unipessoal, Lda. (100%). This stake was sold on 24 April 2019.

During 2018, Montepio Holding received proposals to sell its stake in Banco Terra Moçambique (BTM), which was approved at the General Meeting due to believing that this would be the best solution to enable the merger between Banco Terra and Mozabanco, guaranteeing the preservation of the value created in Banco Terra and the future of its employees. Consequently, the sale operation was accomplished at the end of 2018, with BTM no longer being part of the Banco Montepio Group's consolidation perimeter as at 31 December 2018.

4.2 – CORPORATE AND GOVERNING BODIES

The institutional context experienced two periods in 2018: the first up to 20 March, composed of the General and Supervisory Board and the Executive Board of Directors, and the second from then onwards.

From 1 January to 20 March, the composition of Banco Montepio's governing bodies was as follows:

Board of the General Meeting

Chairman	Manuel Duarte Cardoso Martins
Secretary	Cassiano Cunha Calvão

Supervisory Board

Chairman	Álvaro João Duarte Pinto Correia (*)
Members	António Fernando Menezes Rodrigues
	José António de Arez Romão

Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Brás de Matos Heitor
Eugénio Óscar Garcia Rosa

Executive Board

Chairman	José Manuel Félix Morgado
Members	João Carlos Martins da Cunha Neves
	Luís Gabriel Moreira Maia Almeida
	Fernando Ferreira Santo
	João José Belard da Fonseca Lopes Raimundo
	Jorge Manuel Viana de Azevedo Pinto Bravo
	Luís Miguel Resende de Jesus

Nominations Committee

Chairman	Álvaro João Duarte Pinto Correia (*)
Member	José António de Arez Romão

Remuneration Committee

Chairman	Álvaro João Duarte Pinto Correia (*)
Members	José António de Arez Romão
	Francisco José Fonseca da Silva

Risk Committee

Chairman	Acácio Jaime Liberato Mota Piloto
Members	Luís Eduardo Henriques Guimarães
	Francisco José Fonseca da Silva

Statutory Auditor

KPMG, represented by:	Ana Cristina Soares Valente Dourado
	Enrolled at the Statutory Auditors Association under number 1011
	Substitute: Fernando Gustavo Duarte Antunes
	Enrolled at the Statutory Auditors Association under number 1233

(*) Due to health reasons, since 10 May 2017, Álvaro João Duarte Pinto Correia has delegated his representation to the member José António de Arez Romão.

The second period started on 21 March 2018, with the election at the General Meeting of the members of a Board of Directors and an Audit Committee for a new term of office (2018-2021).

The Board of Directors was recomposed over the year, with all the 'fit and proper' processes having been conducted by the Audit Committee due to lack of appointment of the Remunerations, Nominations and Assessment Committee foreseen in Articles of Association.

Thus, the Audit Committee ensured the assessment of the adequacy of Leandro Rodrigues da Graça Silva (executive member) and Carlos Francisco Ferreira Alves (non-executive member), elected at the General Meeting of 30 October 2018, as well as the 'fit and proper' process of Dulce Maria Pereira Cardoso Mota

Jorge Jacinto, started in December 2018, who was authorised by the supervisor right at the beginning of 2019.

It should be noted that the Remunerations, Nominations and Assessment Committee (CRNA) was appointed in early 2019, and is currently fully performing its duties.

From 21 March 2018, the composition of Banco Montepio's governing bodies for the term of office 2018-2021 was henceforth as follows:

Board of the General Meeting	Position
António Tavares	Chairman of the Board of the General Meeting
Cassiano Calvão	Secretary

