

# BiG

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ANNUAL REPORT

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**2018** 

T.1

(Euro)

Consolidated (Audited)	2018	2017	2016	2015
Net Interest Margin	23,581,515	15,953,463	25,213,609	23,733,313
Net Commissions and Fees	10,034,959	10,591,948	7,661,022	12,702,261
Treasury and Capital Markets	22,975,092	78,420,179	44,308,971	112,762,645
Other Income	-1,407,970	-1,228,249	-1,491,357	-491,846
<b>Operating Income</b>	<b>55,183,596</b>	<b>103,737,341</b>	<b>75,692,245</b>	<b>148,706,373</b>
Personnel Expenses	-19,608,214	-23,089,898	-18,580,524	-23,363,479
Other Administrative Costs	-8,452,926	-9,627,285	-7,658,552	-12,261,590
<b>Operating Expenses</b>	<b>-28,061,140</b>	<b>-32,717,183</b>	<b>-26,239,076</b>	<b>-35,625,069</b>
<b>Operating Cash Flow</b>	<b>27,122,456</b>	<b>71,020,158</b>	<b>49,453,169</b>	<b>113,081,304</b>
Amortizations	-1,961,867	-2,109,865	-1,575,628	-1,291,237
Provisions	1,402,500	2,001,590	10,883,496	-2,764,774
Imparities	939,335	265,696	-318,071	-1,423,987
<b>Operating Results</b>	<b>27,502,424</b>	<b>71,177,579</b>	<b>58,442,966</b>	<b>107,601,306</b>
Results of Subsidiaries	0	0	0	0
<b>Profit Before Income Tax</b>	<b>27,502,424</b>	<b>71,177,579</b>	<b>58,442,966</b>	<b>107,601,306</b>
Current Income Tax	-3,830,382	-18,520,409	-14,804,968	-32,507,084
Deferred Tax	-526,438	-310,552	74,339	-585,043
<b>Profit After Income Tax Before Minority Interest</b>	<b>23,145,604</b>	<b>52,346,618</b>	<b>43,712,337</b>	<b>74,509,179</b>
Minority Interest	-89,388	0	0	0
<b>Net Income</b>	<b>23,056,216</b>	<b>52,346,618</b>	<b>43,712,337</b>	<b>74,509,179</b>

Individual	2018	2017	2016	2015
<b>Net Income</b>	<b>20,059,048</b>	<b>50,823,109</b>	<b>43,429,149</b>	<b>74,854,898</b>

Selected Indicators	2018	2017	2016	2015
Total Assets	2,277,989,803	1,851,222,072	1,759,030,349	1,542,063,419
Shareholder Funds	347,147,597	339,533,229	265,611,138	276,364,401
Own Funds	329,410,690	329,790,312	290,951,338	312,743,080
Client Deposits	1,312,210,871	1,035,793,975	1,049,049,853	885,485,867
Non-Performing Loans / Total Loans	0.07%	0.05%	0.03%	0.10%
Loans / Client Deposits (*)	3.0%	29.8%	41.7%	42.6%
Loans / Total Assets (*)	1.7%	16.7%	24.9%	24.4%
Assets Under Supervision (**)	3,401,529,469	3,224,261,765	2,841,439,509	2,810,927,292

(\*) In accordance with IFRS 9 issued by the International Accounting Standards Board (IASB), the Asset-Backed Securities (ABS) were reclassified to the Hold to Collect and Sell portfolio in 2018 (until 2017 these assets were included in Loans).

(\*\*) Assets under management, held in custody and client deposits.

Profitability	2018	2017	2016	2015
Return on Average Assets (ROA)	1.1%	2.9%	2.6%	5.0%
Return on Average Equity (ROE)	6.7%	17.3%	16.1%	27.7%
Operating Income / Average Assets	2.7%	5.7%	4.6%	10.0%

Solvency	2018	2017	2016	2015
CET1 Capital Ratio	31.5%	45.1%	31.6%	33.2%
T1 Capital Ratio	31.5%	45.1%	31.6%	33.2%

Efficiency	2018	2017	2016	2015
Net Interest Income / Earning Assets	1.1%	0.9%	1.5%	1.6%
Operating Expense / Operating Income	54.4%	33.6%	36.7%	24.8%
Personnel Expense / Operating Income	35.5%	22.3%	24.5%	15.7%

Source: BIG

# FINANCIAL INDICATORS

## **Management Discussion**

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Risk Management and Internal Control

## **Consolidated Financial Statements**

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# ▲ MANAGEMENT DISCUSSION

## INTRODUCTION

### The Bank

Banco de Investimento Global, S.A. (BiG, or the Bank) is a privately-held, specialized savings and investment bank, founded in 1998. With headquarters in Lisbon, the Bank acts as the holding company of the Group, is licensed to operate in all business areas open to the banking sector and transacts the majority of its business in Portugal.

On 31 December 2018, the Bank had € 2.3 billion in assets, € 1.3 billion in client deposits and € 347.1 million in shareholders' equity. In its core activity, the Bank focuses on savings, investment and advisory activities directed toward individual and corporate/institutional client segments. Commercially, we concentrate on client acquisition, deposit growth, the marketing of trading and investment products via mainly self-directed, digital platforms, asset management and wealth management solutions for our clients. Operationally, we focus on asset quality, liquidity and interest rate risk management, internal operating controls, reliable execution, capital preservation and the control of business risks. The capital is dispersed, stable, and privately held by mainly Portuguese individual and institutional investors (see Shareholder Base section and Note 35).

We seek to ensure a pattern of secure, sustainable growth with our business model, and to remain a safe harbor for the assets and savings of our clients. To this end, the Bank's solvency and other operating ratios are exceptionally strong and have remained so on a consistent basis. Since the Bank's founding more than 20 years ago, BiG has relied on internally-generated and largely-retained earnings to finance its growth – after paying regular dividends – and to expand and improve on its business model, often during turbulent periods of unusual market stress. BiG's business model favors technology-driven solutions to reach clients and process their transactions. We promote scalable processes and an operating culture that seeks to limit operational errors or credit losses to low levels. We favor quality over size or market share across our business lines and have never sought to

follow or to replicate traditional, universal banking models.

BiG is independent of banking, specific shareholder or special interest groups, and since its inception has not requested, nor required, assistance, capital or guarantees from any outside or official source.

This financial independence brings with it the freedom to think and innovate, but simultaneously requires a high degree of financial discipline. It also requires demanding risk management, strong reliance on many years of experience in financial markets, and a healthy respect for the risk/reward nature of our business.

### What we do

Specifically, we:

**Attract** deposits from retail and institutional clients;

**Advise** corporate and institutional and individual clients on market risk, on appropriate asset allocation, and strategic issues associated with their businesses;

**Execute** equity and fixed income transactions in regulated markets or OTC (Over the Counter) and custody services for individual and institutional clients under a variety of arrangements, depending on their financial needs and risk-appetites;

**Invest** in liquid and quality assets, mostly with an investment grade rating, and advise our clients on how to invest according to their profile and understanding of the markets;

**Manage** a largely non-credit-intensive Balance Sheet, our exposure to a wide variety of business risks and, under specific arrangements, the assets of our clients;

**Preserve** our reputation and the integrity of our business;

**Grow** our capital, along with the savings and assets of our clients, in a secure and reliably-controlled operating environment;

**Innovate**, by encouraging and developing ideas that derive from our views of the market, and which spring from the entrepreneurial foundations of the Bank.

For individuals, the Bank provides savings, brokerage, custody, wealth management and general banking and payment services. For corporate and institutional clients, services include market risk management, treasury, brokerage, custody, and corporate advisory services, including debt finance. The Bank's treasury and capital markets area concentrates on liquidity and balance sheet management. This area is also central to our culture of managing market-related and credit risks.

The Bank generates most of its revenues in Portugal. The Bank's main subsidiaries focus on investment banking (BiG Moçambique) and FinTech-related investments and activities (One Tier Partners). During 2019, BiG also expects to start its banking activity business in Spain through a branch which will focus on trading, deposit and wealth management via mainly digital platforms.

The asset side of the Balance Sheet, as a rule, reflects geographic and sectorial diversity, which may vary over time, depending on market conditions and business opportunities. It also reflects our policy of maintaining exceptional levels of liquidity. The liability side of the Balance Sheet focuses on stable, retail deposits and capital growth. The Bank interacts with clients through a variety of integrated channels. Retail clients are served by the online investment platform, [www.big.pt](http://www.big.pt), and financial consultants located in key central and regional locations. Corporate and Institutional clients are the focus of sales and product teams based mainly in Lisbon, Porto, Maputo (Mozambique) and, from 2019, in Madrid.

The Bank's brokerage platform is supported by its direct membership in NYSE Euronext, which includes domestic and key international exchanges. In addition, the Bank maintains partnership arrangements with global financial services suppliers and clearing-houses in order to provide access for our clients to major equity, options and futures exchanges.

Platforms for other “over the counter” (“OTC”) products, bonds or mutual funds, usually combine in-house technology solutions and agreements with counterparties and providers.

## Business Lines

### Wealth Management and Advisory Services

BiG’s client-facing businesses are non-credit-intensive and focus on helping individual and wholesale clients manage their assets. We work with clients using an integrated multi-channel approach, backed by a proprietary banking and trading platform and a network of sales offices in the country’s key geographic markets.

The combination of internet-based platforms and personal financial consultants help clients execute banking transactions, manage savings and invest through some of the world’s most important regulated markets. This business provides banking services and solutions for clients ranging from the self-directed to those seeking assisted investing, with tools for daily banking needs and an array of traditional savings products and investment funds.

For private clients, institutional investors and middle market to large corporations, the Bank’s professionals from key product areas design specific financial solutions, execute trading and investment strategies, and help clients to manage

their assets and business risks. The broad range of services we offer includes trading in regulated markets, market research, structuring over the counter products, asset management, market risk management and corporate finance advisory services.

### Treasury and Capital Markets

This business area focuses on the Bank’s investment and credit activities, centralizes liquidity and balance sheet management, and is central to the Bank’s culture of managing and analyzing market risks. In addition to managing interest rate risk associated with the Bank’s credit portfolio, the area provides expertise and information for internal consumption on markets, covers the market risk component of solutions sold to clients, is active in product design for both retail and wholesale customers and manages the treasury and risk positions of the Bank.

### Regulators

The Bank’s activities in Portugal are regulated by the following entities:

*Banco de Portugal* (Portuguese Central Bank): date of special registry 5 February 1999, under Code Number 61. [www.bportugal.pt](http://www.bportugal.pt).

*Comissão do Mercado de Valores Mobiliários* (CMVM – Securities Market Com-

mission): date of authorization 8 March 1999, under Code Number 263. [www.cmvm.pt](http://www.cmvm.pt).

*Autoridade de Supervisão de Seguros e Fundos de Pensões* (ASF – Insurance and Pension Funds Supervisory Authority): registered as an adjunct insurance mediator. [www.asf.com.pt](http://www.asf.com.pt).

The Bank’s activity in Mozambique is regulated by the following entities:

*Banco de Moçambique* (Bank of Mozambique) registry of 16 January 2016.

*Bolsa de Valores de Moçambique* (BVM – Securities Market Regulator): date of authorization 14 December 2015.

Because of its size, at the European level, BiG is considered a “Less Systemically Important” institution and is supervised directly by the Bank of Portugal. The European Central Bank directly supervises “Systemically Important” institutions. At the same time, the Bank is subject to the same supervisory “single rulebook” as all other banks under European Banking Authority (EBA) guidelines.

### Summary of 2018 Results

An overview of key income statement and balance sheet items is provided in T.2. More detailed analysis of financial indicators and results of business segments may be found in RESULTS OF OPERATIONS, in the FINANCIAL STATEMENTS, and in

T.2

(Euro 000)

Summary of Results	2018	2017	2016	2015
Total Net Revenue	55,184	103,737	75,692	148,706
Non Interest Expense	-27,681	-32,560	-17,249	-41,105
Taxes	-4,357	-18,831	-14,731	-33,092
Net Income	23,056	52,347	43,712	74,509
Shareholders Funds	347,148	339,533	265,611	276,364
Own Funds	329,411	329,790	290,951	312,743
Total Net Assets	2,277,990	1,851,222	1,759,030	1,542,063
Loans	38,827	309,094	437,485	376,820
Deposits	1,312,211	1,035,794	1,049,050	885,486
CET1 Capital Ratio	31.5%	45.1%	31.6%	33.2%
T1 Capital Ratio	31.5%	45.1%	31.6%	33.2%

Source: BiG

the NOTES TO THE CONSOLIDATED ACCOUNTS.

**The Bank generated consolidated net income of € 23.1 million for 2018, compared with € 52.3 million for 2017, and € 43.7 million for 2016;**

**Earnings per share (EPS) were € 0.13 for 2018, as compared with € 0.34 per share for 2017 and € 0.28 per share in 2016;**

**The Bank's Net Operating Revenues for 2018 were € 55.2 million, as compared to € 103.7 million in 2017, and € 75.7 million for 2016;**

**Return on Average Equity (ROE) for 2018 was 6.7%, as compared with 17.3% in 2017 and 16.1% in 2016;**

**The Book Value (BV) of BiG's common stock rose to € 2.02 per share at 31/12/18, versus € 1.97 per share in 2017, and € 1.70 per share in 2016;**

**BiG's consolidated CET1 ratio, on a fully-phased-in basis, at 31/12/18 was 31.5%, as compared to 45.1% at year-end 2017, and 31.6% at year-end 2016;**

**The level of the Bank's Assets was 6.6 times Shareholder Funds at 31/12/18, versus 5.5 times at 31/12/17;**

**The consolidated Liquidity Coverage Ratio at 31/12/18 stood at 198% versus 312% for the prior year;**

**The ratio of Non-performing loans/Total Loans was 0.07%, or in line with the historical average.**

For 2018, more than 90% of the Bank's revenues were generated in Portugal, with the rest contributed by the Bank's only international presence, in Mozambique. Activity on the asset side of the Balance Sheet focused on high quality, liquid securities in the various trading and banking books. The balance sheet contains a relatively low level of loans, which are, by their nature, less liquid and, in current market conditions, not interesting from a risk/return perspective. Given the highly liquid nature of the balance sheet, credit risks and concentrations are managed actively in the light of overall market conditions

and investor sentiment with respect to interest rates.

BiG's analyses of credit concentrations and earnings opportunities consider Management's expectations with respect to trends in credit quality, interest rates, and market liquidity and how these issues may be influenced by political, economic and regulatory movements. As a matter of long-term strategy and appetite for risk, approximately 60% of the Bank's exposure involved country risk exposures other than Portugal, including other European, U.S. and Latin America country risk exposure. For much of the year, political events in Europe – specifically Germany and Italy – along with events associated with negotiations on Brexit, U.S. politics and expectations about global economic growth, were among the themes affecting markets.

In this environment, the Bank's stable earning assets, liquidity and capital funds grew, as did net interest margin and commission income, while opportunities to recognize market-related income declined. This contributed to lower net revenues and net income for the year. Key performance ratios linked to asset quality, liquidity and solvency remained strong, and are the basis for Management's decision to focus on plans to open a unit in Spain and to continue investments in the client businesses.

### Key Income Statement Items

Net Operating Income for 2018 declined to € 55.2 million. Overall, results affected by lower revenues from Treasury and Capital Markets, which offset a rise in net interest margin, stable commissions from brokerage and asset management activities, and lower operating costs. Positive contributions also included reversal of provisions and the relative absence of impairments. Business confidence in segments most associated with BiG's business model remained highly uncertain for much of the year, because of geo-political issues and fears of lower growth in Europe and Asia.

Equities markets began strongly in 2018, but began to lose momentum from May

onward, and then corrected strongly in the last quarter of the year. Yields and credit spreads continued to decline, generally across the board. In Europe, interest rates remained at historically low levels – leading to an equally low rate of savings in Portugal, and significant growth in consumer credit. In general, Management moderated risk-taking and growth in the balance sheet. We managed significant levels of liquidity and maintained a neutral stance with respect to the levels of confidence and on-going consumer credit boom and reduction of credit spreads underway domestically.

Because of a lower appetite for risk, market rates near zero, and the transition to IFRS 9 accounting rules, Management increased stable earning assets moderately. Net Interest was the only component of Operating Income which increased year on year.

As funding costs remained stable, the average holding period for Hold to Collect and Sale (HTCS) assets increased. For some of the same reasons that Net Interest margin rose, Non-interest-related income, which is a key component of the Bank's business, declined significantly on lower gains in both fixed income and unchanged commissions from wealth management activities. Year on year, primary operating expenses – salary, administrative and amortization costs – declined despite growth in headcount because of lower provisions for variable compensation. General administrative expenses also decreased on tighter controls over discretionary spending, and in spite of ongoing investments in the Bank's future branch in Spain. Taxes dropped on lower pre-tax income and adjustments related to the implementation of IFRS9.

*Net interest margin.* This category rose by 47.8% to € 23.6 million, as compared with € 16 million for 2017. Yields on a higher average level of earning assets remained low, while funding costs were stable, as referred to above. Through the year, and in view of market conditions and Management's lower appetite for risk, the Bank continued to hold large amounts of liquidity, rather than increase risk by acquiring lower-yielding assets where the risk/return profile was deemed inappropriate. Given

the overall profile of funding and liquidity, and despite of the lower costs, relative to retail deposits, the Bank did not use ECB funding facilities for the third year, in spite of large amounts of securities eligible for repo, while increasing moderately the usage of repo lines made available by other counterparties.

*Commissions:* Net commissions from brokerage, retail services, asset management and advisory activities declined overall, by 5% to € 10.0 million, from € 10.6 million for the prior year. Commissions from retail and institutional brokerage and asset management declined on lower volumes, which was offset partially by higher revenues from distributing corporate and sovereign debt instruments. Meanwhile, revenues from corporate advisory rose because of a steady flow of mandates, especially from Mozambique.

*Treasury and Capital Markets:* Investing and credit activities associated with client trading, market making, and the revenues generated by managing the Bank's various portfolios of fixed income securities, as well as income from other investments in other credit products, dropped 70%, to € 23.0 million 2018. A majority of revenues in this category were realized gains associated with a diversified portfolio of fixed income securities involving liquid asset classes and a variety of country risks. In managing the credit and securities portfolios in what has been a challenging operating environment, the Bank's priorities were the maintenance of high levels of liquidity in its inventory of earning assets and intense focus on their overall quality. As these are core priorities, Management expects this trend to continue.

*Operating Expenses:* For 2018, key operating costs decreased 15% to € 27.7 million. As in prior years, Management seeks to build as much flexibility as possible into the expense base to ensure a certain level of correlation with anticipated rises or falls in revenues in a given year. This allows higher investment and spending in years of revenue growth, and the reverse, in years when market conditions are less favorable. At the same time, Management seeks to keep this flexibility within reasonable bounds, given the rela-

tive rigidity, or unpredictability, of legislation and regulation.

Compensation expenses were 15.1% lower in 2018, at € 19.6 million, General Administrative Costs slowed 12.2% to just under € 8.5 million, and amortizations dropped 7.0% to € 2 million. As a percentage of Operating Income, compensation expense, which always represents the largest portion of operating expenses, was 35.5%, versus 22.3% in 2017. Meanwhile, Operating Expenses/Operating Income rose to 54.4%, compared to 33.6% in 2017. Also known as the Bank's "efficiency ratio," the relationship measures how the Bank uses its cost base to produce operating revenues. Net Provisions were positive € 1.4 million in 2018, versus € 2.0 million in the 2017.

*Pre-tax income and taxation:* Pre-tax income for 2018 was € 27.5 million, as compared to € 71.2 million in 2017. Current and deferred taxes for 2018 were € 4.4 million against € 18.8 million in 2017. Including 2018, the total of nearly € 164 million in corporate taxation for the period 2011-2018, has made BIG one of the highest corporate taxpayers for its size among financial institutions in Portugal. For 2018, taxation represented 15.8% of pre-tax income, as compared with a rate of 26.5% 2017.

### Key Balance Sheet Items

Total Assets at 31 December 2018 were € 2.3 billion, a 23.1% rise when compared to € 1.9 billion at the prior-year end. The Bank's main earning assets, which are managed in order to maximize liquidity and control concentrations of risks, represented, for the most part, a diversified portfolio and are measured under the heading "Available-for-sale financial assets" in accordance with IAS 39 and "Hold to Collect and Sell" as from January 1, 2018, according to IFRS 9, comprising mainly liquid, fixed income securities. This portfolio stood at € 1.6 billion, or 20% above the prior year (€ 1.3 billion).

As a percentage of Total Assets, Loans represented 1.7% of the total, versus 16.7% at year-end 2017. This reduction

reflects reclassification of Asset Backed Securities (ABS) to the Hold to Collect and Sell portfolio (until 2017, these assets were integrated in Loans). The Loans / Total Assets percentage may vary somewhat year on year but tends to be deliberately low over time and continues to be an indicator of the Bank's high levels of structural liquidity. It also reflects the strategy of the Bank of reduced emphasis on commercial and consumer-related lending in the Bank's business model, in what we believe to be in an already over-indebted economy. The ratio of non-performing loans/Total Loans was 0.07% at 31/12/18, in line with negligible levels recorded in prior years.

The Bank's main sources of funding are, in this order: (i) mainly retail client deposits, (ii) shareholders' funds, (iii) sales/repurchase agreements executed with market counterparties, among which are global financial institutions, and (iv) occasional sale/repurchase transactions with the EUREX Repo platform for generally shorter tenors. The first two components are core, while the others are a function of market opportunities and pricing. The Bank does not issue long term debt and, considering the Bank's business model and structurally low leverage, has no plans to do so. Deposits taken from the ECB were again zero for the full year 2018, generally substituted with deposits and the use of repo facilities with global counterparties.

Common equity at year-end was unchanged at € 171.9 million, (171,947,388 million ordinary shares issued, with a nominal value of one euro each). In 2016, the Bank issued € 12 million in redeemable preferred stock as part of a program of equity incentives for Management and key staff. This preferred stock will be redeemed 3 years from issuance, in 2019. Shareholder funds rose to € 347.1 million from € 339.5 million at 31/12/17, because of positive evolution in revaluation reserves and including earnings for 2018. Consolidated Regulatory Capital ("own funds") at year-end 2018 was € 329.4 million.



## Business Environment in 2018

### Overview

The past year began strong on higher markets, but by Q2, momentum had begun to slow on a gradual decline in investor confidence, the expectation of higher rises in interest rates by the Federal Reserve, signs of slower economic growth in Asia and Europe, and the effects of political turbulence emanating from the U.S., UK and Italy, among other sources. The year ended on a decidedly sour note with a steep correction in equity markets, the absence of a deal on Brexit, fears of a U.S.-China trade war, Trump's expected clash with a Democratic House of Representatives, and less favorable economic data from Europe.

In Portugal, with investors' focus on other markets and geo-political issues, economic figures were restrained, against a backdrop of relative political stability. The combination of still accommodative monetary policy in Europe which has produced continued low interest rates, along with careful management of budgets by the minority Socialist government, has led to a sustained return to the markets by the Portuguese Sovereign. There have been gradual upgrades to the Government's creditworthiness to minimum levels of investment grade. The results of the banking sector have been mixed, but capital levels and controls generally have improved, under very tight regulatory scrutiny, and earn-

ings at the group level of most of the larger banks – excluding Novo Banco – seem to have passed from significantly negative to more consistently positive levels of profitability. The increase in consumer lending and continued high levels of non-performing loans still to be recognized by the banking sector remain a concern in Portugal and other parts of Europe. as a whole.

Market events most directly associated with the Bank's performance and prospects tend to be linked with credit trends, movements in global interest rates and prospects for growth in major economies, on the one hand, and domestic politics and risks and opportunities associated with the management of the State machinery, the intensity and volume of regulation, and the effect of legacy issues on our competition, on the other. The first event is fundamental to our business model, the management of the balance sheet and our business with clients and is a key to creating value for our shareholders. The second is critical as well, as the credibility of the sovereign is watched closely by external creditors and international investors, while the impact on the banking sector and competitive pressures are a daily concern.

On a detailed level, our response to business opportunities, regulatory, tax, labor, social, and competitive issues is discussed in this section and throughout the Management Report.

## Macroeconomic Indicators and Economic Trends

### Global

The growth rate of the world economy stood at 3.7% in 2018, slightly slower than in the previous year (+3.8%) and was penalized by the gradual slowdown of the developed economies, in particular Europe and the Japan. The slowdown was mainly felt in the second half of the year as a result of worsening trade tensions between the US-China, which penalized global trade developments and added to the risks of contagion of the macro-structural fragility which plagued some emerging countries (Argentina and Turkey). These were captured following the quantitative tightening by the FED, which led to the generalized appreciation of the US dollar and the rise in interest rates along the US dollar yield curve.

Despite the increased volatility observed in financial markets, global economic growth remained robust, with the unemployment rate in developed economies reaching minimum levels in the current phase of the cycle, although this situation did not lead to a more significant pick-up of inflation. In fact, harmonized inflation in developed economies continues to fluctuate with commodity price volatility, while core inflation remains broadly contained. This situation is of particular importance in the current stage of the current economic cycle, given the uncertainty as to the FED to prolong the path of rising interest rates

T.3

Macroeconomic Indicators (%)	GDP			CPI		
	2017	2018	2019E	2017	2018	2019E
USA	2.2	2.9	2.5	2.1	2.5	2.0
Euro Area	2.5	1.9	1.6	1.7	1.9	1.7
Portugal	2.8	2.1	1.6	1.6	1.2	1.3
Japan	1.9	0.7	0.9	0.5	1.0	1.0
China	6.8	6.6	6.2	1.6	2.1	2.2
Russia	1.6	2.3	1.5	3.7	2.9	5.0
Middle East	0.9	2.9	3.0	3.1	4.5	3.3
Asia-Pacific	5.3	5.1	4.7	1.7	2.1	2.2
Latin America	1.9	1.2	2.2	6.4	7.1	9.5
Developed Economies	2.4	2.3	2.0	2.0	2.3	2.0
Emerging Economies	5.0	5.6	4.9	3.4	3.6	3.6
<b>World</b>	<b>3.8</b>	<b>3.7</b>	<b>3.5</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>

Source: Bloomberg Economic Forecasts

and the capability of the ECB to proceed with monetary policy normalization in 2019.

## USA

The growth rate of the US economy increased again in 2018 (GDP grew by 2.9% YoY), benefiting from the double effect of a substantially dynamic labor market – the unemployment rate reached the lowest value in the 21st century (3.9%) – as well as the tax incentives introduced by the Trump Administration in the last two years. Notably the reduction of taxes for families and companies, as well as incentives to repatriate cash held abroad. With sentiment indicators setting maximums in the current cycle and the level of wage growth reaching the highest level in this decade, the Federal Reserve has increased the monetary normalization trajectory to contain inflationary risks and / or excessive asset appreciation. Thus, the FED FUNDS rate was increased by 100 bps to 2.5%, a level already relatively close to the neutral rate of the American economy and a very significant value in the post-QE.

The US stock market reversed the positive performance seen in the first nine months of the year, thus ending in 2018 with average losses of around 5%. The instability observed in emerging economies and the fear that the rise of the interest rate by the FED determined a slowdown of the American economy in the medium term justified this movement. The US yield curve continued the flattening trend through a gradual pick-up in short-term rates, a situation that ended up supporting the performance of the US dollar in the same period – recorded appreciations above 5 pp vs. a basket of reference currencies at an international level.

## Europe

The political landscape was dominated by Italy and Brexit. The former saw the formation of a populist government materialized through a governing coalition between the party “La Lega” and the “Movimento 5 Stelle”, as a result of the legislative results. The inauguration of

this Government and the presentation of its proposal for the State Budget for 2019 were the main shocks to one of the assets that deserved greater prominence during 2018: Italian sovereign debt. Italy’s yields moved away from other European peripheral economies (Portugal and Spain) converging to levels closer to Greek sovereign yields. After a long arm wrestle with the European Commission, the Italian government gave in and changed its budget, symbolically revising the budget deficit estimate from 2.4% to 2.04%, allowing a moderate relief of yields and escaping an Excessive Deficit Procedure by the European Commission.

As far as Brexit is concerned, an agreement has been reached between the European Union and the United Kingdom, which provides for a transitional period. In order to be transposed into British law and have real effect, the agreement still lacks the problematic parliamentary approval in the United Kingdom – whose vote was postponed to 2019.

In the macroeconomic context, activity slowed down in the second half of the year, reflecting the decrease in exports to the main trading partners (USA, UK and China) as a result of the worsening of trade tensions. The lower level of investment and the worsening of economic sentiment did not inhibit a notable growth rate in the Euro Zone (+1.8% in 2018). At the monetary level, the ECB completed its quantitative easing program, although the process of monetary normalization remains a mere chimera, given the gradual deceleration in the region and insignificant inflationary pressures – irrespective of the volatility of the energy mix – since core inflation persists at structurally low levels (around 1%).

## Portugal

The growth rate of the Portuguese economy was affected by the global deceleration scenario observed in the second half of the year, resulting in a tighter increase in exports. Nonetheless, GDP grew by 2.1% annually – one of the highest in the current decade – benefiting from the benign evolution of the Trade Balance and a

more pronounced recovery in the level of consumption. From the macrostructural point of view, it is important to highlight the evolution of the budget deficit. It registered one of the lowest values (-0.8%) in the last 30 years. Given the economic growth rate previously mentioned, this resulted in a decrease of public debt to approximately 127% of GDP.

By 2019, in a broadly politicized year (legislative and European elections), the economy should continue to exhibit a moderately slowing down trend as a result of the more unfavorable international context. This effect should be mitigated by a possible pick-up of investment and by the expected acceleration of wage growth which will tend to support a favorable evolution of household consumption.

## Business Outlook for 2019

The outlook for global growth is uncertain, with economic momentum appearing to slow, for several reasons. These include: trade tensions between the U.S and China, a slowdown in European economies, a potential “no-deal” withdrawal by the United Kingdom from the EU, and on-going sovereign and financial risks emanating from Italy. The key risks for the coming year, which imply a tilt to the downside in terms of growth and business opportunities, include (i) the effect on growth of serious U.S. political divisions, (ii) a hard-landing for Brexit, (iii) continued soft private consumption in Germany, and the effects of protests in France and radical politics in Italy, and how they relate to sovereign yields and borrowing costs, (iv) BCE policies in response to slowing economic growth in Europe, (v) slower-than-expected growth in China, and (iv) other possible geopolitical events or surprises.

Portugal’s economy and outlook correlates to the broader slowdown in the Eurozone. In addition, concerns about the outlook for its still highly-indebted economy, and heavily-taxed private sector, should grow and be influenced to the downside by election-year promises of spending and eventual pressures on the Government deficit. Towards the end of 2018, the flow of less positive economic

data, lower consumer confidence and pessimistic business sentiment should carry over well into 2019. The banking sector has improved after years of writing off impaired credits, with record growth in lending, particularly to consumers, temporarily offsetting long-standing issues of high levels of NPLs and continued dependence on traditional business models. Government policies continue to focus on short term goals, rather than incentives to the creation of capital. The risks associated with the lack of long-term planning by policymakers include the possible erosion of business confidence, or worse, at a time when the already slow pace of reform is subordinate to populist movements and political/election pressures.

With economic growth slowing as we enter an election year, we expect little moves on reforms, intensifying trends toward populism, and no sign of relief from creative and indirect forms of taxation. Macro issues, such as the trajectory of European economic growth, along with significant macro issues described above, are likely to have more impact on the Bank's business than domestic events.

### Critical Accounting Policies

The Bank's financial statements are prepared in accordance with International Financial Reporting Standards ("IAS/IFRS") as issued by the International Accounting Standards Board (IASB). The application of these accounting standards requires the use of judgment, based on estimates and assumptions that may involve significant uncertainty at the time they are made. Such judgments, which combine historical experience, expectations of the future and other factors, are evaluated regularly to determine their relevance based on current conditions. Changes in assumptions may have a significant impact on the financial statements in the periods when they occur. Management believes the assumptions made are reasonable under the circumstances, and that the financial statements fairly present the financial position of BiG as of 31 December 2018 and the results of operations and cash flows for the year 2018 in accordance with IFRS.

The Bank's critical accounting policies are discussed in detail in the Notes to the Consolidated Financial Statements. Of the policies described, one of the most important for the Bank is the use of fair value to measure financial instruments. This is because most of the Bank's earning assets are mainly liquid, fixed and variable income securities, as opposed to less-liquid loans. As a result, substantially all the balance sheet is "marked to market," which results in improved accounting transparency. However, this model also increases the need for financial discipline, because of the effects that volatile markets can have on key balance sheet categories. This discipline is reflected, in part, via the Bank's low leverage and high levels of solvency. When events take place, which might reduce transparency and/or liquidity in markets, as has been the case on occasion over the past several years, this can generate market volatility and can have a significant impact on how financial securities are valued by the markets and, consequently, on the Bank's financial statements.

Under the accounting principles applied, the relative degree of uncertainty associated with the measurement of fair value is reflected by use of a three-level valuation hierarchy. The best evidence of fair value is a quoted price in an actively traded market (Level 1). When the market for a financial instrument is not active, or where quoted prices are not otherwise available, a valuation technique may be used to estimate fair value based principally on observable market data in respect of equivalent financial instruments (Level 2). Level 3 applies to instruments that are measured by a valuation technique which incorporates in the valuation model one or more significant variables unobservable in market data.

Valuation techniques that rely on unobservable inputs require a higher level of judgment to calculate a fair value than those based entirely on observable inputs. Substantially all the Bank's financial assets are based on observable prices and inputs and hence are classified in Levels 1 and 2 of the hierarchy. Where valuation techniques, including models, are used to determine fair values, they are periodically reviewed and validated. Models are cali-

brated to ensure that outputs reflect actual data and comparable market prices. Also, models prioritize the use of observable inputs, when available, over unobservable inputs. Judgment is required in selecting appropriate models as well as inputs for which observable data is less readily or not available.

After 1 January 2018, with the transition to accounting standard IFRS 9 – Financial Instruments ("IFRS 9"), the Bank classifies its financial assets into the following categories: (i) Financial assets held for trading, (ii) Financial assets measured at fair value through other comprehensive income (Held to Collect and Sell or HTCS) and (iii) Financial assets measured at amortized cost (Held to Collect or HTC).

Financial assets held for trading correspond to assets acquired with the purpose of realizing capital gains through their disposal before maturity. In this portfolio, changes in the fair value of assets are recognized in the income statement.

Financial assets accounted for at fair value through other comprehensive income correspond to financial instruments acquired with the purpose of receiving contractual cash flows. In addition, depending on market conditions, they are acquired to realize gains or limit losses with their disposal before the respective maturity. In this portfolio, changes in the fair value of assets are recognized in revaluation reserves (i.e. in equity).

Financial assets measured at amortized cost are long-term financial instruments acquired with the purpose of holding to maturity and receiving contractual cash flows.

To be able to measure financial instruments at fair value through other comprehensive income or at amortized cost, the payoff of these financial instruments must be composed solely by principal and interests. To comply with this requirement, the bank analyzes the characteristics of the financial instruments in order to ensure that it complies with the definition of SPPI (Solely Payment of Principal and Interests) as defined in IFRS 9.

For all these three categories, financial instruments are recognized or derecognized on trade date, which is the date on which the Bank commits to purchase or sell the asset.

Financial assets carried at fair value through other comprehensive income and financial assets carried at amortized cost are subject to impairment losses. With the implementation of IFRS 9, the recognition and measurement of impairment losses was changed from a loss perspective incurred to an expected loss perspective. This was done by focusing on the concept of a significant increase in credit risk, the determination of which is based on the evolution of market factors such as ratings, quoted prices and losses.

The increase of credit risk is then classified in three different stages:

Stage 1 – Financial assets are classified in stage 1 whenever there is no significant increase in credit risk as of the date of their initial recognition. For these assets, the expected loss of credit impairment resulting from non-performing events occurring during the 12 months period after the reporting date must be recognized in results for the year;

Stage 2 – It incorporates financial assets in which there has been a significant increase in credit risk since the date of its initial recognition, although this situation has not materialized in concrete losses and are only indications. For these financial assets, expected impairment losses are recognized over the life of the assets (“lifetime”);

Stage 3 – The financial assets classified in this stage show at the reporting date objective evidence of impairment, as a result of one or more events that have already occurred, and which result in a loss. In this case, the expected loss of credit impairment during the residual life of the financial assets will be recognized in profit or loss.

In order to calculate the expected credit loss, the Bank implemented a model the parameters of which incorporate the requirements of point in time, through the

cycle and forward looking, computed monthly. In the case of the securities portfolio, which has the biggest weight in the balance sheet, the probability of default (PD) is estimated based on the credit spreads that are obtained from the market interest rate curves (issuer’s interest rate curve vs. risk-free interest rate curve). With this model, the Bank calculates the expected credit loss.

Financial liabilities, including deposits and financing through sale/repurchase agreements, are measured at amortized cost.

Other significant accounting issues for 2018 include:

*Deferred taxes:* Deferred tax assets may arise from a variety of sources, with the most significant being: (i) future tax savings associated with mark to market losses on financial assets measured at fair value through other comprehensive income (ii) expenses recognized in the income statement that are not deductible until the associated service occur, and (iii) tax losses that can be carried forward and utilized against profits in future years. Deferred taxes are calculated in accordance with current or substantially approved tax rules and using the tax rates at the balance sheet date and are expected to be applied when the temporary differences reverse. Deferred tax assets are recognized only when it is expected that there will be taxable income in the future.

*Controls over valuation of financial instruments:* The control infrastructure is independent of the revenue producing areas. These processes, along with the methodologies above, are defined by the Board and supervised or reviewed by internal and external audit functions of the Bank.

*Review of net revenues and expenses:* The accounting for revenues and expenses is the responsibility of independent and control functions and validated on a daily basis by Management. The aim is to identify and resolve potential issues associated with fair value or booking of revenues on an objective and timely basis.

## Regulatory Developments 2018

In 2018, the financial sector, and in particular the European banking sector, continued to be characterized by a very demanding legislative environment and was marked by a series of large regulatory initiatives. Although we have seen the first signs of the need to assess the impact and efficiency of current regulation on the activity of institutions, there is still a trend towards strengthening the existing regulatory framework and not reducing it.

In 2018, we highlight the following legislative or regulatory changes:

### MIFID II (“Markets in Financial Instruments Directive”) – Decree Law 35/2018 of 20 July

The Securities Code (“Código de Valores Mobiliários”) and the General Banking Regime (“Regime Geral das Instituições de Crédito e Sociedades Financeiras”) were amended by Law no. 35/2018 of 20 July, which transposed into the national legal order Directive 2014/65 / EU of the European Parliament and (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014, as well as the various delegated acts and regulatory technical standards which give substance to these two European diplomas.

With the publication of this Law, the process of transposing MIFID II into the Portuguese legal system was completed.

### EU Regulation 2016/679 on Data Protection

The General Data Protection Regulation (GDPR), in force since 25 May 2018, superseded the previous data protection directive and law. The purpose of the GDPR was to harmonize data protection laws in all member states of the European Union (EU), creating clear rules for the transfer of data across borders and improving control over personal data.

Rapid technological developments and globalization have created new chal-

challenges for the protection of personal data. The collection and sharing of personal data has increased significantly and new technologies allow private companies and public authorities to use personal data on an unprecedented scale in the course of their activities. Individuals are increasingly disclosing their personal information in a public and global way. New technologies have transformed the economy and social life and should help facilitate the free movement of personal data within the EU and its transfer to third countries and international organizations, while ensuring a high level of protection of personal data.

This development required a strong new legal framework for data protection, applied uniformly and across all EU territories, to ensure adequate levels of confidence in the development of the digital economy within the internal market.

The GDPR established a set of more stringent rules regarding the treatment of special categories of personal data (racial or ethnic origin, religious or philosophical beliefs, health data, etc.), maintaining as lawful sources the law and express consent of their holders.

### Second Directive on Payments Services (PSD2)

PSD2 entered into force in 2016 and is to be applied gradually as from 2018, in line with the transposition of EU directives to national law and any regulations required locally to facilitate implementation.

The main changes introduced by PSD2 were (i) the widening of the scope to payments in all currencies and in all payments where at least one of the providers is located in the EU / European Economic Area (EEA), (ii) the definition of strict security rules for the initiation and processing of electronic payments as well as the protection of consumers' financial data; and (iii) the opening of services to Third Party Providers (TPP's) to which the Institutions will have to provide information and APIs (Application Programming Interface) for the initiation

of payments if duly authorized by the holders of the related payment accounts in order to increase competitiveness and competition in payment systems. The amendments it introduces also seek to address concerns related to the protection and safety of consumers in the use of payment services.

Decree-Law 91/2018 of 12 November transposed into Portuguese law the Directive (EU) No 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the European Union (PSD2).

The national transposition diploma clarified, namely (i) the implementation of the Regulatory Technical Standards (RTS) and EBA Guidelines on Strong Customer Authentication and Secure Communications and (ii) the possibility of exemption from the implementation of contingency mechanisms (fallback solution).

### PRIIPs ("Packaged Retail Investment Products")

In July 2018, the legal regime for retail investment products and investment products based on insurance (PRIIP Legal Regime) was published. It was defined in the annex II of Law no. 35/2018, dated July – which provided for the implementation of Regulation (EU) No 1286/2014 of the European Parliament and Council of 26 November. The latter provides for the obligation to produce and make available Key Information Document ("KID") relating to PRIIPs and Commission Delegated Regulation (EU) No 2017/653 of 8 March establishing regulatory technical standards for the submission, content, review and reassessment of KIDs.

In particular, PRIIPs legal regime:

- ▲ Defines which Supervisory Entities are competent to supervise the fulfillment of the requirements inherent to PRIIPs, depending on the nature and typology of the products by accident, illness or disability;
- ▲ Prohibits the dissemination of advertising messages related to PRIIPs without

obtaining the prior approval of the respective supervisory authority;

- ▲ Establishes the obligation to notify the competent supervisory authority of the PRIIP KIDs at least two working days in advance of the date intended for making the product available or for its modification; and
- ▲ Specifies the administrative measures to be taken in case of non-compliance with the legal regime applicable to PRIIPs, as well as definition of the applicable sanctioning regime.

### Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT")

Law No 83/2017 of 18 August established preventive and repressive measures to combat money laundering and terrorist financing, transposing Directive 2015/849 / EU European Parliament and of the Council of 20 May 2015. Also, in this context, Law No 97/2017 of 23 August regulates the application and enforcement of restrictive measures adopted by the United Nations or the European Union and lays down the rules on penalties applicable to infringements of those measures.

In this context, industry regulation was approved, essentially, to adapt the duties and obligations provided for in the aforementioned legal instruments, of intersectoral nature, to the concrete operational realities to which they apply.

### Other Periodic Regulatory Processes

#### Internal Capital Adequacy Assessment Process (ICAAP)

In the context of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Bank performs an internal analysis of the techniques and models it employs in the qualitative and quantitative valuation of its internal capital and of the risks to which it may be exposed. The Bank also performs a critical analysis of: (i) the adequacy of the process it employs to manage and monitor capital and risks, (ii) the evolution of estimates of internal capital and of the

most relevant risks, (iii) its risk profile and (iv) internal capital adequacy and capital requirements.

From a qualitative perspective, this report encompasses a descriptive analysis of: (i) the Bank's capital and risk management and monitoring processes, and (ii) the adequacy of the organization, structure and processes given the internal capital needs and incurred risks.

The report's quantitative valuation includes: (i) identifying and quantifying the most material risks, (ii) a description of the process for aggregating risk assessments, and (iii) a global valuation of capital needs, which also reflects the uncertainty of the models employed, the shortcomings of the procedures, systems and risk controls, as well as the differences between own funds and internal capital.

The ICAAP process also includes: (i) a description of the Bank's contingency plan to ensure the ongoing management of the operation and internal capital adequacy in a recession or crisis scenario, (ii) an indication of the most relevant macroeconomic factors in the recession or crisis scenario, and (iii) the indication of the main shortcoming identified by the ICAAP and the measures envisaged to overcome such shortcomings, including a calendar for their execution.

The legal framework of the ICAAP report is the Bank of Portugal Instruction n°03/2019, which superseded Instruction n° 15/2007, with an annual reporting frequency, which can be more detailed or simplified at the discretion of the regulator.

In its annual ICAAP report (detailed version), the Bank presents an analysis of the main risk controls and mitigation techniques regarding market, credit, operational, interest rate, concentration, information systems, liquidity, exchange rate, and compliance and reputation risk. Among the risks the Bank is subject to, BiG considers the most relevant to be Pillar I risks (market, credit, operational and Credit Valuation Adjustment), the interest rate risk of the Bank's portfolio, concentration risk, and sovereign risk. Own funds requirements are calculated for each of

these risks. For assessing each of these types of risk, the Bank adopts methodologies based on regulatory models. Concerning Pillar II risks (interest rate risk of the Bank's portfolio, concentration, sovereign and credit spread risks), BiG employs either internal models or models based on methods developed by central banks.

Following the latest yearly exercise carried out by BiG, the Board considered the current capital and liquidity levels to be adequate considering: (i) the Bank's risk profile, (ii) the current context, (iii) perspectives regarding the near future and (iv) the size and complexity of the Bank.

#### **Self-Assessment Process for the Adequacy of Internal Liquidity (ILAAP)**

Bank of Portugal Instruction No. 02/2019 has been published and is intended to comply with the guidelines of EBA/GL/2016/10 – Guidance in relation to information concerning ICAAP and ILAAP collected for the purpose of SREP. This instruction aims to define the procedures related to the ILAAP process and to establish the respective reporting models to the Bank of Portugal in order to ensure that the liquidity risk to which the institutions are exposed is adequately evaluated and that they maintain adequate levels of liquidity. This way, institutions must: (i) ensure that the liquidity and financing risks to which they are exposed are adequately identified, measured, managed and monitored and that their liquidity is adequate in view of their risk profile, and (ii) have an internally developed process to identify, measure, manage and monitor liquidity that meets the minimum requirements and guidelines defined in Instruction No. 02/2019.

ILAAP is a process which should: (i) integrate the management process and culture of the institution, be regularly reviewed and consider the regulatory context and the economic environment in which the institution operates, in order to ensure an evaluation and credible/understandable result, (ii) take into account the type, size, complexity and business model of the institution, as well as the operational environment and the nature and

risks of the activities carried out, making use of the data and definitions normally used by the institution for internal purposes, (iii) take a forward-looking stance, with institutions having an internal strategy to maintain adequate levels of liquidity, including in recession or crisis scenarios, taking into account strategic plans and how these relate to macroeconomic factors.

#### **Supervisory Review of Evaluation Process (SREP)**

The Supervisory Review and Evaluation Process (SREP) is an analysis and assessment process carried out by the supervisory authorities, which aims to ensure that each financial institution is employing adequate strategies, processes, capital and liquidity for the risks it is, or may be exposed to. This process falls under Pillar 2 of the Basel Accords.

The goal of the supervisor is to determine the capital and liquidity requirements, as well as any additional supervisory measures, necessary to tackle the specific shortcomings of each financial institution, in light of the individual profile and risk for the financial system.

Both significant and non-significant financial institutions are subject to the SREP process, in accordance with the principle of proportionality. The frequency and depth of the assessment carried out by the supervisory under SREP varies according to: (i) the potential impact of the financial institution in the financial system and (ii) the individual risk profile.

The analysis performed by the supervisor under SREP determines that all the risks to which financial institutions are exposed must be assessed. This analysis must include: (i) business model, (ii) internal governance and risk management, (iii) capital risks and (iv) liquidity and financial risks.

Following this analysis, the supervisor performs a global, holistic assessment, deciding on the quantitative capital and liquidity measures that must be implemented, as well as on any other supervisory measures.

The following exercises are included in the SREP process:

#### **Risk assessment**

Risk assessment allows for a continuous evaluation of the risk levels to which the financial institution is exposed, and of its internal controls. This assessment is based on a quantitative and qualitative analysis with recourse to backward-looking and forward-looking indicators.

Risks that may have an impact on the capital and liquidity are assessed by risk level and by the associated risk control and mitigation procedures which have been implemented. Bank of Portugal assesses the risk and profitability of the financial institution's business, as well as its internal governance and risk management. Each analysis performed by the supervisor is subsequently integrated into a global assessment.

#### **Capital and Liquidity Adequacy Assessments**

The SREP process encompasses a broad analysis of the internal procedures for the assessment of capital (ICAAP) and liquidity (ILAAP) adequacy. These are key risk management processes, which contribute to determining capital and liquidity requirements.