Board of Directors			
Name	**Position**	**Election**	**Start of Duties**
Carlos Tavares [(a)]	Chairman	16/03/2018	21/03/2018
Luís Guimarães	Non-executive member	16/03/2018	21/03/2018
Amadeu Ferreira Paiva	Non-executive member	16/03/2018	21/03/2018
Manuel Ferreira Teixeira	Non-executive member	16/03/2018	21/03/2018
Vítor do Carmo Martins	Non-executive member	16/03/2018	21/03/2018
Rui Matos Heitor	Non-executive member	16/03/2018	21/03/2018
Pedro Gouveia Alves	Non-executive member	16/03/2018	23/08/2018
Carlos Ferreira Alves	Non-executive member	30/10/2018	15/01/2019
Executive Committee [(b)]			
Name	**Position**	**Election**	**Start of Duties**
Dulce Mota [(c)]	Vice-Chairman	23/11/2018	09/01/2019
Nuno Mota Pinto	Executive member	16/03/2018	21/03/2018
José Carlos Mateus	Executive member	16/03/2018	21/03/2018
Pedro Ventaneira	Executive member	16/03/2018	21/03/2018
Helena Soares Moura	Executive member	16/03/2018	21/03/2018
Carlos Leiria Pinto	Executive member	16/03/2018	14/05/2018
Leandro Graça Silva	Executive member	30/10/2018	09/11/2018

(a) The Chairman of the Board of Directors was authorised by Banco de Portugal to accumulate these duties with those of Chairman of the Executive Committee up to 11 February 2019.

(b) The Board of Directors, by deliberation of 22 May 2018, appointed an Executive Committee in charge of the institution's current management.

(c) Holds the position of Chairman of the Executive Committee, since 11 February 2019.

Audit Committee	Position
Luís Henriques Guimarães	Chairman
Amadeu Ferreira de Paiva	Member
Manuel Ferreira Teixeira	Member
Vítor do Carmo Martins	Member
Carlos Ferreira Alves	Member

Statutory Auditor	KPMG (*)
Represented by:	Hugo Jorge Gonçalves Cláudio Enrolled at the Statutory Auditors Association under number 1597
	Substitute: Fernando Gustavo Duarte Antunes Enrolled at the Statutory Auditors Association under number 1233
(*) Up to 31 December 2018. The election of a new Statutory Auditor for the term of office 2019-2022 will take place at the General Meeting of Caixa Económica Montepio Geral, caixa económica bancária, S.A., to be held on 27 May 2019.	

- **Committees and Commissions of the Board of Directors**

The Board of Directors is responsible for approving the constitution of Committees and Commissions to monitor certain specific matters which will be chaired by a member of the Board of Directors.

In addition to the Risk Commission and the Executive Committee constituted at the beginning of the current term of office, in the meantime the Board of Directors approved the constitution of the following bodies already in office: Remunerations, Nominations and Assessment Committee, the Credit Committee, the Capital, Assets and Liabilities Committee and the Impairment Committee.

Risk Commission	Position
Luís Henriques Guimarães	Chairman (interim)
Manuel Ferreira Teixeira	Member
Rui Matos Heitor	Member

Remunerations, Nominations and Assessment Committee (*)	Position
Amadeu Ferreira de Paiva	Chairman
Carlos Ferreira Alves	Member
Manuel Ferreira Teixeira	Member

(*) Appointed by the Board of Directors on 7 February 2019.

- **Audit Committee**

Pursuant to the institution's governance model, the Audit Committee supervises the Company's administration, which supervises the audit activities, the processes of preparation and disclosure of financial information, the efficacy of the systems of internal control, risk management and control of compliance, in addition to the activity and independence of the Statutory Auditor, as established in Banco Montepio's Articles of Association and in the Regulations of the Audit Committee.

- **Procedures and criteria applicable to the Audit Committee's intervention for purposes of hiring additional services from the external auditor**

Pursuant to the provisions in the Regulations of the Audit Committee, it is entitled to, on its own initiative, request independent opinions or hire specialised advisory or external consultant services.

The Board of Directors is responsible for negotiating the fees and contracting of the services to be carried out.

- **Identification of the statutory auditor and the partner representing it - Policy and frequency of rotation**

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ensures the statutory auditor's duties for Banco Montepio and provides external audit services to the institution under service provision contracts, regulated by general conditions and according to a specific engagement letter.