The supervisor assesses compliance of minimum requirements for own funds defined under Pillar I of the Basel Accords. Also, financial institutions must ensure additional specific own funds and liquidity levels to cover risks which do not fall under Pillar I. In order to determine these additional requirements, financial institutions employ their own internal assessment methods, which are reflected in the ICAPP and ILAAP.

#### **Quantifying adequate Capital and Liquidity, and assessing other qualitative requirements**

In the SREP process, Banco de Portugal examines a wide range of information about each financial institution, including: (i) periodic reports, (ii) ICAAP and ILAAP, (iii) risk appetite, (iv) benchmarks or proxies used to assess estimates, (v) risk as-

essment results, (vi) stress test results, and (vii) the supervisor's general priorities regarding risk.

Based on the information analyzed and assessed during the SREP process, Banco de Portugal performs a global assessment of a financial institution's own funds and liquidity adequacy and prepares its SREP decision. In the SREP decision, key objectives are set to address the capital and liquidity issues identified.

The supervisor may also ask the bank to set qualitative requirements, which could refer to the bank's governance structure or its management. The SREP decision is sent to the financial institution, which is given the opportunity to present any written remarks concerning the facts and any legal arguments that may be relevant for the supervisor's decision.

#### **Recovery Plan**

The Recovery Plan is an instrument designed to help financial institutions manage a financial crisis. It details the measures and procedures the bank will take to restore its financial position and normal business operations, should a crisis occur.

The main objective of a Recovery Plan is to establish a preventive, organized process of the measures that should be employed if an idiosyncratic or systemic crisis erupts, thus ensuring that the bank is able to react in an adequate and timely manner.

This instrument falls under the legal framework of Notice 03/2015 of the Bank of Portugal (BdP), Article 116-D of the RGCSF and of Delegated Regulation (EU) 2016/1075 of the Commission. BiG has been preparing and reporting yearly Recovery Plans since 2013.

The Recovery Plan outlines a set of recovery measures aimed at enhancing a bank's liquidity, capital or own funds, describing the mechanisms and the assumptions that underlie its hypothetical execution in a serious macroeconomic and financial stress scenario. These mechanisms may include the potential disposal

of the bank's assets, access to funding necessary to maintain the bank's normal ongoing operation, and any capital increases that may be necessary to enhance the sustainability and financial soundness of the bank.

As an integral part of the Bank's management, and in order to prepare its Recovery Plan, BiG has identified relevant recovery indicators, which include: (i) capital, (ii) liquidity, (iii) asset quality and (iv) asset profitability. These indicators act as preventive alerts for the need to execute recovery measures. The levels of these recovery indicators are monitored daily taking into consideration relevant events that take place, but also stress tests and scenario analyses performed in the context of the Bank's risk management and control functions. This control mechanism allows for prompt action to be taken in order to ensure the sustainability and financial soundness of the Bank.

Current regulation establishes that for each recovery indicator, an alert level and a trigger level must be defined in the Recovery Plan. If any of these levels is breached, the financial institution must notify Banco de Portugal and must assess the need to execute recovery measures. The goal of the indicator levels is to anticipate, mitigate and avoid potential situations of financial distress for the financial institution. BiG employs not only alert and trigger levels, but also pre-alert levels for each recovery indicator. These pre-alert levels are used only for internal purposes with the objective of ensuring that appropriate measures are pro-actively executed to avoid reaching any alert or trigger level.

#### **Funding and Capital Plan**

The Funding and Capital Plan (the "Plan") is a medium to long term forward-looking plan, prepared by the Bank on an annual basis, which focuses on the expected future evolution of the Bank's main profit & loss, asset, liability and capital items. This plan is periodically submitted by national financial institutions to Banco de Portugal, under the latter's prudential supervision competences, and according to Instruction No. 18/2015.

Since 2011, when these reports were made mandatory for financial institutions in the context of Portugal's economic and financial assistance program, the Funding and Capital Plan has undergone several changes, namely related to its reporting frequency, its format, contents and detail level. Currently, the Plan is prepared and reported by the Bank on an annual basis and presents detailed projections of profit & loss, balance sheet and capital items, for a 3-year horizon, including quarterly projections for the economic exercise ongoing at the time the report is prepared.

### The Bank's planning process

The Plan is largely based on an internal medium to long term financial planning process, which is coordinated by the Board. This planning process incorporates expectations about the management of the Bank's assets and funding sources. Given the forward-looking nature of the exercise, the Bank generally assumes normalized market conditions. Nevertheless, some risk factors which may have an impact in the Bank's business and in the projections are identified.

Normally, the Bank does not estimate a specific growth rate for its assets. Balance sheet growth estimates result from the availability of funds, market conditions and the availability of capital levels that ensure resiliency in the most extreme stress scenarios.

Also, depending on market conditions, the Bank may do adjustments in specific business areas, products or distribution channels, with the goal of ensuring funding stability, capital preservation and

growth in revenues. It should be emphasized that this planning exercise occurs during the first quarter of a business year and therefore the projections may not coincide with the effective results for that same period.

### Bank planning: Summary of guidance and forward-looking evolution of selected indicators

The main assumptions considered by the Bank include sustainable organic growth and continuous focus on a business model based on low leverage, strong capital levels and comfortable liquidity. BiG's asset portfolio is composed mainly of high-quality liquid financial assets, cash and short-term investments.

BiG's earning asset base has been largely focused on investment grade corporate and sovereign debt issued by Eurozone member states and by the United States. It is likely that this profile will be maintained, given the overall risk profile when compared to alternatives, and based on Management's understanding of those specific markets.

BiG's limited focus on traditional lending has been based on the perception of inadequate risk/reward levels over the past two decades. Management expects that the Bank's loans/deposits ratio will remain well below market averages in the foreseeable future. Given the general credit weakness in the Portuguese corporate sector, and the growing pressure on the financial sector to generate results, Management believes that it continues to be unattractive to alter the current mix of earning assets in favor of traditional lending.

BiG's funding structure is composed mostly of a majority retail deposit base, funding from other credit institutions and the Bank's own funds.

When prepared during 2018, the Funding and Capital Plan projected an unchanged profile and a prudent strategy regarding the Bank's funding, mostly based on stable resources and with reduced dependence from money markets.

For strategic reasons, the Bank has used its capital conservatively over the years and Management expects this to continue. Over the years, while paying dividends since 2004 (including proposed dividends referring to 2018) the Bank's capital funds have risen to the current € 347.1 million, mainly from retained earnings.

### Summary Analysis – Key Financial Metrics

For more detail in addition to the summaries provided below, please refer to RESULT OF OPERATIONS IN 2018 and the Notes to the Consolidated Statements.

### Capital and Solvency

The level of our capital adequacy provides confidence to clients and counter-parties and reflects key aspects of how we manage our business. These include, among others, such factors as (i) closely monitoring potential risks as well as anticipated returns, (ii) applying the results of capital planning and stress testing processes to the daily management of our balance sheet, (iii) objectively assessing the business environment and (iv) identifying and measuring potential material risks, whether specific or

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(Euro)

	2014	2015	2016	2017	2018	Funding and Capital Plan Mar 2018	
						2019E	2020E
<b>Financial Assets Portfolio<sup>(1)</sup></b>	<b>1,118,818,119</b>	<b>1,019,177,466</b>	<b>1,096,511,868</b>	<b>1,331,048,616</b>	<b>1,979,944,350</b>	<b>1,830,961,817</b>	<b>1,922,509,908</b>
% growth	24.8%	-8.9%	7.6%	21.4%	48.8%	-	5.0%
<b>Net Credit<sup>(2)</sup></b>	<b>136,162,160</b>	<b>376,820,146</b>	<b>437,484,868</b>	<b>309,093,538</b>	<b>38,826,818</b>	<b>43,705,790</b>	<b>45,966,805</b>
% growth	-30.9%	176.7%	16.1%	-29.3%	-87.4%	-	5.2%

(1) Includes financial assets held to collect and sell, held to collect and held for trading, in accordance with the dispositions of IFRS 9.

(2) Includes, until 2017, financial assets with mortgage collateral (mortgage-backed securities). As of 2018, in accordance with IFRS 9, such assets are classified as financial assets held to collect and sell.

Source: BiG



strategic. As discussed above, we do projections on funding and capital on a regular basis and provide them to our regulator on an annual basis. These analyses are fundamental to our maintaining discipline in risk taking and, therefore, use of capital.

### Summary of the capital management process:

In 2018, the year in which the transition to accounting policies in accordance with IFRS 9 was made, the Bank's capital and solvency ratios were strong and in line with the long-term average of prior years. In broad terms, the consistency is deliberate and is a function of careful management of the business model, controlled risk-taking, attention to the quality of earnings, and a policy of largely retaining profits, through often very different economic cycles and evolving regulations.

The combination of more modest earnings, a conservative and consistent policy on

dividends, and improvements in the value of securities available for sale, which is reflected in the Fair Value Reserve of the capital account, resulted in a rise in Shareholder Funds to € 347.1 million at 31/12/18, versus € 339.5 million at year end 2017. This total is composed entirely of shareholders' equity and there were no new issues of equity for the year. At 31/12/18, BiG held a negligible amount of treasury stock. The Bank's Regulatory Capital, or "Own Funds," is calculated in accordance with Central Bank regulations and amounted to € 329.4 million at 12/31/2018, compared to € 329.8 million at 12/31/2017. This figure was net of a dividend distribution proposal of € 12.9 million (€ 0.075 per share), which will be presented to shareholders at the General Shareholders' Meeting to be held in May 2019.

**The Bank's Tier 1 Capital was 31.5% at the end of 2018, down from 45.1% at the end of 2017 and was calculated on a fully-phased-in basis. This ratio has**

**remained consistently above regulatory minimum levels, including under the most stressful market conditions over the past 20 years.**

To ensure prudent use of capital and the maintenance of comfortable reserves, on a daily basis the Bank (i) performs several internally developed stress tests on the most important balance sheet items, namely, stress tests on solvency and (ii) controls prudential and internal limits established by the Bank. These tests were designed to measure the impact on solvency ratios resulting from adverse changes. The results of the stress tests, even though hypothetical, often serve as triggers for Management and business areas to act, either to reduce risk or to diversify concentrations. Examples of some extreme scenarios used by Management at 31/12/18 are shown below and are discussed in further detail in both the RISK MANAGEMENT AND INTERNAL CONTROL section of this report and in Note 39. These results arise

T.5

(Euro)

	2014	2015	2016	2017	2018
Demand Deposits	245,717,024	315,113,085	428,793,894	488,408,314	626,908,586
Time Deposits	503,532,070	519,022,094	589,609,007	508,366,207	661,937,825
Others	55,487,367	51,350,688	30,646,952	39,019,454	23,364,460
<b>Total Deposits from Clients</b>	<b>804,736,461</b>	<b>885,485,868</b>	<b>1,049,049,853</b>	<b>1,035,793,975</b>	<b>1,312,210,871</b>
% growth	17.7%	10.0%	18.5%	-1.3%	26.7%

Source: BiG

	Funding and Capital Plan Mar 2018 2019E	2020E
	517,416,147	531,526,730
	590,057,827	634,456,739
	39,991,514	40,342,600
	<b>1,147,465,488</b>	<b>1,206,326,069</b>
	-	5.1%

T.6

	2014	2015	2016	2017	2018
Common Equity Tier 1	35.1%	33.2%	31.6%	45.1%	31.5%

Source: BiG

	Funding and Capital Plan Mar 2018 2019E	2020E
	31.6%	31.9%

T.7

(Euro 000)

Capital	2018	2017	2016	2015
Common stock	171,947	171,947	156,000	156,000
Issue premiums	1,362	1,362	1,362	1,362
Treasury stock	-2	-2	-2	-2
Fair value reserve	-34,016	-63,827	-87,095	-48,229
Other reserves and retained earnings	184,800	188,627	160,994	105,204
Net profit	23,056	52,347	43,712	74,509
Shareholder Funds	347,148	339,533	265,611	276,364
Own Funds	329,411	329,790	290,951	312,743
CET 1 Capital Ratio	31.5%	45.1%	31.6%	33.2%

Source: BiG

F.1



from events involving sudden falls and marked in the price of sovereign debt securities.

The results of the impact on the Bank's solvency ratios at year-end December 2018 under each scenario would be as follow in T.8.

Through the Bank's ICAAP, we further analyze how we would manage the Bank's balance sheet during a severe crisis, generate liquidity and/or redeploy equity capital. This assessment incorporates market risk, credit risk and operational risk and, when combined with daily scenario analyses, as described above and in the RISK MANAGEMENT AND INTERNAL CONTROL section of this report, forms the basis for Management's ongoing evaluation of the Bank's capital adequacy.

### Liquidity and Funding

Liquidity is a key basis for managing the Bank, and remained strong for 2018, in line with prior years.

The Loans / Deposits ratio decreased substantially in 2018, reflecting the reclassification of ABS assets to the Hold to Collect and Sell portfolio (until 2017, these assets were integrated in Loans). Financing via sale / repurchase agreements with several international banking counterparties has increased and since 2016 has been replacing the small component of ECB financing that existed until then under more attractive terms. The Bank's potential, untapped liquidity, based on the capacity to use eligible securities as collateral for further draw-downs, continues to be substantial, with a ratio of eligible assets / deposits greater than 50%.

Available liquidity rises on to over 100% of deposits when unencumbered, non-eligible but liquid assets available for sale and cash are added to unused available amounts of the ECB / Eurex Pools, as indicated in the quarterly summary for 2018 presented in table T.10.

On a consolidated basis, the ratio of Loans / Total Assets decreased to 1.7% in 2018, compared to 16.7% in 2017. The Loans / Deposits ratio, a key measure of balance sheet liquidity decreased to 3.0% from 29.8% the year before. Traditional lending remains non-strategic, which is a key factor in our business model and fundamental to our management of liquidity, our views on asset quality and the efficient use of capital.

In 2018, as in prior years, the majority of the Bank's assets are reasonably liquid. Bank corresponded to financial instruments of net debt, recorded at fair value through other comprehensive income (HTCS), at amortized cost (HTC) or, to a lesser extent, held for trading (Trading). Management believes that this strategy of maintaining liquid portfolios in a balance sheet that is substantially marked to market encourages discipline in posi-

T.8

December 2018 - Stress test	Scenario 1	Scenario 2
Total Capital Ratio	27.7%	27.0%
T1 Capital Ratio	27.7%	27.0%

**Scenario 1:** Negative variations in fair value recognized 100% in own funds after EBA haircuts  
**Scenario 2:** Negative variations in fair value recognized 120% in own funds after EBA haircuts  
 Source: BIG

tion-taking and balance sheet growth and coincides with the culture of transparency with respect to valuations of all securities. **The combination of (i) a low concentration of illiquid loans, (ii) reduced overall balance sheet gearing relative to capital and stable funding sources, and (iii) a policy of maintaining a large inventory of unencumbered assets on hand to ensure comfortable levels of liquidity, are central to Bank's business model and relative profitably during the Bank's history.**

As in prior years, the main sources of funding and trends for 2018 were (i) client deposits, which grew 26% from 2017, (ii) higher shareholder funds, (iii) financing through repurchase agreements with

market counterparties, which increased year-on-year and (iv) financing through short-term repurchase agreements with Eurex Repo, which decreased year-on-year. The Bank does not issue debt securities because this type of funding is not strategic to our current business model and investment plans.

### Earnings

**Net Revenues declined by 46.8% to € 55.2 million in 2018 from € 103.7 million in 2017. Net Income decreased by 56.0% to € 23.0 million, compared to € 52.3 million. The Bank's average Return on Equity was 6.7%, compared with 17.3% for the year 2017.**

Market conditions were less favorable in 2018 than for the prior year. A variety of self-made political crises in major economic blocs – U.S., Europe, Asia – combined with signs that a long bull market in global equities has been winding down and indications that global interest rates would remain low indefinitely, limited the opportunities for BiG's focused, disciplined business model and contributed to a pattern of solid, but lower revenues.

Regardless of market conditions, the long-term strategy defined by the Board of Directors is to maintain a modest risk profile, preserve capital and grow sustainably. Thus, business during 2018 included (i) a decision to control risk

T.9

(Euro 000)

Liquidity and Funding	2018	2017	2016	2015
Loans / Client Deposits	3.0%	29.8%	41.7%	42.6%
Liquid Earning Assets / Total Net Assets	79.2%	80.4%	69.5%	71.4%
Funding from ECB	0	0	0	165,007
Other sources of Funding	554,334	410,261	396,823	171,220
Client Deposits / Total Liabilities & Capital	57.6%	56.0%	59.6%	57.4%

Source: BiG

T.10

(Euro)

	Average values 1st quarter 2018	Average values 2nd quarter 2018	Average values 3rd quarter 2018	Average values 4th quarter 2018
ECB - POOL value - Eligible assets (includes haircut) <sup>(1)</sup>	212,373,238	228,420,464	294,227,675	309,975,071
ECB - POOL value - Borrowed	0	0	0	0
ECB - POOL value - Available	<b>212,373,238</b>	<b>228,420,464</b>	<b>294,227,675</b>	<b>309,975,071</b>
EUREX Repo - POOL <sup>(2)</sup> value	346,117,962	289,040,116	415,226,855	450,844,142
EUREX Repo Borrowed Net: (Borrowed - Deposits)	26,666,667	130,000,000	155,000,000	136,666,667
Eurex Repo - Available	<b>292,424,846</b>	<b>131,516,793</b>	<b>230,275,084</b>	<b>284,868,838</b>
Eligible assets available for collateral outside the POOL's	<b>101,997,640</b>	<b>113,161,229</b>	<b>124,678,058</b>	<b>119,145,139</b>
Total eligible assets available for collateral	<b>606,795,724</b>	<b>473,098,486</b>	<b>649,180,817</b>	<b>713,989,048</b>
Racio between deposits and eligible assets available	51%	37%	49%	52%
Eligible assets not available (given as guarantee to other counterparties)	154,294,577	136,100,204	147,506,911	118,954,502
Non eligible assets available held for collateral in repos	89,951,020	116,753,431	283,594,951	263,715,313
Non eligible assets available for collateral	617,173,485	796,146,395	598,360,884	562,465,950
Non eligible assets - Total	707,124,506	912,899,826	881,955,836	826,181,263

(1) POOL assets are valued with the ecb prices, for that reason it may not be equal to market prices.

(2) POOL of assets valued with Eurex prices.

Source: BiG

T.11

(Euro 000)

Earnings	2018	2017	2016	2015
Net Operating Revenues	55,184	103,737	75,692	148,706
Net Operating Expenses (net of imparities)	-28,621	-32,825	-16,931	-39,681
Imparities	939	266	-318	-1,424
Results from Associated Companies	0	0	0	0
Pre-tax Profit	27,502	71,178	58,443	107,601
Taxation	-4,357	-18,831	-14,731	-33,092
Net Profit	23,056	52,347	43,712	74,509

Source: BIG

appetite and hold the portfolio of earning assets, which expanded year on year, for longer average periods, (ii) a focus on growing stable financial margin (iii) expanding part of the trading platform / Wealth Management business to Spain, and (iv) a continued, careful investment in the Bank's core digital approach to commission-based, non-credit-intensive client business.

On the expense side, key operating expenses decreased due to a reduction in variable compensation and control over general administrative expenses and depreciation, although there was a gradual increase in the number of employees.

In 2018, the efficiency ratio, defined as **Operating Costs/Banking Product, was 50.9%, which compares with 31.5% in the previous year, essentially reflecting the reduction in the Bank's revenues.**

Net provisions were positive for the year, imparities remained low, and expenses related to credit losses were essentially zero.

The Bank's provision for taxes in 2018, largely due to the implementation of IFRS 9, decreased to € 4.4 million from € 18.8 million in 2017, and represented an effective tax rate of 15.8% compared to 26.5% for the previous year.

### Dividend Policy

Shareholders have approved, since the Bank's inception, a policy of building the capital base through retained earnings. Proposals to pay dividends are made generally by Management and are subject to prior approval by the Bank of Portugal, in accordance with current regulations. Additionally, they are periodically ratified by the shareholders in the Annual Shareholders' Meeting.

The Bank began paying annual dividends in 2004. Since that date, it has retained approximately 60% of Net Income and distributed approximately 40% in divi-

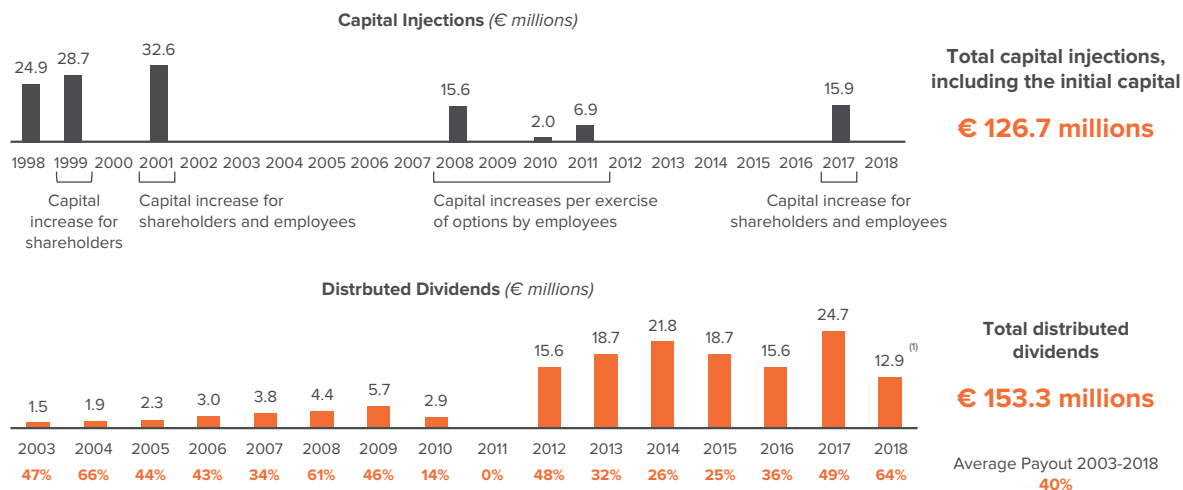
T.12

(Euro)

Dividends	2018	2017	2016	2015
Dividend per share	0.075	0.150	0.100	0.120
% Payout	64%	49%	36%	25%

Source: BIG

F.2



(1) Includes a dividend of € 0.075 / share which is expected to be distributed, subject to the approval of the GA and the Bank of Portugal, related to the results for 2018.

(2) Based on the individual net income.

dends, while maintaining high levels of solvency. For the 2018 financial year, the proposed dividend is € 0.075 per share, representing a payout ratio of 64% (49% for 2017).

The Bank’s recent history of payouts is described in table T.12.

Considering the proposed dividend for 2018, the Bank has already distributed to the Shareholders approximately € 153.3 million in the form of dividends since 2004, which exceeds the total amount of capital injections in the Bank of € 126.7 million.

### Competitive Environment

Themes in the financial sector for 2018 were similar to the prior year, and included: (i) improvements in the country’s credit rating and its effect on the slow recovery to profitability by the major banks, (ii) the still significant legacy of nonperforming loans on the larger banks’ balance sheets, (iii) a perceived threat of encroachment by non-bank entities on certain businesses of traditional banks; (iv) the long-term effects of inefficient business models, combined with excess capacity and inflexible labor laws, (v) a continuation of the inter-dependence of State and banks in the economy, and high levels of political intervention, and (vi) the effect throughout the industry of historically low interest rates.

To the themes above may be added the impact on business models and efficiency of increasing levels of regulation and legislation designed to ensure a different banking sector in the future. In response to these measures, the adjustment process for some of our competitors has included, for several years now, reductions of personnel, closure of agencies, the exiting or planned divestiture of businesses, changes in management, if not shareholder control, and the gradual loss of competitiveness to efficient banks operating in other, more productive European economies.

Despite the long process required to fix the balance sheets of banks most affected by the post 2011 period, and largely as a

result of regulatory or political actions to maintain weak competitors from failing, the banking market, domestically and internationally, continues to be highly competitive and we expect it to remain so. In 2018, low interest rates and the need for revenues has driven credit extension by banks to the consumer segment to record levels.

Banks in Portugal are generally universal financial institutions, which operate traditional business models. A significant number of either domestic or foreign banks, of medium and small size, for the most part specialized, share the rest of market. We face competition in our business lines from a large number of domestic and, depending on the line of business, international players.

### Corporate Structure

The Bank’s structure reflects Management’s desire to provide efficient and competitive financial services to our clients, to create long-term value for our share-holders. The goal is sustained growth and a balance between long-term vision and the need for short term execution of objectives.

BiG’s Board of Directors believes that to achieve these objectives, it must have a clear and efficient internal operating structure, built around talented people, well-designed processes and reliable technology. Together, the components serve to maximize operating efficiency and help to maintain a competitive cost

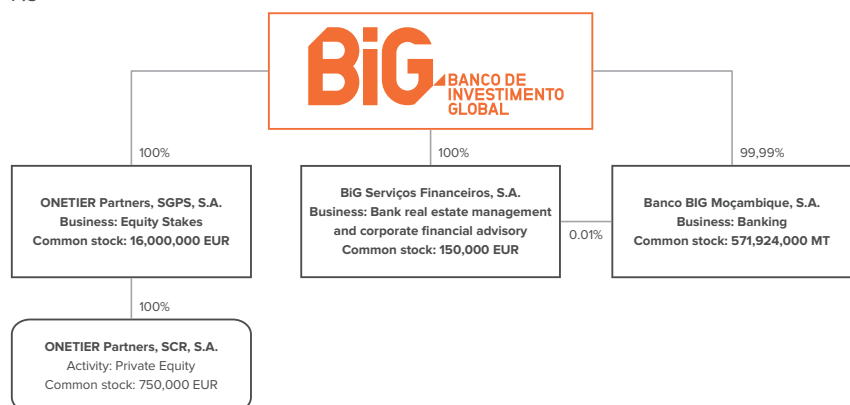
structure designed to benefit the end client and our shareholders. They are also essential to maintaining tight controls over the different risks, namely market, credit and operating risks, to which any financial institution is exposed.

The internal organizational structure reflects key aspects of the business culture, which focuses on our goal to ensure the resilience and integrity of the Bank’s business model and our ability to withstand any type of financial crisis. To this end, we seek to be transparent, flexible, focused on market risks and managed in order to be able to react quickly to perceived increases in business opportunities. The business model is based on the following pillars: comfortable liquidity levels, asset quality and a robust capital profile. The Bank’s strategy has sought to adapt to the volatile political-economic context and the challenges it poses to the financial sector, notably by strengthening investment in information systems and adjusting the daily management of each of the lines of business.

### Legal Structure and Corporate Bodies

BiG’s corporate structure is headed by the Bank. At year-end, the Bank held interests in three subsidiaries: (i) ONETIER Partners, SGPS, SA, which in turn held 100% of ONETIER Partners, Sociedade de Capital de Risco, SA, an investment company in FinTech, (ii) BiG Serviços Financeiros, SA, responsible for providing auxiliary and

F.3



financial advisory services and (iii) Banco BiG Moçambique, SA, a banking entity that started operations in Mozambique in 2016.

During the first quarter of 2019, BiG Moçambique increased its capital, which included (i) the subscription of new shares through cash inflows by BiG Portugal and three new institutional shareholders who are reference entities in the and (ii) the sale of a batch of shares by BiG Portugal to the three new shareholders. After this operation, BiG Moçambique's capital stock increased to 755,064,000 Meticals and BiG Portugal now holds 83.99% of BiG Moçambique's capital.

The Bank's retail business combines an internet-based platform, [www.big.pt](http://www.big.pt), and integrated sales teams located in 16 agencies: in Lisbon area (4), Oporto (2), Braga, Maia, Aveiro, Coimbra, Leiria, Évora, Viseu, Estoril, Guimarães and Loulé. Institutional Clients are covered by teams located in Lisbon and Oporto.

**In its business model, the Bank does not operate any offshore entity or any special purpose vehicle (SPV).**

Properties occupied by the Bank are either leased or directly owned by the Bank. The Bank's head office building at Av. 24 de Julho in Lisbon is owned directly by the Bank. In its approach to the market, the Bank uses the following brands: *BiG – Banco de Investimento Global*, *Banco BiG* and *bigonline*.

### Governance and Oversight

The Bank internal organization of BiG reflects the principles established by the Board of Directors for this purpose: simplicity, transparency and rigorous operating control over the different business areas. This philosophy encourages the efficient use of resources and a clear distribution of responsibility in particular as to how these resources are used, and the risks assumed. BiG, although not a listed company, has sought since its foundation to follow best corporate governance practices and to align supervision and decision-making processes with the interests of shareholders and other interested parties.

The Bank strives to comply with the recommendations and guidelines on corporate governance emanating from the Organization for Economic Cooperation and Development (OECD), supervisory bodies and the Portuguese Institute of Corporate Governance, seeking to incorporate practices which are consistent with the guidelines and are recognized at the national and international levels as being of good governance, insofar as they are practicable and appropriate to the size and complexity of the Bank's organizational model. While not defined as a "systemically important institution," according to regulatory guidelines under European Banking Union, BiG seeks to be a sustainable business, regardless of market conditions, based on the assumption that the organization can and should function without outside assistance. Management reviews and, where necessary, makes improvements in practices and instruments of Corporate Governance as a tool in reinforcing the culture of internal control and as a basis for its social and economic development.

### Voting Rights

In accordance with the Bank's statutes, there are no restrictions on the voting rights of shareholders. Each share held corresponds to one vote, provided that each shareholder, or group of shareholders, holds at least 1000 shares.

### Internal Oversight

The internal control system is defined by a set of strategies, systems, processes, policies and procedures established by the Board. Functional management responsibilities lie with the members of the Bank's Board. As of 2018, all members of the Board were executive, and, as such, supervise the various heads of trading, front office, back office, and control functions. Under its internal control system, the Bank also has a set of committees which provide management and oversight functions.

The Board of Directors of BiG created these committees, which are transversal to the whole Bank, for discussion and management of relevant issues, involving the members of this body and employees with

significant influence in the management of the institution. The purpose is, inter alia, (i) to ensure the complete, informed and independent management of certain areas of the Bank and (ii) to assess the risks and effectiveness of Bank controls by ensuring oversight functions by area or of a more general character in order to improve the understanding of control-related priorities, regulation, systems and procedures.

The Bank also has a Whistleblowing Committee, which is responsible for the treatment and analysis of irregularities related to its management, accounting organization and internal supervision and serious indications of breaches of obligations and obligations under the General Regime of Credit Institutions and Financial Institutions and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 July and Law 83/2017 of 18 August on the prevention and combating of money laundering and terrorism.

### Shareholder Base

At year-end 2018, 254 shareholders held common stock with voting rights. The common equity of the Bank also continues to be largely in the hands of Portuguese individuals or Portuguese tax residents. At year-end 2018, 53.6% of the common stock was held by individuals and 46.4% were held by institutions, foundations, corporations or holding companies. The largest single shareholder, a private individual, held 12.2% of the stock with voting rights directly.

A total of 9 shareholders held at least 2% of the stock. All are independent of one another and, in aggregate, owned 64.9% of the capital. The Bank's Management team represented an aggregate position of 18.3% of the capital and, at year-end, included 2 of the largest 5 shareholders. The above groupings are indicative, as there are no agreements tying shareholders together.

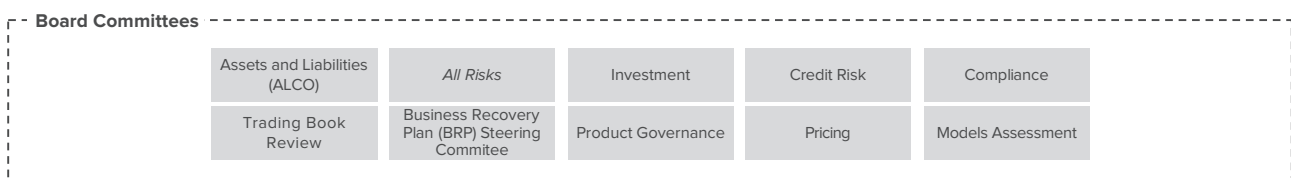
### People

The Bank's business culture derives from a resilient business model, Management's ability to execute its strategies and to control risks, and the quality, training and char-

F.4

BiG's Corporate Governance	
<b>General Assembly</b>	General Assembly meets at least, once a year and is presided over by a President and Secretary, elected by the shareholders for four year terms. Responsibilities include electing the governing bodies, evaluating annual management reports and accounts and approving the application of results.
<b>Advisory Board</b>	Composed of fifteen individuals, it includes the main shareholders of BiG and other members whose presence is considered relevant. The Chairman and the members of the Advisory Board are invited by the Chairman of the Board of Directors, who also has a seat in this body. The Advisory Board meets on average three times per year, or when invited by the Chairman, to discuss strategy and main policies of the Bank, formulating recommendations on this matter. The decisions of the Advisory Board are not formally binding towards the Board of Directors.
<b>Board of Directors</b>	Consists currently of five executive members, who manage the Bank directly on a day to day basis. The Board of Directors is elected for four year terms, and all of its members are experienced bank executives. While chosen based on their relevant experience, each is also a shareholder on an individual basis, independent of any specific shareholder interest. As all board members are executive and the roles of Chairman and CEO are attributed to the same individual. The Board includes a Vice Chairman/COO.
<b>Fiscal Board</b>	The Fiscal Board is the independent supervisory body, consisting of three effective members and an alternate member, elected for four year terms. This body reports directly to the shareholders. Responsibilities include periodic reviews and validation of internal control mechanisms, in accordance with internal and external regulations in line with international accounting policies and standards. The Fiscal Board is also responsible for the election of a CPA. The independent CPA performs periodic audits and also provides an opinion of the accounts.
<b>Compensation Committee</b>	Consisting of three independent individuals elected by the General Assembly for four year terms, this body reports directly to the shareholders. Compensation for the Board of Directors, Audit Committee and key function holders is determined periodically by this Committee. It is also responsible for the periodic review of compensation policies.

F.5



acter of our people. As a result, Management takes a direct role in the recruitment, training and career development of employees. BiG sees employee development as a key investment and seeks to reward talent from the outset. In hiring staff, we invite diversity, but not in our core values. These include academic excellence, a sense of commitment, teamwork, energy, innovation, respect for others and, above all, integrity.

Over the past year, the profile of the Bank's staff and policies concerning their recruitment, training and development has remained consistent with prior years. During 2018, the average age of BiG's staff

was 37 years and 81% of the Bank's staff held at least one university degree.

For the year, the number of directly affiliated staff, excluding Management, rose 6.7% to 272. This figure includes 236 Portuguese-based employees along with 36 staff in Mozambique as of 31/12/18.

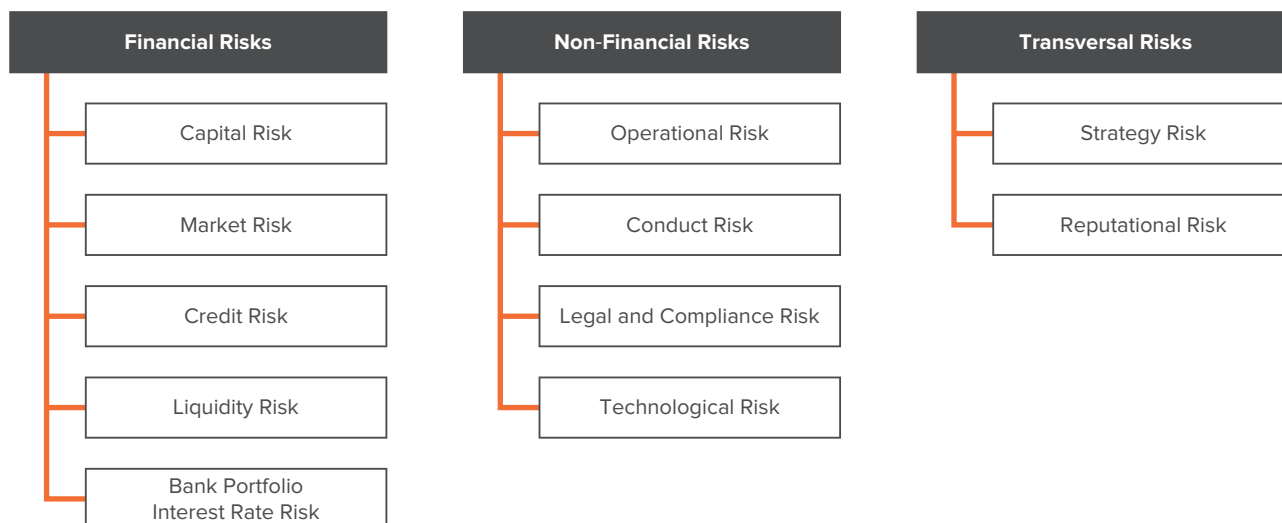
**Executive Summary: Risk Management Policies and Procedures**

In broad terms, the Bank is in the business of assuming and managing risk in a pruden-

tial manner to create value for our shareholders. Policies and practices designed to control these fundamental aspects of our business ensure a sound operating environment and allow us to meet the expectations of our stakeholders.

The Bank's view to managing risk involves regular and frequent contacts between the various business and control units to ensure that general policies and procedures are well designed, disciplined, independent, objective and quantitative. This process seeks to be compliant with regulatory standards and sensible business practices. Processes to manage risks as-

F.6



sociated with global markets, lending, processing, technology and general business risks require a comprehensive and integrated system of policies and controls to ensure the integrity of the Bank’s business model and to preserve stability and enhance profitability. Management stresses a culture of personal responsibility and mutual surveillance in the common interest.

Generally, the Bank seeks to generate revenues from diversified sources – all of which imply a certain level of exposure to a variety of risks – while at the same time operating within reasonable guidelines. These guidelines combine basic, prudential aspects of the banking business, and reflect the specific experience of Management and our business managers and are updated via regulatory or legislative measures. Internal communications on risk include, but are not limited to, the Bank’s adherence to prudential regulations and capacity to monitor transactions appropriately, our knowledge of clients and understanding of markets, the regulatory environment in which we operate, and our appetite from time to time for certain risks given market conditions.

Main risks to which the Bank is exposed are summarized in the following graph and are described in the RISK MANAGEMENT and INTERNAL CONTROL section of this Annual Report.

The appetite for assuming risks is reviewed at regular intervals, from daily to annually,

via the Bank’s *Risk Appetite Framework (RAF)* document. This appetite is reflected in limits, and controls over exposures against those limits. Our business relies heavily on the confidence we have in our people and on the reliability of our systems to process operations on a continuous and relatively error-free basis. Generally, the process begins with identifying risk, then measuring, controlling and eventually reporting risk internally and externally at appropriate intervals.

Bank-wide, Management and control units use several different techniques to review and analyze the risks to which we are exposed. These include financial, non-financial and other risks, with a primary focus on market risks, credit risks, operational risk, and reputational risk. Control processes involve a range of stress tests, performed daily, which are adjusted from time to time and which examine results of scenarios for all major asset classes and portfolios.

For the year, credit exposures involving mainly investment grade risks, have grown in a controlled manner, while asset quality, as measured by the current and historical level of non-performing assets and credit-at-risk remained satisfactory. Assessments made by major external credit rating agencies on the long-term debt ratings of prime Portuguese issuers, which include the Government and the major banks, have improved generally. In the case of the sovereign, several major ratings agencies

have maintained or upgraded their assessments to investment grade during 2018. Internal and external ratings are employed to measure levels of expected credit losses and to evaluate positions and their expected evolution. **For BiG, credit-related losses, as well as costs associated with operating risks, were negligible for the year 2018, in line with prior years.**

### Other Factors that Affect our Business

The Bank manages a variety of risks inherent to the banking business. In addition to those risks summarized above, which are discussed in greater detail in this Management Discussion and the Notes to the Consolidated Financial Statements, changing economic and political conditions affect the business.

By way of illustration, a set of risk factors that, in the context of perceived uncertainty, can be translated into impacts for the market and BiG are identified below:

- ▲ Investment / start of the cycle of interest rate hikes, with impacts on financing costs and disposable income;
- ▲ Changes in the international economic and financial context, including widespread economic slowdown or recession in major international economies;



- ▲ Impacts on the financial markets arising from the context of political instability and diverse tensions at international level, particularly those associated with trade conflicts between major international powers (e.g. USA and China);
- ▲ Uncertainty associated with the exit from the United Kingdom of the European Union (Brexit) and risk of indefinite extension of the respective negotiation process;
- ▲ Political instability in the European Union, in particular linked to the elections to the European Parliament in 2019, and the economic, social and financial consequences of the rise of anti-system political movements with increasing weight in the national sovereignty bodies of the Member States;
- ▲ Impacts resulting from changes in monetary expansion policies to stimulate the European economies and consequences for peripheral countries with weakened financial situations;
- ▲ Economic and financial impacts in Portugal due to possible political instability resulting from the 2019 legislative elections;
- ▲ Adverse impact on the financial system of the Resolution Fund's liabilities associated with exposure to the New Bank, and consequent distortion of competition;
- ▲ Fiscal policies and blocks of a diverse nature that can be interpreted by the markets as a lesser commitment to reducing the level of public and private indebtedness;
- ▲ Policies to reverse or delay the implementation of structural reforms necessary to restore the country's economic competitiveness;
- ▲ Impact of excessive and complex regulation, with a bearing on the necessary cost structures / resources (systems, people, etc.) and the increase in operational risk associated with the inability of operational infrastructures to respond to the increasing number and complexity of regulations, laws, guidances, etc.
- ▲ Reductions in the rating of bonds / issues with potential negative impact on the respective risk weight;

- ▲ Negative impacts of the fiscal framework in Portugal, which currently reaches unsustainable and excessively high levels of taxation, almost confiscatory, and which may lead to the relocation of businesses and capital abroad over the next few years;
- ▲ Increased competition from the State in the collection of deposits, with new offers of savings products in conditions not acceptable to banks;
- ▲ Reinforcement of aggressive competition among Portuguese banks in the collection of deposits, in response to the difficulty of accessing external financing sources, and with potential impact on the financial margin;
- ▲ Restrictions on access to financing with market counterparties, namely in the use of securities as financing collateral, associated with the perception of risk in Portugal.

## Events Following the Year End 2018

### Market conditions – Q1 2019

U.S. equity markets suffered a significant correction in Q4 2018, before recovering substantially during Q1 2019. The nature of the long bull market, combined with rising concerns about inflation, the effects of U.S. tax cuts and internal politics, and the speed of rate hikes for the dollar, as compared to still slow unwind of loose monetary policy in Europe, is expected to contribute to higher than average levels of market volatility.

### BiG Spain

During 2019, BiG expects to begin its planned banking activity in the Spanish market. The unit will focus, initially, on trading platforms, deposit taking, asset management and corporate advisory.

In the first quarter of 2019, the incorporation of BiG's branch in Spain was registered in the *Registro Mercantil de Madrid*. Following the formal constitution of the branch, the Bank has contracted space for the office in central Madrid, and as of Q1

2019, has begun to hire and train key personnel for the new business unit.

### BiG Mozambique – Capital Increase

During Q1 2019, a capital increase operation was carried out in BiG Mozambique, which included (i) the subscription of new shares through cash in the amount of 599,422,714 Meticais, which were provided by BiG Portugal and three new local institutional shareholders from the insurance industry in Mozambique (Emose – Empresa Moçambicana de Seguros, SA, Hollard Moçambique – Companhia de Seguros, SARL and Global Alliance Seguros, SA), as well as (ii) the sale of a lot of shares by BiG Portugal to the three new shareholders for an aggregate amount of 25,830,000 Meticais. After this operation, BiG Portugal now holds 83.99% of the stock of the local subsidiary, while the three new institutional shareholders are owners of 16.01% in total.

### BiG vs. BIC legal dispute on brand confusion

BiG was notified of the decision by the Second Court on Intellectual Property relative to its opposition by EuroBIC on the execution of decisions made by the Court. The tribunal recognized partially that EuroBIC had not entirely complied with the prohibition on the use of the Banco BIC brand and ordered the that execution of the decision proposed by BiG proceed. This decision is still subject to recourse by BIC.

Among the various oppositions made by BiG to the registry of the brand EuroBIC by Banco BIC with EUIPO (European Union Intellectual Property Office), on 15 and 18 February 2019, EUIPO made six decisions, among which the entity refused to register brands EuroBIC for classes 6 (debit and credit cards) and 36 (banking services in general).

The decision by EUIPO was based on the existence of similarity in the visual and auditive nature of the brands Banco BiG and EuroBIC, which might lead to risk of confusion of the brands for existing and potential clients of the two institutions. These decisions are still subject to appeal.

## RESULTS OF OPERATIONS FOR 2018

T.13

(Euro 000)

Revenues	2018	2017	2016	2015
Interest income	51,296	46,402	46,143	43,865
Interest expense	-27,715	-30,448	-20,930	-20,131
<b>Net interest margin</b>	<b>23,582</b>	<b>15,953</b>	<b>25,214</b>	<b>23,733</b>
Income from capital instruments	0	0	929	1,518
Fee and commission income	12,184	12,375	9,680	15,411
Fee and commission expenses	-2,149	-1,783	-2,019	-2,709
Profit / loss of assets and liabilities at fair value through Profit & Loss	4,667	14,125	-9,265	-48,340
Financial assets at fair value through other comprehensive income	17,424	42,711	51,541	155,096
Exchange differences, net	760	-3,580	-2,863	1,502
Income from the sale of other assets	124	25,165	3,966	2,986
Other income	-1,408	-1,228	-1,491	-492
<b>Net operating income</b>	<b>55,184</b>	<b>103,737</b>	<b>75,692</b>	<b>148,706</b>

Source: BIG

The composition of the Bank's net operating income has remained consistent for several years, with variations year to year due to changing financial conditions, as well as regulations and economic conditions globally and domestically. For 2018, the components of the Bank's revenues and their relative weight included (i) an increase in net interest margin, (ii) a small decline in net commissions, (iii) significantly lower results from investing and credit activities, (iii) a drop in operating expenses, (iv) a reversal of provisions for possible banking risks, and (v) substantially lower taxes due to the decline in pre-tax profit.

Net Interest Margin was € 23.6 million in 2018 versus € 15.9 million in 2017. This reflected a more than 21% increase in stable earning assets and partially offset a decline in other categories of income. As a rule, Management tends to limit the growth of earning assets to rises in core client deposit base and capital funds. Relatively less expensive funding from mainly market counterparties rose in absolute terms but was unchanged relative to total assets and grew at a slower rate than deposits. Net interest margin represented 42.7% of total net revenues in 2018, as compared with 15.4% in 2017.

Non-interest income for the year was € 31.6 million in 2018, down from € 87.8 million the prior year. The components of this category include (i) income from capital instruments, (ii) commissions from client trading activity and banking services, managing and distributing assets,

and advisory assignments for corporate and institutional customers, (iii) realized gains associated with managing credit risk and interest rate risk via the trading and assets held for sale portfolio, and (iv) other income.

Net commissions derive largely from asset management and brokerage activities with retail and wholesale clients. These businesses include a variety of managed investments and largely self-directed, client trading platforms placed at their disposition to trade cash equities, warrants, futures, foreign exchange, and certificates for difference. This category also includes fees from distribution and custody services, banking fees, such as revenues from ATMs, and retainers and commissions associated with corporate advisory mandates. Revenues from asset management and financial intermediation were in line with 2017, as near-zero interest rates encouraged clients to seek alternatives to low-yielding deposits, on the one hand, but significant down-side risks from market news tempered investor confidence. The Bank has focused on building its Wealth Management business over the past five years and expects this trend to continue.

Net Revenues from credit and investing combine all categories of Non-Interest income, less net revenues from fees and commissions. In aggregate, income from the Treasury and Markets business for 2018 was down from 2017, at € 28.4 million on an internal management basis. Within this group of categories, trading

revenues declined from the prior year, as did net investment gains ("Income from financial assets available for sale"). While the two form key components of the Bank's business model, they also tend to be dependent on market conditions and, as most revenues derive from the market views of clients and the management of positions taken to support client activity, are subject to daily review. These revenues usually involve some margin income, plus realized gains from investing and credit activities in a diversified portfolio of liquid, fixed income securities. They are associated with management of credit concentrations, diversified tenors and country risks. This portfolio is a key to the Bank's management of liquidity and interest rate positions.