Sociedade de Revisores Oficiais de Contas KPMG was represented by Ana Cristina Soares Valente Dourado, ROC number 1011 and by Fernando Gustavo Duarte Antunes (alternate statutory auditor), ROC number 1233. On 21 March 2018, Ana Cristina Soares Valente Dourado was replaced by a new representative - Hugo Jorge Gonçalves Cláudio, ROC number 1597, with the previous alternate remaining unchanged.

As noted above, the term of office of KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ended on 31 December 2018. The process of selection and assessment of the adequacy of a new statutory auditor is currently being completed, which was led by the Audit Committee and awaits authorisation of Banco de Portugal.

Thus, the election of a new Statutory Auditor for the term of office 2019-2022 should take place at the General Meeting of Caixa Económica Montepio Geral, caixa económica bancária, S.A., called for 27 May 2019.

- **Other services provided by the statutory auditor to the Company**

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, SA, as Statutory Auditor of Banco Montepio, performs the duties of external auditor at this institution as well as non-audit services, in compliance with the legal requirements of independence established in article 77 of Law 140/2015 of 7 September.

The services provided by KPMG are entirely functionally and hierarchically independent in relation to CEMG, in accordance with the applicable regulatory and professional standards.

The legal review of accounts and other non-audit services required by law account for approximately 83% of the remuneration attributed to KPMG & Associados, SROC, S.A.

All non-audit services are previously approved by the Board of Directors, and refer to technical support services.

5. INTERNAL ORGANISATION

5.1 – INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

- **Main elements of the internal control and risk management systems implemented in the Company regarding the procedure for reporting financial information** (article 245-A, subparagraph m) of the CVM)

The Board of Directors is responsible for the implementation and maintenance of an adequate and effective internal control system that guarantees the achievement of the performance, information and compliance objectives.

The Audit Committee is responsible for performing a role of continuous assessment of the institution concerning the financial performance and decisions which should be considered strategic due to their amount and risk. The Audit Committee also ensures that the Board of Directors establishes and maintains an adequate and effective control of the internal audit function.

The Remunerations, Nominations and Assessment Committee is composed of three members appointed by the Board of Directors from among its non-executive members, the majority of whom being independent, who are responsible for performing all the duties established in article 115-B of the "Regime Geral das Instituições de Crédito e Sociedades Financeiras" (Legal Framework of Credit Institutions and Financial Companies - RGICSF), and especially, for forming independent judgements on the remuneration policy and practice for establishing incentives attributable to the employees in charge of risk-taking and control functions, for purposes of management of risk, capital and liquidity, monitoring the independence of the employees in charge of risk-taking and control functions, checking the implementation and compliance with the remuneration policies and procedures adopted by the competent governing body, establishing a goal for the representation of gender diversity in the management body and promoting a policy in conformity with this goal, formulating recommendations on candidate members of the management and supervisory bodies, among other aspects.

The Risk Commission is composed of three members appointed by the Board of Directors, from among its non-executive members, the majority of whom being independent, who are responsible, in particular, for advising the Board of Directors on risk appetite and the strategy on general risk, current and future, assisting the Board of Directors in supervision of the implementation of Banco Montepio's risk strategy, analysing the conditions of the products and services, and presenting the Board of Directors with a correction plan, when this analysis indicates that these conditions do not adequately reflect the risks, as well as examining if the incentives established in the Bank's remuneration policy take into account risk, capital, liquidity and expectations as to the results.

The Audit and Inspection Division (DAI) is responsible for the internal audit function, integrated in the process of monitoring the internal control system. As a third line of defence, the Audit and Inspection Division implements the supplementary autonomous assessments of the controls and their procedures, identifying any flaws and recommendations, duly documented and reported to the management body. These are subject to continuous monitoring, in order to guarantee that the necessary measures are taken and implemented in accordance with the respective implementation plan.