We expect that revenues going forward will consist largely of the categories described above. Despite some relevant changes in the management and measurement of financial assets with the introduction of IFRS 9 in 2018, the Bank does not anticipate a significant departure from current business model or an increase in complexity for the foreseeable future. The respective proportions may vary as client deposits and assets under supervision rise, the balance sheet gradually expands, and as the Bank's coverage of the domestic and selected international markets grows. Areas of emphasis include advisory services, assets under supervision, savings products, and balance sheet management, with a permanent focus on sound asset quality and comfortable levels of liquidity.

T.14

(Euro 000)

Expenses	2018	2017	2016	2015
Administrative expenses				
Staff expenses	-19,608	-23,090	-18,581	-23,363
Other administrative expenses	-8,453	-9,627	-7,659	-12,262
Depreciation	-1,962	-2,110	-1,576	-1,291
Provisions	1,403	2,002	10,883	-2,765
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss				
Financial assets at fair value through other comprehensive income	1,256			
Financial assets at amortised cost	-318	-5	-3	-67
Financial asset available for sale	0	260	-283	-1,351
Impairment or reversal of impairment on non-financial assets				
Others	1	11	-31	-6
<b>Total costs</b>	<b>-27,681</b>	<b>-32,560</b>	<b>-17,249</b>	<b>-41,105</b>

Source: BIG

Total costs include operating costs, provisions and imparities. These are influenced primarily by compensation, the growth in headcount and management's confidence regarding levels of business activity.

In 2018, total costs including impairments and provisions, was € 27.7 million, compared to € 32.6 million in 2017, a decline of 15.0%. Excluding the "one-time effects of the reversed provisions in 2016 (€ 10.9 million), this category was in line with previous years. Impairments were positive in 2018 and 2017.

Net operating costs, – i.e. personnel costs, administrative expenses and depreciation/amortization – were 13.8% lower in 2018, on tighter expense controls and lower discretionary spending, such as marketing, in response to declining revenues. While growing the headcount, and building businesses in Mozambique and Spain, operating expenses for 2018 were in line with

the past four-year average. Given the decline in revenues, the Bank's operating costs/total net revenues ratio moved to 54.4%, compared to 33.6% in 2017.

In general, the Bank expanded the balance sheet in a controlled manner, in accordance with our view of risks, and continues to operate with a light operating structure with a focus on managing capital and the expense base closely. Compensation, traditionally the Bank's largest single operating expense category, declined 15.1% and represented 70.8% of net operating costs in 2018, remaining in line with 2017. The components of compensation are impacted by, among other things, the level of net revenues, the Bank's overall performance, business line and individual contributions, current labor legislation, and the market environment.

Besides compensation-related expenses, dominant operating expense categories

include administrative costs. These expenses include communications, information services, publicity, license fees, arrangements with stock exchanges and related suppliers, occupancy and other expenses related to the normal functioning of the Bank. They tend to be correlated closely with growth in personnel, the level of business activity, and/or associated with specific investments. Administrative expenses decreased by 12.2% in 2018 and were below the past four-year trend of approximately € 9.5 million.

Amortization expenses are related principally to real estate occupied by the Bank, investments in hardware and other equipment and initial license fees associated with software agreements. The portion associated with premises includes the head office building and investments in and improvements to the Bank's growing branch and ATM network. The Bank regularly invests in its IT infrastructure to en-

T.15

(Euro 000)

Results and Taxation	2018	2017	2016	2015
<b>Operating results</b>	<b>27,502</b>	<b>71,178</b>	<b>58,443</b>	<b>107,601</b>
Results of subsidiaries	0	0	0	0
<b>Profit or loss before tax and minority interests</b>	<b>27,502</b>	<b>71,178</b>	<b>58,443</b>	<b>107,601</b>
Tax expense or (-) income related to profit or loss from continuing operations				
Current Taxes	-3,830	-18,520	-14,805	-32,507
Deferred Taxes	-526	-311	74	-585
<b>Net income before minority interests</b>	<b>23,146</b>	<b>52,347</b>	<b>43,712</b>	<b>74,509</b>
Minority Interests	-89	0	0	0
<b>Profit or loss for the year</b>	<b>23,056</b>	<b>52,347</b>	<b>43,712</b>	<b>74,509</b>

Source: BIG

sure quality execution, state of the art security and appropriate redundancy. We invest in outside IT solutions and equipment to support our infrastructure and have dedicated resources to managing the infrastructure with in-house solutions. This expense category represented 7.1% of total expenses in 2018, or just slightly higher than 2016.

Costs associated with net impairments were negligible. Loan-related impairments registered in 2018 were negligible and were consistent with prior years' levels of close to zero.

Pre-Tax income was € 27.5 million in 2018, compared with € 71.2 million in 2017. For 2018, net provisions for taxes were € 4.4 million, versus € 18.8 million in 2017. (See Note 33). The effective tax rate for 2018 was 15.8%, as compared to 26.5% for 2017.

## Results of Business Segments

Internally, Management reviews the performance of the Bank at the level of major business lines, sales teams and product areas, using objective criteria and the Bank's accounting results as a base. In broad terms, Management reviews results based on a matrix of two main business segments: Wealth Management and Advisory, and Treasury and Capital Markets. Below are detailed operating results of the Bank's two main busi-

ness segments, based on an internal management presentation of our revenues and expenses associated with their activity for the year. In this format, revenues are allocated by client segment or business area; costs are allocated based on actual expenditures by area and a general division of operating expenses based on headcount per business, among other factors.

The Wealth Management and Advisory business contributed € 32.1 million in net revenues for 2018, as compared with € 26.0 million for 2017. The main contributions came from net commissions, which included brokerage and asset management activities, and margin income, associated with the liability margin allocated from mainly savings and investment products, as opposed to lending products. Net commissions declined 24.2%, on a weaker year for trading and investment products. Growth in this segment tends to be sustained, not explosive. This area generates most of the client-related funding of the Bank. The allocation of margin rose because of the significant increase in client funding and a stable rates environment. The contribution of the segment to total net revenues also increased on a relative basis.

Commissions from brokerage, asset management and banking operations represented 29% of the total in 2018, versus 43% the year before. The trend

reflects the emphasis on asset accumulation, involving activities in savings, investment, trading, custody and other banking transactions. For several reasons – competition for deposits from banks with different businesses to fund and a near-zero interest rate environment in Europe's slow-growth environment – we aim for an increase in commissions over funding-related margin activity going forward.

The retail sub-segment of BiG Wealth Management and Advisory business is a combination of a trading and investment platforms and an integrated, specialized banking offering for the private individual. The approach combines "high touch," or personalized service, with "low touch," associated with electronic means of transacting business. Products and services include checking accounts, debit and credit cards, payment services and, to a lesser extent, certain consumer credit arrangements, such as margin accounts. The platform provides a range of savings and investment products from general banking and credit arrangements for the client requiring assistance, to more sophisticated online trading and investment platforms for self-directed clients. These include trading in equities, warrants, futures, foreign exchange, CFDs (contracts for difference), and third-party mutual funds. We reach clients via different channels, including via internet, telephone and physical branches, manned by trained

T.16

(Euro 000)

Wealth Management and Advisory Services	2018	(%)	2017	(%)	2016	(%)	2015	(%)
Fees and Commissions - Core Business	7,563	24%	9,972	38%	6,779	23%	11,420	33%
Margin	7,266	23%	5,177	20%	5,023	17%	5,442	16%
Other Banking Commissions	1,678	5%	1,194	5%	1,988	7%	1,978	6%
Trading / Sales	887	3%	338	1%	323	1%	434	1%
Corporate Finance	2,567	8%	849	3%	503	2%	922	3%
Additional Margin Allocated	12,166	38%	8,478	33%	15,321	51%	14,446	42%
<b>Net Revenues</b>	<b>32,127</b>	<b>100%</b>	<b>26,009</b>	<b>100%</b>	<b>29,935</b>	<b>100%</b>	<b>34,642</b>	<b>100%</b>
Operating Expenses	-21,399		-20,196		-17,672		-19,654	
Pre-tax Income	10,729		5,812		12,264		14,988	
% Operating Revenues / Total Segments Revenues	53%		24%		38%		23%	
% Operating Expenses / Total Segments Expenses	75%		79%		76%		79%	

Source: BiG

consultants. The range of products and distribution methods are designed to reach target clients with different investment profiles, appetite for risk and transaction needs profiles in an efficient manner.

The Institutional and Corporate Advisory sub-segments of this business features specialized sales teams and tailored solutions for wholesale clients with specific needs. Product offerings include institutional asset management, brokerage, risk management, sales of tailored investment products, and independent advisory services for corporate, banking and institutional clients.

The Treasury and Capital Markets business segment seeks to generate revenues, while managing the exposure of

the Bank in such areas as interest rates, foreign exchange, fixed income, equities and derivative instruments. The business focuses on managing the Bank's liquidity and exposure to interest rate risk, in conjunction with credit activities and their concentrations. Credit exposures feature liquid debt instruments of quality corporate, financial and sovereign issuers for a variety of maturities. The Bank may also trade in major foreign currency instruments, interest rate and equity futures, futures on major indices and similar instruments, mainly in connection with the Bank's hedging activities. In managing the various trading books, the activity of the Treasury and Capital Markets team touches on many areas internally and is a source of expertise, market risk management and consistent profitability for the organization.

## Balance Sheet and Sources of Funding

### Balance Sheet Management

For the past several years, growth in the balance sheet has been correlated, substantially, to the level of increase in retail deposits and reinvested current earnings. BiG's assets and liabilities advanced from the prior year-end period because of a steady level of stable retail client deposits, a moderate level of wholesale funding at negative rates, and a rise in total capital, which together funded a slightly larger and diversified Held for Sale and Collect portfolio of mainly liquid fixed income securities and loan assets. Generally, and as in prior years, changes in nature of the balance sheet are gradual, with year-end levels of assets not differing materially

T.17

(Euro 000)

Treasury & Capital Markets	2018	(%)	2017	(%)	2016	(%)	2015	(%)
Income from capital instruments	0	0%	0	0%	929	2%	1,518	1%
Profit / loss of assets and liabilities at fair value through Profit & Loss	4,667	16%	14,125	17%	-9,265	-19%	-48,340	-42%
Profit / loss of financial assets at fair value through Profit & Loss, net	17,424	61%	42,711	53%	51,541	105%	155,096	135%
Exchange differences, net	760	3%	-3,580	-4%	-2,863	-6%	1,502	1%
Results from sale of other assets	124	0%	25,165	31%	3,966	8%	2,986	3%
Financial assets at fair value through comprehensive income	1,256	4%	0	0%	0	0%	0	0%
Financial assets available for sale	0	0%	260	0%	-283	-1%	-1,351	-1%
Additional Margin Allocated	4,150	15%	2,298	3%	4,870	10%	3,844	3%
<b>Net Revenues</b>	<b>28,381</b>	<b>100%</b>	<b>80,978</b>	<b>100%</b>	<b>48,895</b>	<b>100%</b>	<b>115,256</b>	<b>100%</b>
Operating Expenses	-7,299		-5,474		-5,617		-5,230	
Pre-tax Income	21,082		75,504		43,278		110,026	
% Operating Revenues / Total Segments Revenues	47%		76%		62%		77%	
% Operating Expenses / Total Segments Expenses	25%		21%		24%		21%	

Source: BiG

T.18

(Euro 000)

Key Balance Sheet Items	2018	2017	2016	2015
Total Net Assets	2,277,990	1,851,222	1,759,030	1,542,063
Earning Assets	2,179,606	1,797,877	1,660,135	1,478,311
Loans to Total Net Assets	1.7%	16.7%	24.9%	24.4%
Deposits from Central Banks	0	0	0	165,007
Funding from other Credit Institutions	554,334	410,261	396,823	171,220
Deposits from Clients	1,312,211	1,035,794	1,049,050	885,486

Source: BiG

from balance sheets on other reporting dates throughout the year.

Close attention to the size and composition of the Bank's balance sheet is one of Management's most important exercises in risk management. Assets and liabilities frequently change due to client activity, market conditions and available business opportunities, but the size and composition of the Bank's balance sheet at any given time may reflect a variety of factors. These include (i) the nature and availability of stable sources of funding, (ii) the level of the Bank's capital or own funds, based on actual and stressed, or hypothetical levels, and (iii) Management's overall view of opportunities and associated risks. The process involves regular review and planning of available investment opportunities and funding strategies via the ALCO (asset and liability) committee, limits on balance sheet growth by business, asset class or concentration, daily monitoring of key metrics by Risk Management, and importantly, the use of scenario analyses and stress tests as an essential disciplinary tool. Most earning assets of the Bank are securities classified as Held for Collect and Sale under IFRS9 (previously AFS under IAS 39). They are marked to market daily and are used to manage the Bank's exposure to movements in interest rates and to invest excess liquid funds.

Our risk framework has been based, for many years, on a core strategy of maintaining an exceptionally liquid balance sheet. The Bank's processes and procedures encourage a dynamic management of our assets and liabilities and include:

- ▲ Daily review and at least weekly planning of key asset and liability items;
- ▲ Daily monitoring of key risk measures and utilization of capital;
- ▲ Analysis of different scenarios compiled and measured on a daily basis;
- ▲ Annual projections of funding and capital requirements for a multi-year period;
- ▲ Annual review of limits, or more frequently, as required.

Key inter-related concepts of liquidity management control over asset quality and capital adequacy are discussed in the chapters contained in this Management Discussion covering Market Risk Management, Credit Risk Management and Internal Capital Adequacy.

Total Net Assets at year-end 2018 were just below € 2.3 billion, as compared with € 1.9 billion at 31/12/17. Earning Assets at 31/12/18 were € 2.2 billion, or 21% above the € 1.8 billion on the prior year-end.

Deposits with Banks are used to manage short-term liquidity and reserve requirements with the central bank and main counterparties. Including loans, this category represented 9.2% of earning assets. A small portion of the Bank's loan book at year-end included mainly margin accounts to retail clients. These facilities are short term in nature and structured to be self-liquidating in stressful conditions. At year-end 2018, essentially all of loan assets in this class were fully collateralized and are, therefore, lower risk. Loans of this nature to clients tend to grow with a rising market and to decline in periods of stress, as has been the case, particularly since 2011 (see Credit Risk Management).

The Held to Collect and Sale portfolio (HTCS) grew because of higher levels of liquidity, representing 72% of total earning assets at 31/12/18, or the same level as for prior year, and included a variety of sovereign, financial and senior corporate debt instruments. Factors that may affect the size of the portfolio include the opportunities for creating either margin or investment revenue during the year. The decision to either hold securities for margin income or divest is decided at the level of the Bank's Asset and Liability Committee (ALCO), and takes into consideration market conditions, credit concentrations and the Bank's over-all liquidity profile.

T.19

(Euro 000)

Earning Assets	2018	2017	2016	2015
Deposits with Banks	160,835	157,734	126,138	82,313
Financial assets at amortized cost				
Debt securities	336,293	0	0	0
Loans and advances	38,827	309,094	437,485	376,820
Financial assets at fair value through other comprehensive income	1,570,405	0	0	0
Available for sale assets	0	1,300,718	1,083,030	1,001,084
<b>Total</b>	<b>2,179,606</b>	<b>1,797,877</b>	<b>1,660,135</b>	<b>1,478,311</b>

Source: BIG

T.20

(Euro 000)

Main Liabilities and Capital	2018	2017	2016	2015
Deposits from central banks	0	0	0	165,007
Financial liabilities held for trading	183	543	1,148	1,699
Deposits from other banks	554,334	410,261	396,823	171,220
Clients Deposits	1,312,211	1,035,794	1,049,050	885,486
Shareholder funds	347,148	339,533	265,611	276,364

Source: BIG

Main sources of funding were, as in prior years, client deposits, capital, and funding via sale/repurchase agreements with market participants, such as Eurex Repo and other banks. Client deposits are mainly retail in nature and rose 26.7%

to € 1.3 billion. Deposits taken from other banks are mainly repurchase agreements with international counterparties, and include EUREX REPO, which the bank joined as clearing member during 2011.

Through the ALCO process, which provides a view of the nature of the concentrations and liquidity of our assets, combined with conservative management of the funding mix described before, we seek to ensure that substantial

## T.21

(Euro 000)

Shareholders Capital	2018	2017	2016	2015
Common Stock	171,947	171,947	156,000	156,000
Share premium	1,362	1,362	1,362	1,362
Treasury Stock	-2	-2	-2	-2
Accumulated other comprehensive income	-34,016	-63,827	-87,095	-48,229
Other Reserves	184,800	188,627	160,994	105,204
Profit or loss attributable to owners of the parent	23,056	52,347	43,712	74,509
Anticipated Dividends	0	-10,920	-9,360	-12,480
<b>Total Shareholders Capital</b>	<b>347,148</b>	<b>339,533</b>	<b>265,611</b>	<b>276,364</b>
Book value per share	2.02	1.97	1.70	1.77
Net assets / Equity	6.56	5.45	6.62	5.58

Source: BiG

## T.22

(Euro 000)

Consolidated Regulatory Capital	2018	2017	2016	2015
<b>Shareholders Equity</b>	<b>347,148</b>	<b>339,533</b>	<b>265,611</b>	<b>276,364</b>
Dividends payable	-12,896	-13,755	-6,240	-6,240
Intangible Assets	-2,114	-1,995	-2,567	-2,628
Remuneration Deposits above Threshold	0	0	-46	-61
Revaluation Reserves	0	12,465	34,193	45,308
<b>Own Funds</b>	<b>329,411</b>	<b>329,790</b>	<b>290,951</b>	<b>312,743</b>
Risk-weighted assets	1,047,326	731,483	921,344	943,215
CET 1 Capital Ratio	31.5%	45.1%	31.6%	33.2%
CET 1 Capital Ratio	31.5%	45.1%	31.6%	33.2%
T1 Capital Ratio	31.5%	45.1%	31.6%	33.2%

Source: BiG

## T.23

Performance Measures	2018	2017	2016	2015
<b>Profitability</b>				
Return on Assets (ROA)	1.1%	2.9%	2.6%	5.0%
Return on Equity (ROE)	6.7%	17.3%	16.1%	27.7%
Operating Revenues / Average Net Assets	2.7%	5.7%	4.6%	10.0%
<b>Efficiency</b>				
Net Margin / Earning Assets	1.1%	0.9%	1.5%	1.6%
Operating Expenses / Operating Income	54.4%	33.6%	36.7%	24.8%
Personnel Expenses / Operating Income	35.5%	22.3%	24.5%	15.7%
<b>Solvency</b>				
CET1 Capital Ratio	31.5%	45.1%	31.6%	33.2%
T1 Capital Ratio	31.5%	45.1%	31.6%	33.2%

Source: BiG

excess cash positions are maintained to meet normal, and via analysis of our stress testing scenarios, any hypothetical out-flow of funds. For further details on secured funding and client deposits, please refer to *Summary Analysis – Liquidity and Liquidity Risk Management* and Notes 39.

*Shareholder Funds:* Shareholder Funds at 31/12/18 were € 347.1 million, as compared with € 339.5 million on the same date in 2017. The number of common shares issued – each with a nominal value of one euro each, fully subscribed and paid up – was unchanged at 171.9 million. The main

components affecting the increase in shareholder value since the end of 2016 date have been other reserves/retained earnings, net income and the payment of dividends.

*Regulatory Capital:* BiG's primary regulator is the Bank of Portugal and in accordance with banking regulations, we are subject to consolidated risk-based regulatory capital requirements. In broad terms, regulatory capital is used as a basis for measuring key aspects of our banking business and involves a variety of regular adjustments to the Bank's capital account, which are then reported regularly. Capital

requirements are expressed as capital ratios that compare adjusted capital to risk-weighted assets. The

Bank's regular and required reporting of Core Tier 1 and other solvency ratios are a key part of the regulatory capital process.

Profitability indicators declined in 2018. **Return on Average Equity (ROE) was 6.7% compared to 17.3% for 2017.** The Bank's operating expenses / operating income ratio moved to 54.4% from 33.6% in 2017, mainly because of the decline in revenues, and in spite of tight cost control.



# RISK MANAGEMENT AND INTERNAL CONTROL

## Overview

Management views the assumption and control of Risks as inherent to our business. They include financial risks, such as capital, market, liquidity, interest rate, credit, operational, technological, compliance and reputational risks. Effective management of risk requires (i) a well-designed, internal structure of governance, (ii) understanding, identification and acceptance of responsibility by individuals within the organization, and (iii) ownership of risk assessment, control and management by the oversight functions within business units.

To identify and manage these risks, which are inter-related, the Bank maintains a comprehensive and integrated system of internal controls, policies and procedures. These are both quantitative and qualitative in nature. The Board reviews, approves, and oversees the respective risk management functions and ensures compliance with policies and procedures, either as a group or by delegation. Generally, our systems and policies are designed to ensure effective processing, reliable systems, appropriate risk taking, daily or intra-day measurement of positions, independent reporting and respon-

sible behavior. Policies and procedures on enforcement also seek to ensure respect for and adherence to internal, regulatory, legal and prudential guidelines designed to protect the interests of clients and shareholders, while preserving and protecting the reputation of the Bank.

As part of its processes to measure the main risks inherent to banking, mentioned above, Management relies on value at risk measurements and a variety of stress testing scenarios in addition to other methodologies. These are subject to continuous review and have responded well to the paradigm-changing events associated with domestic and global political and economic events, which have defined the past few years. These events have had a significant impact on market practices, the regulatory environment, the nature of audits and ratings, as well as on competition, strategic planning, assumptions, market prices and expectations. These risks figure prominently in our view and measurement of market, liquidity and credit risks. For additional information, including stress tests for reputational and correlation risks please refer to Note 39.

The *risk framework*, in broad terms, includes (i) the governance structure,

(ii) the Bank's policies and procedures, and (iii) the people involved directly in the firm-wide or individual risk control units.

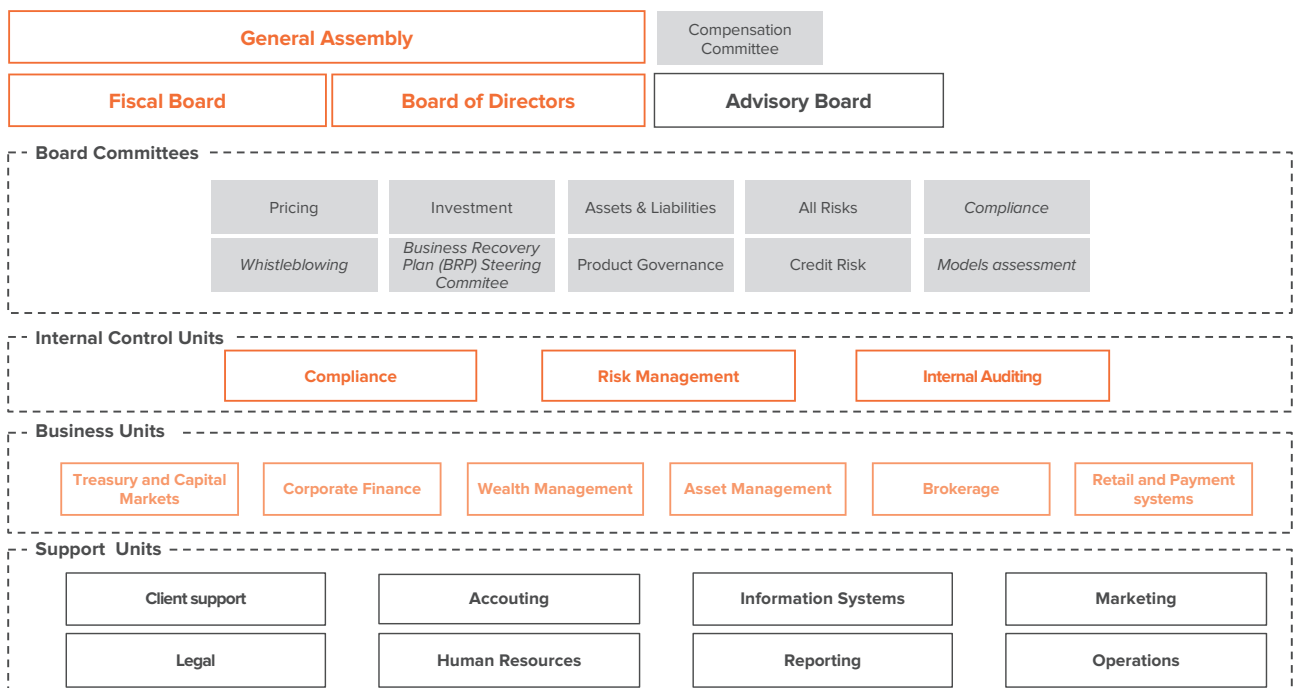
## Governance Structure

Primary responsibility for monitoring risks throughout the Bank rests with Board of Directors, the Bank's All Risks Committee, the business units, and various sub-groups, which monitor specific risk areas. The All Risks Committee combines the various individual control functions and functional groups overseeing Risk Management (discussed in detail below) and the Compliance area of the Bank.