The Risk Management function is ensured by the Risk Division, supporting the Board of Directors in decision-making associated to the management of the different types of risk inherent to the activity, within the CEMG Group. The Risk Division is responsible for the identification, quantification and monitoring of risk, the definition of limits and the assessment of their compliance.

The Compliance Division covers all the areas, processes and activities of the companies of the CEMG Group in Portugal and monitors the affiliates abroad, pursuant to article 24 of Banco de Portugal Notice 5/2008. Its mission is to contribute to preventing and mitigating compliance risks, in order to prevent the institution incurring legal or regulatory penalties, financial or reputation loss as a result of failure in compliance with the applicable laws or regulations.

The General Secretariat of the Company, with a new organic status approved in the beginning of 2019, is the body responsible for providing functional support to the Board of Directors, Executive Committee and other committees and commissions of the Board of Directors, including the Company Secretary. The Company Secretary carries out the secretarial duties of the meetings and the reporting to the supervisory entities of mandatory corporate information and to the members of the governing bodies, ensuring the registration of corporate acts and support to the management in performing its shareholder function among the Group's companies, on matters of corporate management.

Also created in the beginning of 2019, the main mission of the Board of Directors' Office is to advise the Board of Directors and Executive Committee on the provision of management information and on the monitoring of relations with the shareholders, regulators and other institutional entities, ensuring compliance with the duties of disclosure, communication and provision of information to investors and the market in general, in the context of the applicable legal and regulatory obligations.

The Statutory Auditor is responsible for issuing an opinion on the suitability and efficacy of the internal control system underlying the process of preparation and disclosure of the individual and consolidated financial information (financial reporting).

- **Policy on communication of irregularities (whistleblowing)**

Banco Montepio has implemented the specific, independent and autonomous means appropriate to the receipt, treatment and filing of reports on serious irregularities related to its management, accounting organisation, internal supervision and serious indications of breach of duty established in "Regime Geral das Instituições de Crédito e Sociedades Financeiras" (Legal Framework of Credit Institutions and Financial Companies - RGICSF), in the Legal Framework or in Regulation (EU) 575/2013, of the European Parliament and Council of 26 June, in Regulation (EU) 596/2014, of the European Parliament and Council of 16 April 2014, and respective regulations and delegated acts, facts related to the matters referred to in number 3 of article 388 of the "Código dos Valores Mobiliários" (Securities Market Code - CVM), as well as the duties imposed by Law 83/2017 of 18 August

Accordingly, the institution’s employees must inform the Audit Board, the supervisory body, of any irregular practices they detect or of which they have become aware or have grounds to suspect, in order to prevent or preclude irregularities which might cause financial or reputation damages to CEMG.

The Regulations of Communication of Irregularities in force, published and available to all the employees, defines the procedures and terms under which whistleblowing can be done, in person or in writing (by electronic mail or via the post), indicating all the elements and information which the Employee possesses and considers necessary for assessment of the irregularity.

Confidentiality of the received reports and the protection of the personal data of the author of the communication are assured, with the Bank being able to convey the personal data collected to supervisory entities or judicial entities, in cases where this data proves relevant.

The Audit Committee is responsible for keeping records of all the communications of irregularities covered by the scope of application of the Regulations of Communication of Irregularities.

5.2 – PLACE OF CONSULTATION: ARTICLES OF ASSOCIATION, REGULATIONS AND CORPORATE INFORMATION

Banco Montepio provides essential information to assure suitable knowledge on its activity through the addresses https://www.bancomontepio.pt/investidores (Portuguese version) and https://www.bancomontepio.pt/investors (English version).

The institution's website (www.bancomontepio.pt) provides all the general corporate information about Banco Montepio, including among others the Articles of Association and Regulations of the Board of Directors, the Audit Committee, the Executive Committee and the Risk Committee.

The internal portal, the Intranet, also discloses the Internal Rules for information of all the employees, which includes, in addition to the legal, statutory and regulatory provisions, rules of conduct and ethical standards.