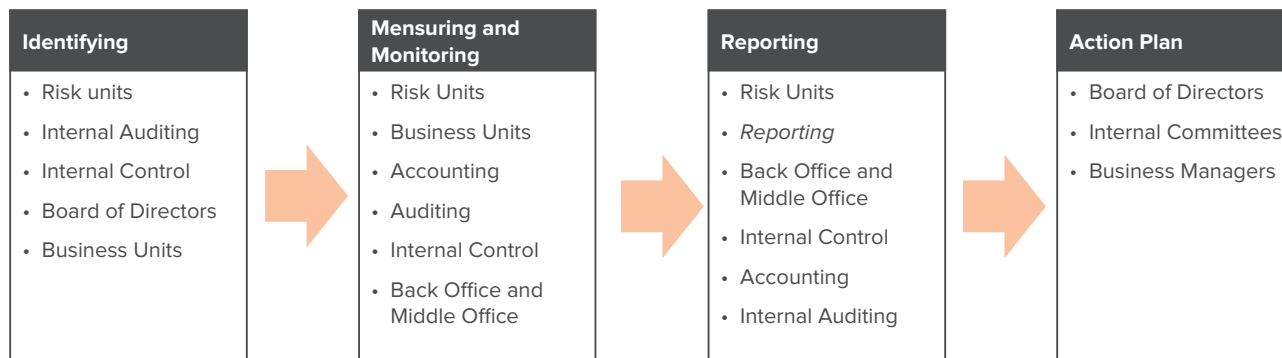
Presiding over the Governance Structure is the executive Board of Directors. It is the responsibility of the Board to provide guidance on strategy and risk appetite, approve policies and maintain an integrated view of risk exposures.

The following chart presents an overview of the Bank's structure of governance for managing risks.

F.7



F.8



### General Policies and Processes

Management reviews policies, procedures and any underlying regulatory changes regularly, and seeks to ensure their clear communication throughout the organization as a basis for building a sound, operating environment. The nature of the governance structure for risk and the existence of clear policies aim to ensure that processes associated with four key steps in the risk management process – identifying, measuring, controlling and reporting risk exposures to potential losses – are in accordance with sound banking practices and regulatory standards.

In managing exposures to risk, the Bank is guided by the following basic principles:

- ▲ Regular review of policies, procedures and regulations by Senior Management
- ▲ Formal definition of responsibilities for risk management in the Bank
- ▲ Policies and procedures to ensure independent oversight
- ▲ Appropriate diversification of risks and formal review of concentrations
- ▲ Systems of independent measurement and reporting
- ▲ Overlapping systems to measure and control risk
- ▲ Training to assist in identifying risk across business areas

Critical policies and processes include: (i) the relatively active management of our

positions, (ii) marking to market substantially all our earning assets on a daily basis, (iii) daily or intra-day review of our financial exposures and net revenues, (iv) daily, independent review of credit exposures, controls over limits and accounting processes, (v) independent reporting and regular dialogue among revenue-producing teams and independent risk control and support functions, (vi) extensive stress testing procedures, including the application of extreme scenarios, and (vii) the direct involvement of Management in the process of controlling risks and encouraging the rapid communication of escalating risks.

### Measuring Risk

In taking decisions and in managing risk, Management applies its business judgment in combination with a variety of quantitative tools and systems used to monitor and measure exposures. These are discussed in the following sections and include:

- ▲ Extensive use of scenario stress testing
- ▲ Market Risk Limits based on VaR (Value at Risk)
- ▲ Sensitivity analyses, particularly with interest rate risk
- ▲ Measurement of exposures based on Basis Point Values (bpvs)
- ▲ Control of limits by counterparty, family, asset class and portfolio
- ▲ Concentration Limits

### ▲ Qualitative analysis and procedures

The process requires regular self-assessment exercises, updates in techniques and periodic changes of assumptions, as well as adherence to changing regulatory and accounting issues. As a result, this is a daily focus of Management, line functions and support areas. We assume as part of the process that no single methodology to measure risks is enough, by itself, to provide a complete picture of our exposures. Management and risk oversight teams, therefore, often review risks, particularly market-related risks, with a combination of approaches. As a policy, we seek to quantify the potential for losses associated with every aspect of our business, to have a reasonable prior estimate of potential damages in the event of unexpected events. These can range from those that are possible, based on recent historical data, to those that we deem to be highly unlikely, but which nevertheless can be estimated based on the assumption of certain extreme scenarios.

Generally,

- ▲ **Market risk usually** involves at least a daily review of all the above measures;
- ▲ **Liquidity risk and Interest rate risk** focus on several methodologies, among which basis point values and scenario analyses;
- ▲ **Credit risk** generally focuses on nominal and fractional exposures, concentrations by borrower/issuer by group, sector or geography, and on stress testing techniques;

▲ **Derivatives exposures** are measured with sensitivity analyses of exposures measured in basis points;

▲ **Operational risk, Reputation risk and Correlation risk**, which involve some of the more subjective risks to which the Bank may be exposed, usually depend on scenario analyses in order arrive at quantitative estimates.

### Limits and Controls

Limits on all risk activities are essential to the process of controlling risks and involve a series of frequently-reviewed restrictions organized by class of product, by tenor, and by individual trader. They may be measured via a combination of non-statistical measures, including basis point values (bpvs), and statistical measures, such as value at risk (VaR), discussed below.

Management and the Market Risk function work closely to ensure continuous update, daily reporting, dialogue and review of assumptions and models. A variety of criteria are used for determining appropriate limits on risk-taking associated with trading and investment risk-taking, including our current and historical analyses of markets, statistics on volatility and liquidity, fundamental and technical analysis, the level of experience and performance of traders and managers, and importantly, the Bank's appetite for risk in accordance with market conditions.

Approved limits specifying authorized exposures by counterparty and concentrations by asset class are reviewed on a periodic basis and are communicated formally and periodically to managers, traders, sales staff and back office personnel. All personnel are responsible for adhering to approved limits, which are monitored by separate and independent middle and back office functions to ensure that positions are valued and recorded accurately.

### Reporting

Daily, risk management and back office functions compile and report positions

to Management based on established statistical and non-statistical measures. Exceeded limits are reported to Senior Management immediately and action is taken to guarantee compliance with the limit. Such formal controls are enhanced by informal systems of monitoring position taking and limits, including at least daily meetings by Senior Management with markets areas to review positions and evaluate trends. Reports on daily stress tests serve as a basis for discussion on the appropriateness of exposures and the need to act to reduce risk concentrations via the sale or repositioning of our positions or hedging of risks.

### Risk control units

Each of the internal risk committees – the Asset and Liability Committee, the Credit Risk Committee, and groups responsible for such areas as Internal Audit, Compliance, Operating risks and Technology risks – includes individuals responsible for the day to day controls. Each also includes, normally, at least two other members of the Board. Within limits established by the Board, these risk groups have decision-making authority in their respective areas. Daily events of an exceptional nature require the approval of at least two Executive Directors. Major exposures or significant policy decisions falling outside of these limits require review and approval of the general Board of Directors. In addition, the Bank's All Risks Committee meets regularly to ensure proper communication, regulatory compliance and understanding of the inter-relationship of risks across various areas of the Bank.

### Capital Risk

**Capital risk management ensures that the Bank has acceptable capital funds and operating ratios to support the institution's strategy, business activities, and underlying risks during both normal and stressed operating conditions.**

As capital risk and strategy are closely linked in our business, Management's views on leverage, minimum capital targets,

and sustained capital growth, mainly through retained earnings, within the context of competitive, market and regulatory conditions, in effect, determine the Bank's strategy and risk appetite. These issues are discussed extensively in the sections on *Funding and Capital Planning*, are formally addressed as part of the Bank's ICAAP (Internal Capital Adequacy and Assessment Process) review sent to regulators annually and are the target of daily position reporting and stress testing. The management of capital risk is directly connected to Management's long-established views on what constitutes acceptable capital ratios and buffer, asset quality and balance sheet management, dividend policy, ROE targets, the nature of shareholder funds versus regulatory capital, and general risk management. Please also see Note 39.

### Market Risk

**Market Risk represents the possible decline in the value of financial instruments as a result of changes in market conditions.** Key risks that we manage in our market activities, as they may have a direct impact on the Bank's daily profit and loss account, and/or on the Fair Value Reserve of the capital account, include:

- ▲ **Fixed Income Risks**, resulting from movements in prices in assets held for trading or for longer periods;
- ▲ **Equity Price Risk**, resulting from exposures to changes in underlying prices and volatility;
- ▲ **Currency Rate Risk**, resulting from exposure to changes in spot prices, forward prices and volatility;
- ▲ **Derivatives Risk**, resulting from the management of our exposure to changes in the prices of underlying assets used to hedge client product and positions.

In managing the above risks, the Board delegates day-to-day oversight and control to its Asset and Liability Committee ("ALCO") and Market Risk Unit. The ALCO is chaired by the CEO and include other members of the Board, in addition to other business managers involved of both revenue-producing units and risk control teams.

Underlying the committees are the primary risk control units – Market and Credit Risk – which are responsible for reviewing methodologies for measuring risk and limits for all investment and trading activities. They also control broad investment management decisions discussed at the level of ALCO, review models and analytics associated with calculating value at risk limits within both Bank and client portfolios, and are responsible for conducting daily portfolio stress tests, as well as overseeing the independent control and enforcement of limits on risk taking by front office personnel. In addition, the group seeks to ensure an efficient balance between risks and return, as well an appropriate level of volatility in operating results.

In its Treasury and Market activities, BiG seeks to generate or to protect revenues while managing its exposure to changes in the value of financial instruments across various markets, products and portfolios. To manage and report risks, Management establishes and reviews, on a periodic basis, comprehensive procedures and systems designed

to ensure levels of control commensurate with the Bank's capital and business objectives.

The Market Risk function, along with Management, Compliance and other operating areas, reviews policies and procedures on product development to ensure that levels of risk assumed by clients, and as marketed by BiG, are appropriate in the circumstances. Some members of the ALCO are also part of the Bank's Investment Committee, which oversees trends, allocations and policies with respect to the management of third party or client assets, including responsibilities associated with advisory and discretionary mandates. The activities of this area, while separate from the Bank's own portfolio, are subject to the same type of control mechanisms and procedures as those exercised by the Bank in the management of its own capital. Both groups meet regularly and, as they normally include two or more Board members, have the authority to decide on day-to-day issues. Major exposures or significant policies are generally put before the general Board of Directors for prior review.

## Methodologies

The Bank utilizes a variety of methodologies to measure and control market-related exposures, which are analyzed in conjunction with information covering country and counter-party risks. Often risks are managed through a process of diversifying exposures, controlling position sizes, and establishing hedges in related securities or derivatives. Key quantitative tools used to measure, and control exposures efficiently include statistical measures and non-statistical measures, among which:

- ▲ VaR (Value at Risk)
- ▲ Stress testing
- ▲ Calculations of basis point values
- ▲ Sensitivity testing

The Bank employs these systems simultaneously with others, such as loss advisories and daily controls of concentrations to ensure the integrity of the process if one or more methodologies should fail, as a result of some extraordinary event occurring in the markets.

T.24

(Euro)

Trading VaR 2018 (vs 2017)	2018				2017			
	December	Average	Maximum	Mínimo	December	Average	Maximum	Minimum
Foreign exchange risk	5,217	137,727	708,515	212	24,504	45,121	218,480	2,878
Interest Rate Risk	173,360	736,505	4,317,670	44,294	81,794	345,796	1,778,772	15,332
Equity	0	208,103	807,059	0	411,277	344,265	536,501	37,461
Options	19,439	73,393	353,064	13,368	166,894	149,194	246,558	54,526
Diversification	16%	28%			47%	41%		
	<b>167,094</b>	<b>835,467</b>	<b>4,256,929</b>	<b>44,410</b>	<b>363,883</b>	<b>519,292</b>	<b>1,908,212</b>	<b>94,738</b>

Source: BiG

T.25

(Euro)

Investment VaR 2018 (vs 2017)	2018				2017			
	December	Average	Maximum	Mínimo	December	Average	Maximum	Minimum
Interest Rate Risk	7,887,989	5,854,955	11,355,751	3,930,644	11,415,642	12,487,626	14,348,522	9,507,150
Equity	0	293	28,106	0	27,892	6,082	144,417	0
Diversification	0%	0%			0%	0%		
	<b>7,887,989</b>	<b>5,855,045</b>	<b>11,366,654</b>	<b>3,930,644</b>	<b>11,426,484</b>	<b>12,489,022</b>	<b>14,348,522</b>	<b>9,507,150</b>

Source: BiG

### Summary of key terms used in this section:

**VaR:** Loss expected within the confidence level indicated; larger losses may be possible but have a correspondingly lower probability of happening.

**Back-testing:** Process of validating a model by comparing its predictions to actual results.

**Confidence level:** Probability that actual losses will not exceed the estimated value at risk, the greater the confidence level, the higher the value at risk.

**Diversification Effect:** Represents the gain, in risk terms, of having a diversified portfolio.

**Limits Utilization – VaR**

T.26 (Euro)

Trading		
VaR	Limit	Usage
167,094	5,460,000	3%

	Limits	31/12/2018	28/12/2017	Δ	Excess
Equity	1,150,000	0	0	0	-
Options	400,000	19,439	19,252	187	-
Interest Rate Risk	5,200,000	173,360	173,540	-180	-
Fx Cambial	800,000	5,217	8,997	-3,780	-

Source: BiG

T.27 (Euro)

Investment		
VaR	Limit	Usage
7,887,989	22,000,000	36%

	Limits	31/12/2018	28/12/2018	Δ	Excess
Equity	2,000,000	0	0	0	-
Interest Rate	20,000,000	7,887,989	7,884,760	3,229	-

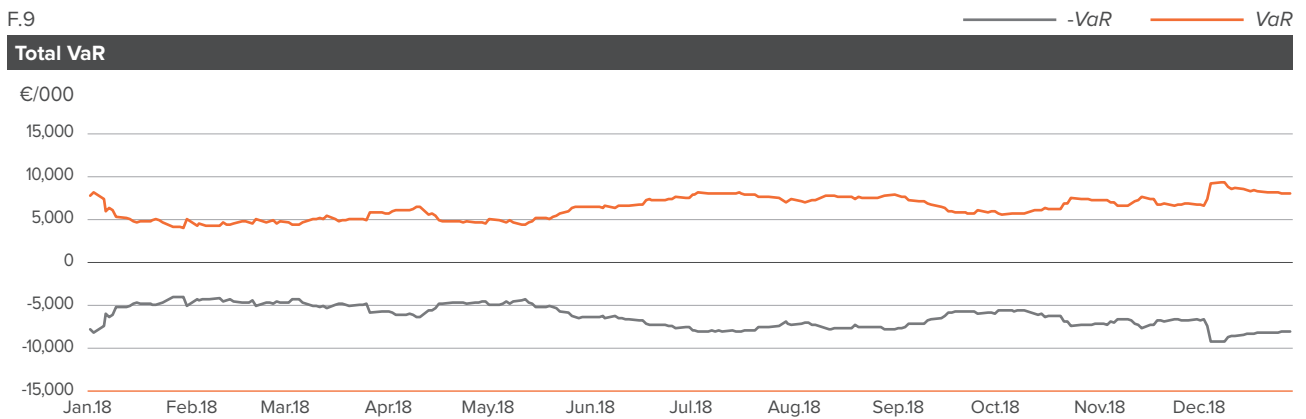
Source: BiG

T.28 (Euro)

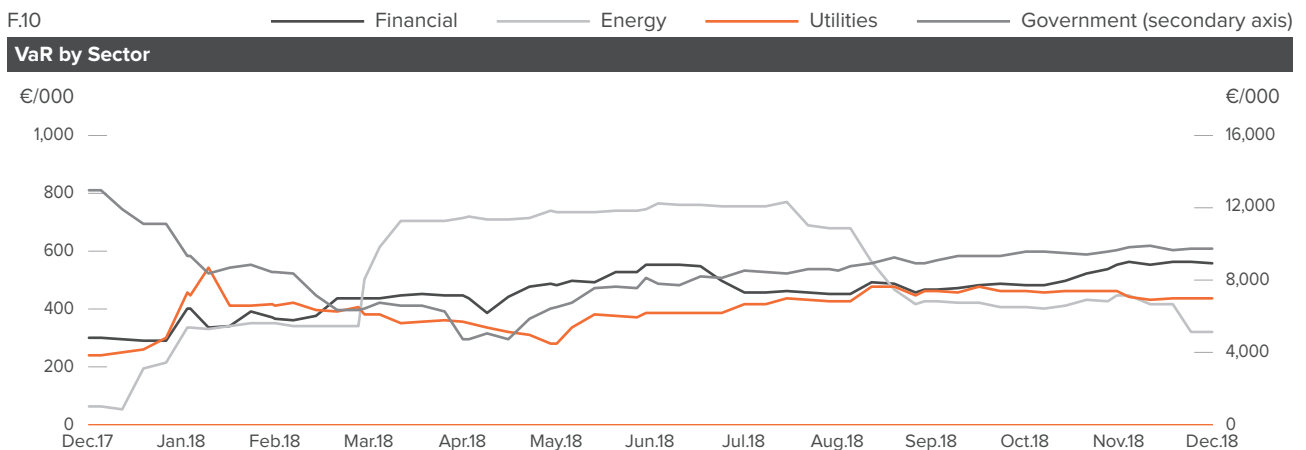
Sector	Average VaR
Government	8,375,015
Financial	524,304
Energy	462,088
Utilities	405,797
Basic Materials	170,998
Consumer, Non-cyclical	103,741
Industrial	76,393
Funds	56,241
Consumer, Cyclical	8,118
Communications	4,014
Technology	2,945

Source: BiG

**Trading VaR and Investment VaR seen as a whole:**



**VaR by Sector**



### Value at Risk (VaR)

VaR, which measures risk assuming normal market conditions, is combined with non-statistical measures, including stress testing, back testing and stop loss advisories, to ensure proper controls of expected returns by risk type under all market conditions. The Bank calculates VaR using historical series to calculate the volatility, the one-year time horizon and a 99% confidence level. This means that the Bank would expect to incur losses greater than the predicted VaR estimates only once in every 100 trading days or approximately 2.5 times per year. Since VaR is a theoretical approach based on historical returns, the model has limitations and may not always produce accurate predictions of future market risk. Changes in VaR between reporting periods, for example, are due generally to changes in levels of exposure, volatility and correlation among securities.

Trading limits, as indicated below and in line with prior years, were lower and less used, on average, than investment limits, with most value at risk concentrated in the Bank's Held to Collect and Sell portfolio (HTCS).

Components and concentrations of the portfolio are typically dynamic as the Bank seeks to maximize stable flows of revenue, while maximizing flexibility to recognize gains and to maintain high levels of available liquidity. Utilization of Investment limits stood at approximately 36% during 2018, versus 46% in 2017. The highest levels of VaR were associated with the fixed income portfolio, reflecting concentrations in that class of instrument. Further detail on exposures may be found in the Concentration Risk section of this report.

VaR analysis of fixed and variable income asset classes by sector indicate the largest exposures, on average through 2018, were associated with Government issues, followed to a lesser extent by Financials, Energy and Utilities. The concentration in Government had to do with the larger availability and liquidity of issues from that segment as compared with others, which tend to yield lower returns as a function of credit risk in a market inundated with liquidity.

### Liquidity VaR

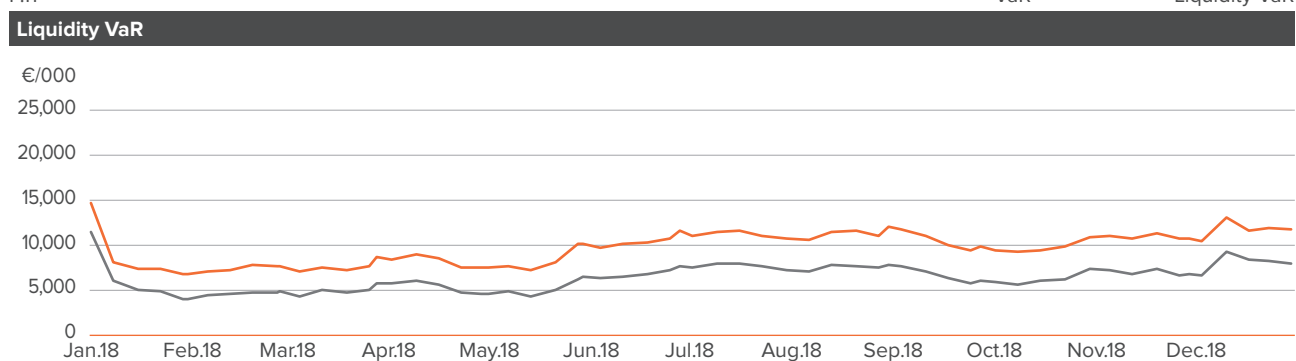
Liquidity VaR measures the expected loss associated with the above sector

analysis, adjusted for the liquidity of the respective asset class. The addition of the liquidity component is a more conservative view of the VaR in that it introduces the spread between the bid/ask prices of assets. In moments of stress, the bid/ask spread widens as a function of reduced liquidity. Table 29 shows the comparative analysis between the average liquidity VaR and the average VaR for different asset classes held by the Bank.

### Stress Testing Trading and Investment Portfolios

The Bank does extensive stress testing of its positions and considers this approach, in combination with VaR measurements, to be an essential tool for managing market risks. With stress testing, the Bank seeks to estimate the potential losses associated with an instrument, book or portfolio under different scenarios. Daily, we use 16 scenarios to test 96 different positions across the Bank's trading and investment portfolios assuming certain worst-case historical market events. These scenarios are revised frequently as market conditions change. When historical data is not

F.11



T.29

(Euro)

Sector	L1	VaR	Liquidity VaR
Government (secondary axis)	2,061,699	8,375,015	10,436,714
Financial	207,274	524,304	731,577
Energy	266,873	462,088	729,730
Utilities	162,092	405,797	567,888
Other	370,830	422,451	793,281

Source: BIG

available, underlying assets from identical classes and with a higher level of correlation may be used.

Most tests are based on historical events and known reactions by markets to those events.

Historical scenarios observed are used given the adverse periods in the market and used as a basis for running daily tests identified below as "C1, C2....C5". The historical scenarios are applied to current exposures to estimate potential gains or losses in major trading or investment books. Results are then compiled and reported daily to Management by the Bank's Market Risk area.

## Liquidity Risk

**Liquidity Risk arises from the management of the Bank's assets and liabilities.**

BiG's policy on liquidity and funding is based on the following principles: (i) pre-funding of assets prior to their acquisition; (ii) the assumption that the majority of the balance sheet should be convertible to liquidity within a very short timeframe; (iii) a program of building a stable client deposit base, and (iv) the assumption that we will maintain a reasonable level of independence from wholesale funding markets. These principles define the Bank's business model, which is non-credit-intensive,

commission and service-based, and implies an asset base composed largely of highly liquid securities as opposed to illiquid loans.

In practice, the Bank's liquidity management process is both a daily and strategic issue for Management. It encompasses detailed controls of inflows and outflows, pricing and reputational issues, controls over collateral, the ALCO process and the aspects of our business recovery plan that touch on the fundamental nature of our business model: liquid, flexible, quality assets funded conservatively by mainly stable deposits and capital.