With regard to compliance with the prudential standards in force and the respective periods of reporting to external entities, there is an Internal Standard that presents and systematises the set of information, time limits and division responsible for ensuring compliance with this reporting duty.

Due the change of the brand to Banco Montepio in the beginning of 2019, the website's image and accesses are being redesigned, with the organisation of accesses and improvement of the institutional area's contents, namely with respect to the Information for Investors and Corporate Governance.

5.3 – NUMBER OF MEETINGS AND ATTENDANCE

Between 1 January and 20 March 2018, the Executive Board of Directors held 13 meetings attended by its members, with the exception of absences derived from holidays, business travel on behalf of the institution or other duly justified reasons accepted by the Executive Board of Directors.

Banco Montepio's Articles of Association approved in 2018 establish that the Board of Directors (CA) should hold at least one meeting a month. Nevertheless, the Board of Directors elected in March 2018 held weekly meetings during the first two months of the term of office and, as a rule, holds fortnightly meetings, notwithstanding having attended an extraordinary session whenever called for such by the Chairman.

The Regulations of the Audit Committee establish that this Committee should hold a meeting at least once a month, or whenever called by its Chairman.

The Executive Committee, pursuant to its Regulations, holds weekly meetings and whenever called for such.

Between 21 March and 31 December 2018, since the taking of office of the new members of the governing bodies, the Board of Directors held 24 meetings, attended by all of its members, with the exception of absences derived from holidays, business travel on behalf of the institution or other duly justified reasons accepted by the Board of Directors.

The Executive Committee took office on 22 May 2018, as noted above, having held 30 meetings during 2018, attended by all of its members, with the exception of absences derived from holidays, business travel on behalf of the institution or other duly justified reasons accepted by the Executive Committee.

The Audit Committee took office on 21 March 2018, having held 29 meetings during 2018, attended by all of its members.

The Risk Committee took office on 19 April 2018, having held 9 meetings during 2018, attended by all of its members.

Annex - Positions held by the members of the Board of Directors in other entities (Accumulated positions)

Members of the Board of Directors	In the consolidation perimeter	Outside the consolidation perimeter
Carlos Tavares	**Caixa Económica Montepio Geral** Chairman of the Board of Directors **Montepio Holding, SGPS** Chairman of the Board of Directors **Montepio Investimento, S.A.** Chairman of the Board of Directors	- Fundação Benjamim Dias Costa (Chairman of the Board of Curators); - Fundação AEP (Representative of Banco Montepio at the Board of Curators); - APB – Associação Portuguesa de Bancos (Board member in representation of Banco Montepio); and - Fundação Casa da Música (Representative of Banco Montepio at the Board of Founders);
Luís Henriques Guimarães	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors, Chairman of the Audit Committee and Chairman of the Risk Committee	--
Amadeu Ferreira Paiva	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors, Member of the Audit Committee and Chairman of the Remunerations, Nominations and Assessment Committee	- Universidade Autónoma de Lisboa (Professor); - Associação do Comércio Eletrónico e da Publicidade Interativa (Chairman of the General Meeting); - Casa do Conselho de Castro Daire (Chairman of the General Meeting); and - Portuguese Committee for UNICEF - United Nations Children's Fund (Vice-Chairman).
Manuel Ferreira Teixeira	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors, Member of the Audit Committee, Member of the Risk Committee and Member of the Remunerations, Nominations and Assessment Committee	- Universidade Nova de Lisboa – Information Management School (Invited Professor); and - Santa Casa da Misericórdia de Lisboa (Consultant).
Vítor do Carmo Martins	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors and Member of the Audit Committee	- Floresta Atlântica, Soc. Gestora de Fundos de Investimento Imobiliário, SA (Chairman of the Supervisory Board); - Vítor Martins & Ahmad, SROC, Lda (Managing Partner); and - Agrocapital, Soc. Capital de Risco, SA (Member of the Supervisory Board).
Rui Matos Heitor	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors and Member of the Risk Committee **HTA – Hotéis Turismo e Animação dos Açores S.A *** Non-Executive Director **Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, SA *** (Secretary of the Board of the General Meeting)	- Futuro – Sociedade Gestora de Fundos de Pensões, SA (Secretary of the Board of the General Meeting); and - Residências Montepio, Serviços de Saúde, SA (Secretary of the Board of the General Meeting).
Pedro Gouveia Alves	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors **Montepio Crédito, SA** Chairman of the Board of Directors	- ASFAC Logalty (Member of the Management Board); and - Fundação Social Bancária (Member of the Board of Curators).
Carlos Ferreira Alves	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors, Member of the Audit Committee and Member of the Remunerations, Nominations and Assessment Committee	- Faculdade de Economia da Universidade do Porto (Associate Professor with Aggregation); - Porto Business School (Chairman of the Academic Board); - Futebol Clube Paços de Ferreira (Chairman of the Supervisory Board); and - SEDES (Member of the Coordinating Board).

Members of the Board of Directors	In the consolidation perimeter	Outside the consolidation perimeter
Dulce Mota	**Caixa Económica Montepio Geral** Non-Executive Member of the Board of Directors, Vice-Chairman of the Executive Committee, in this capacity performing duties of Chairman of the Executive Committee	- Associação Alumni ISCTE (Member of the Advisory Board); and - Associação FinTech e Insurtech Portugal (AFIP) (Member of the Advisory Board).
Nuno Mota Pinto	**Caixa Económica Montepio Geral** Executive Member of the Board of Directors **Montepio Holding, SGPS** Member of the Board of Directors **Montepio Crédito, SA** Member of the Board of Directors **Finibanco Angola, SA** Chairman of the Board of Directors	- Start-Up Lisboa – Associação para a Inovação e Empreendedorimo de Lisboa (Non-Executive Director).
José Carlos Mateus	**Caixa Económica Montepio Geral** Executive Member of the Board of Directors **Montepio Holding, SGPS** Member of the Board of Directors **Montepio Investimento, SA** Member of the Board of Directors **Banco Montepio Geral Cabo Verde, Soc. Unip., SA** Member of the Board of Directors	- Norgarante, Sociedade De Garantia Mútua, SA (Member of the Board of Directors); - Lisgarante, Sociedade De Garantia Mútua, SA (Member of the Board of Directors); - Agrogarante, Sociedade De Garantia Mútua, SA (Member of the Board of Directors); - Garval - Sociedade de Garantia Mútua, SA (Member of the Board of Directors); and - Associação Protetora Florinhas (Member of the Supervisory Board). - AEM-Associação de Empresas Emitentes de Valores Cotados em Mercado (Member of the General Board)
Pedro Ventaneira	**Caixa Económica Montepio Geral** Executive Member of the Board of Directors **Finibanco Angola, SA** Member of the Board of Directors	--
Helena Soares Moura	**Caixa Económica Montepio Geral** Executive Member of the Board of Directors	- SIBS, SGPS, SA (Member of the Board of Directors, in representation of Banco Montepio) - SIBS, Forward Payment Solutions, SA (Member of the Board of Directors, in representation of Banco Montepio).
Carlos Leiria Pinto	**Caixa Económica Montepio Geral** Executive Member of the Board of Directors **Montepio Valor, SA** Chairman of the Board of Directors **Montepio Investimento, SA** Member of the Board of Directors	- Montepio Gestão de Ativos Imobiliários, ACE (Member of the Board of Directors, in representation of Banco Montepio).
Leandro Graça Silva	**Caixa Económica Montepio Geral** Executive Member of the Board of Directors	- Olympic Committee of Portugal (Chairman of the Supervisory Board); - Federação Portuguesa de Orientação (Chairman of the Supervisory Board); and - Federação de Triatlo de Portugal (Chairman of the Supervisory Board).

* Consolidation by the equity method.

CAIXA ECONÓMICA MONTEPIO GERAL

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