T.30

(Euro 000)

Trading Book																
	Worst Scenarios - Equity					Worst Scenarios - Bonds					Worst Scenarios - FX					Commodity
	C1	C2	C3	C4	C5	C1	C2	C3	C4	C5	C1	C2	C3	C4	C5	C1
Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	(48)	(12)	(15)	(22)	(7)	(13)	(18)	(17)	(27)	(14)	(19)	(25)	(36)	(4)	(12)	(19)
FX	(4)	(2)	(1)	0	4	(8)	(2)	(2)	(7)	(4)	11	(5)	(7)	6	(4)	(5)
Interest Rate Risk	(80)	67	(52)	(103)	(127)	(230)	(845)	(579)	(359)	(226)	(38)	(261)	(90)	(91)	(32)	(103)
Total	(131)	53	(68)	(124)	(129)	(251)	(865)	(598)	(393)	(244)	(46)	(291)	(133)	(89)	(47)	(127)

## Investment Book

	Worst Scenarios - Equity					Worst Scenarios - Bonds					Worst Scenarios - FX					Commodity
	C1	C2	C3	C4	C5	C1	C2	C3	C4	C5	C1	C2	C3	C4	C5	C1
Interest Rate Risk	(3,674)	(964)	(1,406)	(7,525)	(6,310)	(12,429)	(22,886)	(12,508)	(16,516)	(14,749)	(1,878)	(10,136)	(4,682)	(5,385)	(3,119)	(3,834)
Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	(3,674)	(964)	(1,406)	(7,525)	(6,310)	(12,429)	(22,886)	(12,508)	(16,516)	(14,749)	(1,878)	(10,136)	(4,682)	(5,385)	(3,119)	(3,834)

T.31

(Euro 000)

Equity Worst Scenarios		
C1	Downgrade of US Debt/Bear Market	09-08-2011
C2	Possible withdraw of Greece from the eurozone	23-07-2012
C3	A weak Outlook for economic growth in Europe	06-11-2012
C4	Federal Reserve decision to further trim the economic stimulus Plan	23-01-2014
C5	Reflection of bad economic indicators for the Eurozone	14-10-2014

Bonds Worst Scenarios		
C1	Flash Crash, worst time of the Greece Crisis	05-05-2010
C2	Downgrade Portugal by Moody's	05-07-2011
C3	Downgrade Portugal by Standard & Poors	27-01-2012
C4	Greece political crisis	11-05-2012
C5	Germany rejects Eurobonds	22-06-2012

Source: BiG

FX Worst Scenarios		
C1	Europe's economy to grow faster than US	02-04-2001
C2	Renewed worries that Europe's debt crisis could spread	17-08-2011
C3	Labor manipulation	02-04-2012
C4	Low expectation on US economy	05-06-2013
C5	The US economy recovery	24-09-2014

Commodity Worst Scenario		
C1	Impact on FED decision: gold prices have sunk	19-06-2013

## Interest Rate Risk

**Interest Rate Risk results from exposure to changes in the level, slope and curvature of the yield curve, volatility of interest rates, duration and credit spreads.**

Interest Rate Risk measures the probability of impacts on the Bank's earnings or capital due to changes in the absolute level of interest rates, in spreads between two rates or in the shape of the yield curve, among other factors. BiG controls its exposure to adverse events through diversification and via hedging techniques.

The Bank measures interest rate risk in bpps, meaning that for each change of 0.01% in the rates, we can calculate the economic impact of such movements on the value of assets, usually fixed rate securities that are interest rate sensitive.

Table T.32 shows assets and liabilities by maturity as of 31 December 2018 and the corresponding bpps per period.

Earnings at risk associated with movements in interest rates are measured by assuming a variety of scenarios on a regular basis, a rise or decline of 200 basis points or a similar rise or decline of 50 basis points in a week. The table T.33 measures the either positive or negative impact on revenues during December 2018.

Table T.34 shows the exposure to interest rate risk as a percentage of regulatory capital, measured semiannually during 2018, and assuming the sensitivity analysis described above.

## Sensitivity Analyses

The Bank performs daily sensitivity analyses, which are used to quantify the movement of a single risk factor across all positions. Specifically, the Bank employs this type of analysis (Greeks) to measure the effect of variations of interest rates, volatility, changes in asset prices and time to maturity in derivatives portfolio positions.

▲ *Rho: measures baseline exposure to 1 b.p. in the interest rate curve;*

▲ *Vega: reflects exposure to 1% changes in the volatility in the options portfolio;*

▲ *Delta: quantifies, in Euros, 1% changes in the value of the underlying assets in the portfolio of options;*

▲ *Theta: measures, in Euros, the reported gains or losses for each remaining day of the life of a given option.*

## Credit and Investment Risk

**Credit Risk is defined as the loss the Bank would incur if a borrower, counterparty or issuer of securities or other instruments we hold as investments failed to perform under its contractual obligations to us.**

### Overview

The Bank is exposed to credit risks associated with most of its activities. These include, mainly, direct exposure to credit risks associated with securities issued by third parties and held as investment or trading assets of the bank. Credit risks arising from dealings with professional counterparties as well as issuers of listed securities represent most of our exposures and, given their nature, are assessed in combination with procedures for managing market risks discussed above in Market Risk. To a lesser extent, they also include direct exposure to clients who have contracted loans, usually on a margin basis as part of their normal trading activities, and market or settlement risk associated with trading activities by clients.

Credit exposures at BiG may include corporate and sovereign bonds acquired in the market, direct loans to customers, full value and replacement value inter-bank risks, securities-related settlement risk, receivables under derivative and foreign exchange contracts, and lending-related commitments under guarantees and similar facilities. In its process of analysis and approval, the Bank assesses these exposures at several levels: at the level of individual transaction, at the level of maximum

exposure to the client and related "family," and, separately, at the level of respective portfolios to measure concentration of risks in a given class of assets, sector, industry or geographic location. As a matter of policy, all exposures are assessed and processed for approval, whether on or off-balance sheet in nature.

### Processes

As an activity inherent to banking, Management views credit risk as a normal part of our business model and fundamental to generating revenue and value for our shareholders. Given the importance of developing profitable business while taking risk and using capital prudently, the credit risk process aims to preserve the independence of the approval process, while allowing an effective integration with the management of business objectives. This process begins with the Board of Directors, which approves general policies and guidelines for credit risks. The Board then delegates to the Chief Credit Officer, to other credit officers with appropriate authority, and support personnel, the day-to-day implementation of these policies and responsibilities, which include: and control of counterparty: risks

▲ Quantitative and qualitative guidelines for credit reviews

▲ Quantitative and qualitative guidelines and procedures for control of credit quality issues

▲ Control of client, family and "house limit" risks

▲ Documentation, control and filing systems

▲ Management and control of risk monitoring systems and procedures

▲ Maintenance of a credit scoring and approval matrix

▲ Attention to the integrity and independence of the approval process

▲ Adherence to regulatory guidelines

▲ Pricing policy



T.32

(Euro)

Interest rate risk						
Maturity	Assets	Liabilities	Off Balance (+)	Off Balance (-)	Net	bpv's
1/jan/19	219,832,072	86,146,765	0	0	133,685,307	(94)
1/feb/19	248,367,503	414,573,831	335,565,531	0	169,359,203	(274)
1/apr/19	258,200,814	469,963,890	39,972,128	0	(171,790,947)	609
1/jul/19	62,903,040	235,397,279	117,947,625	0	(54,546,614)	645
1/oct/19	12,973,013	43,153,262	0	0	(30,180,249)	1,812
1/jan/20	2,892,607	55,554,660	0	0	(52,662,053)	4,832
1/jul/20	1,077,468	47,825,438	0	0	(46,747,971)	5,801
1/jan/21	10,981	39,520,823	0	0	(39,509,842)	6,882
1/jan/22	293,925	455,018,328	0	0	(454,724,402)	113,271
1/jan/23	104,655,665	372,810	0	0	104,282,855	(37,813)
1/jan/24	69,086,635	961,578	0	0	68,125,057	(28,211)
1/jan/25	103,167,561	1,000	0	130,572,385	(27,405,825)	7,439
1/jan/26	71,346,961	0	0	0	71,346,961	(40,736)
1/jan/27	131,415,983	0	0	0	131,415,983	(83,361)
1/jan/28	110,487,920	0	0	0	110,487,920	(84,617)
1/jan/29	155,412,412	0	0	0	155,412,412	(121,410)
1/jan/34	327,811,851	0	0	833,768,465	(505,956,614)	420,246
1/jan/39	270,804,281	0	0	185,513,353	85,290,928	(74,648)
1/jan/44	248,629	0	0	10,114,720	(9,866,091)	19,593
	2,150,989,321	1,848,489,665	493,485,284	1,159,968,923	(363,983,982)	109,968

Source: BiG

T.33

(Euro)

December 2018					
Parallel increase of 200 bp	Parallel decrease of 200 bp	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
21,993,547	-21,993,547	10,996,773	-10,996,773	5,121,886	-5,121,886

Source: BiG

T.34

Interest Rate Risk - Semi-annual Evolution		
Date	Parallel increase of 200 b.p. in the interest rate curve	% Impact on own funds
dec/17	-28,227,726	-8.6%
jun/18	-24,380,175	-7.2%
dec/18	21,993,547	6.7%

Source: BiG

**During 2018:**

T.35

Greeks	Rho	Vega	Delta	Theta
Min	-768,866	-3,408	-168,041	-11,645
Max	72,087	75,774	182,292	-98
Average	-123,207	11,817	-36,351	-1,758
Std Dev	133,027	16,075	29,319	2,195

Rho Sensibility to interest rates  
 Vega Sensibility to volatility  
 Delta Sensibility to the underlying asset  
 Theta Sensibility to time

Source: BiG

**Nature of Credit Exposures**

The nature of credit risks we manage has not varied substantially over the past several years and reflects the Bank’s business objectives and underlying model. During 2018, policy-makers have continued their methodical and ‘determined approach to address – through regulation, legislation, monetary policy, asset quality reviews and stress testing – many of the long-term effects of the post-2008 economic crisis, with European regulators being particularly active during this period. In this environment, managing the fundamental credit risk of the BiG’s portfolio, particularly liquid debt and equity securities, has meant responding to the changing perceptions of credit quality and liquidity, while not losing sight of the fundamental, long term issues associated with the different markets. In this environment, the market’s view of the quality of most assets, especially sovereign risk assets, has been driven by the view that Germany and other northern European countries are safe havens and that peripheral, southern European risks demand a somewhat higher credit spread from investors. This has been the case, especially, with Italy over the past year.

In broad terms, the Bank’s business strategy reduces credit risk to two broad categories:

▲ *Secured facilities*, which arise from our relationships with mainly retail clients. These are secured by cash, eligible marketable securities or, to a lesser extent, residential real estate. This category also includes issues by banks of residential mortgage-backed securities and covered bonds.

▲ *Unsecured facilities*, which arise essentially out of the management of our main credit risks: namely, portfolio investments in corporate or government issuers of debt, and market trading activities with professional counterparties. Exposures classified by the Bank as unsecured may involve sovereign debt issues, or debt issues of any number of entities guaranteed by sovereign guarantors. Given the size of the Bank’s investment portfolio of corporate and sovereign senior bonds, this type of facility represents the largest portion of credit exposure for the Bank.

**Credit Procedures**

In accordance with the Bank’s Credit Policy, the basis for approving credit exposures, whether secured or unsecured, includes a determination of a risk score for the credit exposure, calculated based on primarily objective criteria. The results of the process of financial analysis and risk scoring serve as the basis for deciding the returns associated with the risk assumed, including considerations on minimum pricing, acceptable structure, tenor and appropriate documentation.

In the process, the Bank follows a pre-established approval matrix, which combines the results of credit scoring, tenors, maximum levels of overall exposure including any transaction under consideration, and the pre-approved levels of lending authorities granted to members of the Credit Risk Committee. Other criteria for determining levels of signature include the existence and type of collateral underlying the full-value exposure.

**Unsecured exposures**

Extensions of credit or related exposures that are not fully collateralized, or where the collateral offered may not be liquid, are subject to an objective and periodic review of historical financials and conservative projections as a basis for approving any type of facility. This process may be accompanied by information provided by an international rating service, particularly in the case of non-domestic issuers and financial institutions. Other criteria used as part of the approval process include qualitative considerations, such as the quality and reputation of management, the borrower’s positioning and performance within its peer group and other relevant information.

Principal, full-value unsecured exposures are those to financial institutions via the interbank money market, i.e. where the Bank acts as a lender to other banks, to the financial, corporate and sovereign sector represented usually by quoted debt securities of varying maturities.

**Concentration of Risks**

The Bank views its exposure to concentrations of risk by category: credit risk, market risk, liquidity risk and operational risk.

In the case of managing credit concentrations, Management and the Bank’s risk area focus on daily reports which summarize the largest concentrations of risk, including direct, indirect and contingent exposures. These are divided by financial and non-financial exposures. The reports among others serve as a management tool to monitor large exposures regularly and serve as a basis for periodic reporting of regulatory limits, including exposures equal to 10% of own funds and legal lending limits, representing 25% of consolidated regulatory capital. Sector, country and rating exposures at 31 December 2018 are presented from T.36 to T.39.

## Stress testing the investment portfolio

The Bank measures all relevant exposures in several manners, but none is deemed by Management as important as the series of stress tests we run. As with other portfolios, whose risks are measured in a variety of manners daily, the Bank's investment portfolio, consisting of mainly fixed income securities of varying tenors, is subject to a number of

these stress tests to provide Management with an assessment of potential losses, assuming a number of different, hypothetical scenarios. In addition to historical scenarios, we focus daily on extreme or highly unlikely scenarios, which are applied to positions to test the resiliency of the Bank's balance sheet and capital adequacy. When applied to this portfolio, these scenarios seek to measure potential losses by class, by largest individual potential loss, and by industrial sector.

The simulations presented are based on the impact on the movement of credit spreads and yields in evaluating debt securities, along with their maturity and duration. Another variable is the size of the hedge covering the fixed income portfolio. The objective of the tests is to determine the extent to which earnings may be affected and shareholder funds may be depleted in theoretical circumstances. The results of these tests are used to maintain discipline and control position-taking or excessive concentrations.

Examples of the results of such tests on 31 December 2018 follow in T.40 and show that, under the most extreme circumstances, theoretical losses would be significant but would not affect the overall solvency of the Bank, which would remain comfortably above regulatory minimums.

Table T.41 and graph F.12 show the evolution in the results of this test during 2018:

## Credit Exposure to Derivatives

Derivatives contracts are financial instruments, such as futures, forwards, swaps and options, which derive their value from underlying assets, indices, interest rates

T.36 (Euro)

Exposure by sector	Amount
Government	1,103,127,298
Asset backed securities	301,260,606
Energy	124,631,063
Basic Materials	54,231,357
Industrial	42,787,825
Financial	189,005,152
Consumer, Non-Cyclical	23,152,087
Utilities	128,942,091
Consumer, Cyclical	5,393,213
Communications	3,666,592
<b>Total</b>	<b>1,976,197,284</b>

T.37 (Euro)

December 2018 Exposure by Investment Strategy		Amount
Bonds	Government guaranteed	1,179,079,729
	ABS	301,260,606
	Senior Debt	430,104,544
	Covered	64,011,096
	Subordinated	1,741,309
<b>Bonds Total</b>		<b>1,976,197,284</b>
Cash & Near Cash		156,770,536
Equity <sup>(1)</sup>		30,478
Equity <sup>(2)</sup>		1,699,257
Forex <sup>(3)</sup>		733,749
<b>Total</b>		<b>2,135,431,304</b>

(1) Fair Value Through Other Comprehensive Income

(2) Trading portfolio

(3) The fx positions include Cash, fx Forwards and fx Futures

Source: BiG

T.38 (Euro)

Exposure by country	Amount
Germany	68,946,534
Brazil	67,145,601
Spain	167,648,001
France	13,276,875
Greece	38,992
Italy	627,808,763
Mexico	86,653,415
Portugal	784,804,453
United Kingdom	33,531,069
Supranational	20,722
Netherlands	883,253
Colombia	54,649,572
Peru	27,069,851
Mozambique	13,768,320
Swiss	3,958,387
Belgium	858,056
Chile	3,149,877
Finland	3,370,756
United States of America	8,463,140
Sweden	4,999,856
Norway	5,151,792
<b>Total</b>	<b>1,976,197,284</b>

T.39 (Euro)

Exposure by rating	Aaa	Aa	A	Baa	Ba	NR	Total
Covered	18,546,807	5,083,413	40,380,877	0	0	0	64,011,096
Government guaranteed	64,240,830	0	78,051,182	928,959,097	119,212	107,709,409	1,179,079,729
Senior Debt	20,722	0	47,036,195	214,442,945	32,288,700	136,315,982	430,104,544
ABS	0	127,325,404	169,775,966	0	0	4,159,236	301,260,606
Subordinated	0	0	0	0	883,253	858,056	1,741,309
<b>Total</b>	<b>82,808,358</b>	<b>132,408,816</b>	<b>335,244,220</b>	<b>1,143,402,042</b>	<b>33,291,164</b>	<b>249,042,684</b>	<b>1,976,197,284</b>

Source: BiG

T.40 (Euro)

Top 10 by country	Extreme scenarios
Italy	-30,252,680
Portugal	-15,914,539
Spain	-6,879,704
Mexico	-4,734,234
Brazil	-3,712,758
Colombia	-1,528,205
United Kingdom	-823,719
Peru	-644,990
Germany	-337,417
France	-190,421
<b>Total</b>	<b>-65,018,667</b>

or currency exchange rates, among others. BiG utilizes derivative financial instruments and foreign exchange instruments to manage the Bank's exposures to the markets to generate revenues through its trading activities. In assessing risks, the Bank follows the same credit procedures for derivatives and foreign exchange-related exposures, as it does for traditional lending products described above. Credit limits for these products are calculated and controlled based on potential exposure, which takes into consideration current market values and estimates of future movements in market rates based on statistical criteria.

As part of the process, BiG calculates the cost of replacing a derivative or foreign exchange contract as the primary measure of exposure to credit risk. This refers to the cost of replacing a contract at extreme market conditions should a counterparty default prior to the date of settlement. The Bank uses mark to market procedures to assess the cost of replacing a derivative or foreign exchange contract in the open market.

A summary of notional derivatives exposure and related receivables under contracts with counterparties at 31 December 2018 may be found in Note 23.

### Operational Risk

**Operational risk may arise from inadequate procedures or systems, human risk or external events.**

The Bank, given the nature of its business, is exposed to potential losses and/or risk to our reputation from human or systems-related operational errors, unexpected interruptions in business processing or insufficient execution on the part of third-party suppliers of significant components of our complete business model.

In the process of managing operating risks pro-actively to keep exposures to minimal

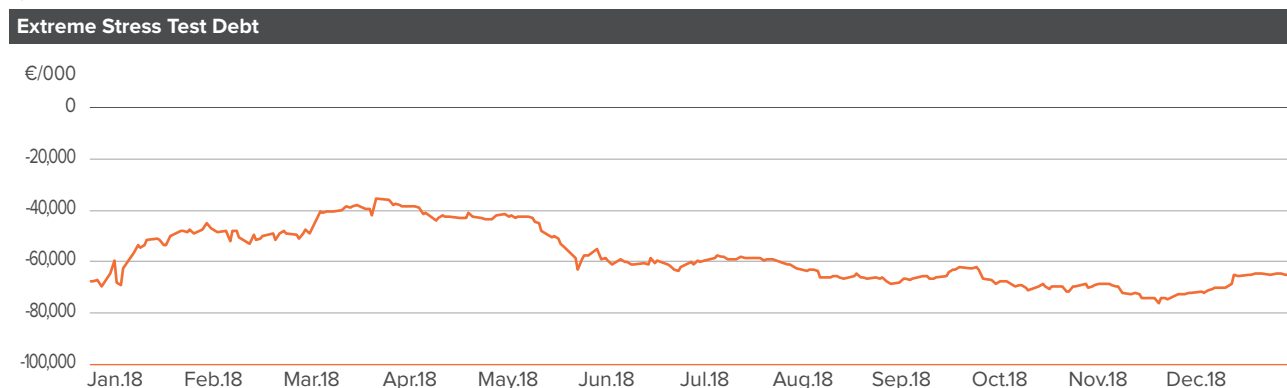
levels, the Bank reviews its system of internal governance on a regular basis to ensure the smooth running of the business under both normal and unusual circumstances.

These systems and procedures are designed to reduce the risks of fraud from internal or external sources, or of errors or breakdowns, which can be the result of unexpected events associated with the technology and systems infrastructure, procedures and telecommunications (see Note 39).

Limiting operating risk by adhering to internal procedures is essential to providing a competent service to our clients and to reducing the risk of loss or regulatory sanctions. Responsibility for managing operating risks lies with the heads of individual business units. To monitor risks and the execution and enforcement of procedures throughout the Bank is a separate governance structure, consisting of the following internal oversight groups, which meet separately with their functional supervisors on the Board of Directors, and also jointly as part of the Bank's All Risk Committee:

▲ Operational Risk, which reviews the appropriateness of internal procedures, adequacy of human and systems support to conduct normal business functions and day to day risks to which the Bank is exposed, based on self-assessment

F.12



T.41

(Euro 000)

Maximum and minimum losses			
Maximum (*)	Minimum (*)	Average	Std Deviation
-76,305	-35,390	-58,214	10,812

(\*) Maximum and minimum losses

Source: BiG

processes, controls over operational errors by area, and planned internal and external audits;

▲ Technology Risk, which oversees the adequacy and security of the complex technical infrastructure supporting every aspect of the Bank's internal processing, reporting and links with third party suppliers of information and execution services;

The internal committees also regularly conduct self-assessment exercises, usually with their direct reports, to identify and take action on risks associated with operations, technology, and regulatory compliance. The control processes include, as examples, frequent review of relevant operating procedures, adherence to regulatory guidelines, internal and external audits of operating departments, systems, commercial and trading areas, back-up procedures and maintenance of outsourcing arrangements and an appropriate business recovery plan to reduce the effects of any unforeseen interruption of the Bank's business activities.

Because of the nature of our business, operating errors do occur on occasion. It is the aim of the above governance structure and internal departments to ensure adherence to prudential and regulatory guidelines, such that the costs of such errors are kept to levels commensurate with our capital and business strategy.

To assist in this control, the Bank has internal procedures for reporting data associated with operational errors to Senior Management on a regular basis. Such analyses and reporting allow for problems to be identified at their source and amended accordingly. The data compiled is extensive and permits a detailed analysis of actual operational losses incurred by type of event, by business line, by impact, and by specific or average amounts.

The impact of the events on the Bank's operating income is quite low, as can be seen in the table below:

One of the keys to controlling operational risks and maintaining avoidable operational losses at acceptable levels is the Bank's culture of risk identification and mitigation.

We encourage the rapid escalation of actual or potential operational issues to senior managers and their pro-active resolution. To improve the management of this type of risk, the Bank has implemented during 2018:

- ▲ A new version of the software SAS GRC;
- ▲ A revised methodology of BCM – Business Continuity Management with IT.

### Business Continuity and Information Security

We work to ensure that our business can operate under the most extenuating circumstances and that our procedures, risk management and internal controls, information and systems are secure and reliable. These issues require regular attention, review and upgrades as the Bank grows and as market conditions and the regulatory environment changes. As reviewed above, our daily controls on risks address our ability to ensure the sustainability of the Bank on a financial basis.

During 2018 and 2019, the Bank has been implementing a data transfer plan to move non-core information assets to the cloud and will have Microsoft 365 fully implemented during the 2nd quarter of 2019. This will provide the bank with unparalleled security for its documents and email, as well as a fully compliant GDPR environment. The Bank will also launch a fully revamped website by the second quarter 2019, in tandem with its strategy of renewing its technology services offering.

With respect to operational risk, the Bank has moved its main data-center to IBM under an IaaS (Infrastructure as a Service) and Housing (Infrastructure managed by BiG) mixed setup. BiG will continue to directly manage the core and most critical parts of its infrastructure, but uses technology and services from IBM, to guarantee higher uptime and security to its systems. Also, the agreement with IBM includes a Business Continuity plan that will leverage IBM's best practices and datacenters in Europe to recover BiG's infrastructure in case of disaster.

### Compliance

The Bank's internal control system is based on a strong culture of compliance with the law and the different norms applicable to the banking activity, as well as compliance with the policies and procedures related with contractual obligations, personal conduct and relationship with Clients. As a whole, these systems and procedures aim to mitigate the risk that the Bank may incur in losses associated with potential sanctions from a legal standpoint, limitations to its activity and the expansion and loss of reputation as a result of contractual breach or a negative perception of the Bank's public image. The Bank always strives to act in strict conformity with the norms and legislation in place at every moment.

Compliance is both a key function within the bank and an integral part of the internal part of the internal culture. In this regard, Management views compliance as more than adherence to the law, regulation or prevailing "market practices". In this context, we select staff as much for their values as for their capacities and experience and seek to make transparency, respect for regulations and responsible behavior competitive selling points for the Bank in dealing with clients.

The Compliance function is independent and reports exclusively to the Board of Directors and its supporting Committees, which reinforces its independence. This function ensures to both the Board of Directors and the Fiscal Board the assurance and security of the adequacy and effectiveness of the mechanisms created to comply with BiG's duties and legal obligations. The Compliance function has the necessary autonomy to act independently from all other areas of the Bank, in order to ensure an adequate monitoring and maintenance of the Bank's internal control systems.

BiG also has a defined compliance policy, which is communicated to its entire staff and updated at least on an annual basis. This policy is the core of BiG's risk-based approach culture driven through identification, evaluation, monitoring and mitigation of the compliance risks.

The Bank's Compliance function is responsible for (i) ensuring respect for applicable

T.42

Operational Risk event types (Basel)	Events #					Total '18
	Total '17	TRIM I '18	TRIM II '18	TRIM III '18	TRIM IV '18	
Internal fraud	1					0
External fraud	3		1	1	2	4
Employment practices and workplace safety	0					0
Clients, products and business practice	13	4	1			5
Damage to physical assets	1				1	1
Business disruption and systems failures	25	1	3	11	7	22
Execution, delivery and process management	134	19	22	20	31	92
	<b>177</b>	<b>24</b>	<b>27</b>	<b>32</b>	<b>41</b>	<b>124</b>

T.43

(Euro)

Operational Risk event types (Basel)	Events amount (€)					Total '18
	Total '17	TRIM I '18	TRIM II '18	TRIM III '18	TRIM IV '18	
Internal fraud	-72,500.00					0.00
External fraud	0.00		0.00	0.00	0.00	0.00
Employment practices and workplace safety	0.00					0.00
Clients, products and business practice	-1,434.34	-37,762.61	0.00			-37,762.61
Damage to physical assets	-137.07				0.00	0.00
Business disruption and systems failures	0.00	0.00	0.00	-6,554.81	1,938.15	-4,616.66
Execution, delivery and process management	-4,313.95	-6,189.47	-494.69	-21,242.94	-1,286.51	-29,213.61
	<b>-78,385.36</b>	<b>-43,952.08</b>	<b>-494.69</b>	<b>-27,797.75</b>	<b>651.64</b>	<b>-71,592.88</b>

T.44

Operational Risk events by Business Lines (Basel)	Events #					Total '18
	Total '17	TRIM I '18	TRIM II '18	TRIM III '18	TRIM IV '18	
1. Corporate finance	0					0
2. Trading and sales	3	3	1	4		8
3. Payment and settlement	16	1		1	4	6
4. Commercial banking	3					0
5. Agency services	9		1		3	4
6. Retail banking	41	7	11	18	8	44
7. Retail brokerage	32	7	6	6	16	35
8. Asset management	20	4	5	3	5	17
9. Others	53	2	3		5	10
	<b>177</b>	<b>24</b>	<b>27</b>	<b>32</b>	<b>41</b>	<b>124</b>

T.45

(Euro)

Operational Risk events by Business Lines (Basel)	Events amount (€)					Total '18
	Total '17	TRIM I '18	TRIM II '18	TRIM III '18	TRIM IV '18	
1. Corporate finance	0.00					0.00
2. Trading and sales	23.50	-4,210.11	0.00	0.00		-4,210.11
3. Payment and settlement	0.00	0.00		0.00	-52.00	-52.00
4. Commercial banking	0.00					0.00
5. Agency services	-686.01		0.00		-0.06	-0.06
6. Retail banking	-612.53	0.00	-189.88	-10,992.47	0.00	-11,182.35
7. Retail brokerage	-1,221.98	-6,733.05	-273.61	-16,805.28	-1,234.45	-25,046.39
8. Asset management	-2,417.12	543.58	-31.20	0.00	1,938.15	2,450.53
9. Others	-73,471.22	-33,552.50	0.00		0.00	-33,552.50
	<b>-78,385.36</b>	<b>-43,952.08</b>	<b>-494.69</b>	<b>-27,797.75</b>	<b>651.64</b>	<b>-71,592.88</b>

T.46

Events breakdown by region	Portugal	Mozambique	Group total
Events #	118	6	124
Events amount (€)	-67,383 €	-4,210 €	-71,593 €

T.47

Year	Events amount (€)	Operating income (€)	%
2011	-32,712	33,177,000	-0.10%
2012	-20,272	80,328,000	-0.03%
2013	-25,984	125,022,000	-0.02%
2014	-9,158	169,375,000	-0.01%
2015	-14,484	148,706,000	-0.01%
2016	-36,738	75,692,245	-0.05%
2017	-78,385	103,737,340	-0.08%
2018	-71 593	55,039,128	-0.13%

legal and regulatory requirements, including approved terms and standards of internal codes of conduct, (ii) promoting an environment of control and transparency in the organizational structure that is commensurate with the complexity of services offered and the size of the institution, (iii) monitoring the adequacy and efficiency of controls associated with banking risks, (iv) protecting the Bank's reputation and (v) ensuring and maintaining relationships and interactions with supervisory bodies.

With respect to anti-money laundering and risks associated with financing of terrorism, the Bank's compliance function is responsible for controlling and detecting suspicious transactions and for monitoring the execution of duties in accordance with current legislation regarding the opening of bank accounts and "know your client" rules. Moreover, it is responsible for market abuse prevention and combat mechanisms, namely through transaction and event monitoring, assuring the existence of robust controls in terms of market safety. In both subjects, the Compliance function is responsible for centralizing the reporting of and interacting with law enforcement and supervisory entities, with respect to investigation and analysis of suspicious processes and transactions.

Compliance is also responsible for analyzing and reviewing new products and services in the light of current regulation, promoting pro-active management and prior validation of the risks of such services, and identifying and preventing conflicts of interest.

### Conduct Risk Management

Conduct Risk is of increasing importance to the financial services industry, given the reputational risk and potential loss of confidence by clients and stakeholders. It is intrinsically related to compliance-related issues and is of paramount importance to both regulators and Management.

The Bank encourages a culture of transparency and control, with clear lines of communication, training and a policy of appropriate behavior toward clients. Management and respective internal control functions are responsible for transmitting guidelines and standards on relations with clients and stakeholders, on professional ethics and on socially-responsible behavior. The bank's Code of Conduct establishes principles, values and rules on proper behavior and is fundamental to orienting and disciplining staff. Management is particularly attentive to conflicts of interest, potential mis-selling of financial products and compliance with current legislation and regulation. During 2018, the Bank reviewed specifically its internal guidelines areas and accompanies the rulings with internal training dedicated to these themes.

The Bank's internal policy on remuneration emphasizes the need for quality services based on appropriate behavior and seeks to align incentives with the best interests of clients. This policy is reviewed in the light of MIFID II / RMIF regulations in order to ensure the transmission of independent and profession information to clients, based on

completeness and clarity. The Bank's internal governance and internal control procedures are clear on the responsibility of the Board and business units, as well as the capacity of internal control functions to act and to evaluate process and events in an independent manner.

### Internal Audit

Internal Audit plays a key role and is an integral part of the institution's continuous internal control monitoring system, responsible for the independent verification of the adequacy and compliance of internal policies and procedures.

Internal Audit is responsible for evaluating the efficiency and adequacy of (i) control processes and risk management policies, (ii) internal control mechanisms, (iii) governance issues, and (iv) conformity and compliance with internal procedures and regulations. The Audit function is objective and impartial and, through its periodic analyses, aims to ensure conformity with internal procedures and general standards of integrity and quality defined by the Bank and based on the priorities set by the Board.

For the Internal Audit function to remain objective and impartial, it reports directly to the Board of Directors and Supervisory Board the conclusions of its inspections based on the priorities set by the Board. These are set bearing in mind the inherent risks to all Bank's areas of activity and business.

## Strategic Risk

Strategic Risk is the risk that the core of the Bank's strategy may be disrupted, and transverse the various risks described above. It includes the risk to current and anticipated earnings, the integrity of capital and liquidity positions, the Bank's intrinsic value and/or reputation arising from business decisions or deficient execution and requires consideration of external factors.

Oversight of strategic risk ranges from daily review of results, balance sheet strategy and risk appetite, to the annual planning process, review of new business investments, and a formal bi-annual Strategic Plan prepared by the Board, which involves:

- ▲ The planning process by business unit
- ▲ Review of risk strategies
- ▲ Trends in revenues, asset composition and quality, their mix and concentrations
- ▲ Scenario planning
- ▲ Digital transformation and investment
- ▲ Review of client needs and expectations
- ▲ Competition, regulatory and market environment

The Bank's global view of the risks mentioned above derive from the strategic decisions of Management, and how the results are executed and measured. They involve processes to assess the risks – as well as opportunities and advantages – to the business model from competitive factors, technology, regulation and changes to the external environment and include frequent discussions with clients, suppliers, analysts, counterparties, the Bank's advisory council, and shareholders.

## Application of results for Banco de Investimento Global, S.A.

In 2018, Banco de Investimento Global S.A. recorded a consolidated net income of € 23,056,215.58 (twenty-three million, fifty-six thousand, two hundred and fifteen

euros and fifty-eight cents) and individual net income of € 20,059,047.96 (twenty million, fifty-nine thousand, forty-seven euros and ninety-six cents). In its individual accounts, Banco de Investimento Global, S.A. shall, in accordance with article 97, paragraph 1, of the General Regime of Credit Institutions and Financial Companies, allocate 10% of net income to the formation of a legal reserve.

The Board of Directors proposes that, with respect to 2018, a dividend of € 0.075 (seven cents and a half euros) / share is paid to each of the 171,947,388 ordinary shares and to each of the 12,000,000 preferred redeemable shares, representative of the common stock at 31 December 2018.

The proposed dividend per share implies a dividend pay-out of 64.3% of the individual profit of the year. Thus, pursuant to Article 30, paragraph 1 of the By-Laws, the Board of Directors proposes the following application of the individual results of the year:

Legal Reserve .....	€ 2,005,904.80
Dividends .....	€ 12,895,859.25
Free Reserve .....	€ 5,157,283.91

Additionally, it also proposes to deliberate the allocation to BiG employees of a maximum amount of € 750.000, as participation on BiG's profits (Balance Sheet Allowances already reflected in the individual net income, according to the accounting rules), under the terms to be defined by the Board of Directors.

Lisbon, 20th March 2019

Board of Directors,

Carlos Adolfo Coelho Figueiredo Rodrigues  
Chairman and Chief Executive Officer

Nicholas Leo Racich  
Vice Chairman and Chief Operating Officer

Mário João Abreu Galhardo Bolota  
Executive Director

Paulo José Caramelo de Figueiredo  
Executive Director

Ricardo Dias Carneiro e Gomes de Pinho  
Executive Director



## ***Statutory Audit Report***

### ***Report on the audit of the consolidated financial statements***

#### ***Opinion***

We have audited the consolidated financial statements of Banco de Investimento Global, S.A. (hereon designated as “the Group”), which comprise the consolidated balance sheet as at December 31, 2018 (which shows total assets of Euro 2,277,989,803 and total shareholders' equity of Euro 347,147,597 including a net profit of Euro 23,056,216), the consolidated statement of income by nature, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco de Investimento Global, S.A. as at December 31, 2018, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

#### ***Basis for opinion***

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

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

#### ***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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.

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**Key Audit Matter****Summary of the Audit Approach**

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**Measurement of financial instruments not listed in an active market at fair value**

*Measurement and disclosures regarding the fair value of financial instruments not listed in an active market presented in notes 18, 19 and 38 of the Bank's consolidated financial statements.*

The measurement of financial instruments not listed in an active market at fair value is considered a key audit matter given its relevance in the context of the consolidated financial statements and the associated level of subjectivity. On December 31, 2018, financial instruments on level 2 and 3 of the fair value hierarchy of IFRS 13 – fair value – or which are subject to hedge accounting value adjustments amount to 455,229,464 euros worth of assets and 16,524,952 euros worth of liabilities.

The implementation of IFRS 9 – Financial instruments ("IFRS 9") on January 1, 2018 by the Bank involved the introduction of a set of new requirements with an impact on the classification of financial assets essentially due to (i) the business model under which financial assets are managed; and (ii) the characteristics of the contractual cash flow obligations of the debt financial instruments (which represent solely payments of principal and interest). The impacts on the Bank's consolidated financial statements resulting from the adoption of this new standard were estimated as of January 1, 2018, taking into account the information available at that date and considering a set of assumptions, which are presented in notes 4.2 and 38 to the Bank's consolidated financial statements.

On December 31, 2018 the financial instruments not listed in an active market are composed by (i) debt financial instruments whose business model is "hold to collect and sell", classified in the financial statements as financial assets measured at fair value through other

The audit procedures developed included the identification, assessment and evaluation of controls implemented by the Bank, which allow for the identification, measurement and monitoring of market risk, as well as key controls underlying fair value measurement methodologies.

In the scope of IFRS 9 implementation on January 1, 2018, we accompanied the action plan developed by the Bank and developed, among others, the following procedures:

- Meetings with those in charge of the action plan, with the purpose of understanding and following the timetable, scope and depth of the work to be performed by each Bank department;
- Understanding of the Bank's governance process, mainly in what concerns the implemented controls over the review and approval of the main assumptions used in the definition of the Bank's business models and in the analysis of the characteristics of debt financial instruments cash flows;
- Analysis of the IFRS 9 adoption methodology documentation prepared by the Bank and revision of its adherence to the principles of the mentioned standard; and
- Review of the effects measured by the Bank arising from the adoption of IFRS 9 with impact on the Bank's net position on January 1, 2018.

For a sample of instruments for which measurement was determined based mostly on unobservable data, our procedures included the assessment of the adequacy of the valuation models developed by the Bank and the data and assumptions used, having compared, for this purpose, the observable data with market information retrieved from external and independent sources, whenever available.

Our audit procedures also included the review of disclosures regarding financial instruments not

<b>Key Audit Matter</b>	<b>Summary of the Audit Approach</b>
<p>comprehensive income or trading assets; (ii) derivatives classified as trading or hedging; (iii) equity instruments; (iv) assets and liabilities subject to hedge accounting adjustments, mainly securities whose business model is hold to collect.</p> <p>For financial instruments classified on level 2 and 3 of the fair value hierarchy, and when observable market prices are not available, the Bank determines fair value using estimates, mainly through (i) prices used in recent market transactions; (ii) multiples of comparable societies, namely in terms of activity sector, size, leverage and returns; (iii) models of discounted cash flows; (iv) <i>Black-Scholes</i> models or Monte Carlo model; and (v) other methodologies based on the fulfilment of the main milestones defined on initial investment, as provided for on the International Private Equity and Venture Capital Valuation Guidelines, and which usually involve a high level of judgement by management in defining the main assumptions and inputs to be used.</p> <p>In this context, changes in the assumptions used in the valuation techniques used may cause an impact in the fair value determination of the instruments not listed in an active market recognized in the Bank's consolidated financial statements.</p>	<p>listed in an active market, included on the notes to the Bank's consolidated financial statements, considering the applicable accounting policies.</p>
<p><b><i>Impairment losses on debt securities</i></b></p> <p><i>Measurement and disclosures regarding the credit losses recognized for the securities portfolio presented in notes 19, 20 and 39 of the Bank's consolidated financial statements.</i></p> <p>The significant expression of the debt securities financial statement lines, as well as the associated credit impairment losses, whose measurement requires the application of a set of assumptions and complex judgments by the Bank's management in what concerns the identification of securities with a significant</p>	<p>The audit procedures developed included the identification, assessment and evaluation of controls implemented by the Bank in what concerns the approval, recording and monitoring of credit risk on debt securities, as well as key controls related to the timely identification, recording and appropriate measurement of expected credit losses.</p> <p>In the scope of IFRS 9 implementation on January 1, 2018, we accompanied the action plan developed by the Bank and developed, among others, the following procedures:</p>

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**Key Audit Matter**

increase in credit risk, as well as the corresponding expected credit loss amount, justify the establishment of a key matter for our audit. On December 31, 2018 the total securities amount to 1,906,698,339 euros (of which 1,570,404,852 are classified as financial assets measured at fair value through other comprehensive income, as described in note 19 of the consolidated financial statements, and 336,293,487 euros, classified as financial assets at amortized cost under the title debt securities, as described in note 19 of the consolidated financial statements). The respective expected credit losses recognized at that date amount to 1,523,599 euros.

The IFRS 9 implementation – Financial instruments (“IFRS 9”) on January 1, 2018 by the Bank implied the introduction of a set of new requirements with impact on the measurement and recognition of impairment on financial assets, to be calculated using an expected credit losses model, rather than an incurred losses model under IAS 39. The impacts on the Bank’s financial statements arising from the adoption of this new standard were estimated as of January 1, 2018, taking into account the information available at that date and considering a set of assumptions, which are presented in note 39 to the Bank’s consolidated financial statements.

The measurement of expected credit losses for debt securities, as well as the respective significant increase in credit risk are calculated by the Bank, mainly using information provided by external providers such as rating agencies and/or market information from data providers.

For these exposures the Bank developed analysis models for measurement of expected credit losses in accordance with IFRS 9 requirements, mainly the classification of exposures by different stages according to the risk behavior since inception (stages 1, 2 or 3). These models are based on (i) historical default and recovery information made available by external providers (ii) other information from the

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**Summary of the Audit Approach**

- Meetings with those in charge of the action plan, with the purpose of understanding and following the timetable, scope and depth of the work to be performed by each Bank department;
- Understanding of the Bank’s governance process, mainly in what concerns the implemented controls over the review and approval of the main assumptions and future economic perspectives used in the models defined for measuring impairment losses;
- Analysis of the IFRS 9 adoption methodology documentation prepared by the Bank and revision of its adherence to the principles of the mentioned standard;
- Review of the effects measured by the Bank arising from the adoption of IFRS 9 with impact on the Bank’s net position on January 1, 2018.

In what concerns the models used by the Bank, we have developed a set of procedures meant to evaluate whether the assumptions made by management respond to the IFRS 9 requirements, mainly: (i) review of the model in use methodology documentation; (ii) review and testing of the portfolio segmentation; (iii) analysis of the Bank’s default definition and the criteria applied in the staging classification, on a sampling basis; (iv) review and testing of the main risk parameters; (v) analysis of the main assumptions and data sources used in the future recoveries incorporated in the LGD (Loss Given Default) measurement; and (vi) recalculation of Expected Credit Loss.

Our audit procedures also included the review of disclosures regarding financial instruments not listed in an active market, included on the notes to the Bank’s consolidated financial statements, considering the applicable accounting policies.

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**Key Audit Matter****Summary of the Audit Approach**

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market, such as issuers credit spreads on credit default swaps traded, or the respective issuers yield curves.

In this context, changes in assumptions or methodologies, or available information by external providers used by the Bank in the analysis and quantification of expected credit losses on debt securities may have a relevant impact on the estimate of cash flow recovery and the timing of its receipt, and consequently on the determination of expected credit losses recognized as impairment on the Banks' consolidated financial statements on December 31, 2018.

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**Information Systems**

Given its business model and the significant number of transactions processed daily, the Bank is strongly dependent on its information system structure to guarantee the reliability of processing of its operations and, as such, of the financial reporting, which substantiates why this matter is considered a key audit matter for the purposes of our audit.

The Bank has implemented compensating control procedures, primarily manual, in order to guarantee the adequate functioning of the main systems and the integrity and accuracy of the information supplied to feed the accounting system supporting the financial reporting. The monitoring of access privileges is considered a key control to mitigate possible failures in the systems supporting the financial reporting as it ensures that changes in applications and data are authorized and appropriately carried out.

The audit procedures developed were carried out by specialists in information systems and included the assessment (i) of the internal governance model concerning the information system risk monitoring, (ii) of the controls procedures related to developments and application changes, and (iii) of access to the Bank's operational systems.

These procedures allowed us to identify occurrences related to the accesses to the Bank's operational systems, which present a risk for the financial reporting system.

In order to mitigate this risk, as well as the operational risk arising from the manual procedures used to generate specific financial information, we undertook additional substantive audit procedures, among which, tests of manual compensating controls, reconciliations of information generated by the Bank's main systems and the evaluation of, where possible, the reasonableness of possible changes carried out by potential general or improper accesses.

### ***Responsibilities of management and supervisory board for the consolidated financial statements***

Management is responsible for:

- a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;
- b) the preparation of the Directors' Report in accordance with the applicable law and regulations;
- c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- d) the adoption of appropriate accounting policies and criteria;
- e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

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

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

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

- a) identify and assess the risks of material misstatement of the 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;

- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- e) 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;
- f) obtain sufficient and appropriate audit evidence related to the financial information of the entities or activities within the Group to express an opinion regarding the consolidated financial statements. We are responsible for the orientation, supervision and performance of the Group audit and we are responsible for our audit opinion;
- g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure;
- i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements.

## ***Report on other legal and regulatory requirements***

### ***Director's report***

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

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

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

- a) We were first appointed auditors of the Entity in the Shareholders' General Meeting of May 8, 2014 for the period from 2014 to 2017. Our latest appointment took place on the Shareholders' General Meeting of May 10, 2018 for the period from 2018 to 2021.
- b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.
- c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board on March 22, 2019.
- d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

22 March 2019

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

Aurélio Adriano Rangel Amado, R.O.C.



(free translation from the original Portuguese)

## **Report and Opinion of the Supervisory Board (consolidated accounts)**

To the Shareholders,

In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the consolidated management report and the corresponding consolidated financial statements as presented by the Board of Directors of Banco de Investimento Global, S.A. (“Bank”), with respect to the year ended December 31 2018.

During the year we have accompanied the evolution of the Bank’s activity, as and when deemed necessary. We have verified the timelines and adequacy of the accounting records and respective documentation, as well as the effectiveness of the internal control system, only to the extent that the controls are of relevance for the control of the Bank’s activity and the presentation of the financial statements, the internal control system and internal audit. We have also ensured that the law and the Bank’s articles of association have been complied with.

We have also accompanied the work performed by the statutory auditors PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda and have reviewed their audit report and concur with their conclusions.

Within the scope of our mandate, we have verified that:

- i. The consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the correspondent notes to the accounts present adequately the consolidated financial position of the Bank, the consolidated results and comprehensive income and the consolidated cash flows;
- ii. The accounting policies and valuation methods applied are appropriate;
- iii. The consolidated management report is sufficiently clear as to the evolution of the business and the position of the Bank and the subsidiaries included in the consolidation and highlights the more significant aspects;
- iv. The proposal for application of results is adequate and according to legal and statutory framework.

On this basis, and taking into account the information obtained from the Board of Directors and the Bank’s employees, together with the conclusions in the Statutory Audit Report, we are of the opinion that:

The consolidated management report is approved;

The consolidated financial statements are approved;

The Application of Results is approved.

Finally we would like to express our gratitude to the Board of Directors and all those who we contacted, for their valuable cooperation.

28/3/2019

The President of the Supervisory Board,  
Mr. Pedro Rogério Barata do Ouro Lameira

Member  
Mr. Jorge Alegria Gaspar de Aguiar

Member,  
Mr. João Augusto Cantiga Esteves

# ▲ CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2018 and 2017  
(Amounts in Euros)

## ▲ CONSOLIDATED INCOME STATEMENT

For the years ended 31 December 2018 and 2017

	Notes	2018	2017
Interest income	5	51,296,385	46,401,771
Interest costs	5	(27,714,870)	(30,448,308)
<b>Net interest income</b>		<b>23,581,515</b>	<b>15,953,463</b>
Income from rates and commission	6	12,184,368	12,374,993
Charges with rates and commission	6	(2,149,409)	(1,783,045)
Gains or losses with the derecognition of financial assets and liabilities not measured at fair value through the income statement	8	17,423,740	42,710,523
Gains or losses with financial assets and liabilities held for trading and hedge accounting	7	4,667,066	14,125,201
Exchange differences	9	760,356	(3,580,178)
Profit/loss from sale of other assets	10	123,930	25,164,633
Other operating results	11	(1,407,970)	(1,228,249)
<b>Operating income</b>		<b>55,183,596</b>	<b>103,737,341</b>
Administrative costs			
Staff costs	12	(19,608,214)	(23,089,898)
Other administrative costs	14	(8,452,926)	(9,627,285)
Depreciation	24 and 25	(1,961,867)	(2,109,865)
Provisions or reversal of provisions	30	1,402,500	2,001,590
Impairment or reversal of impairment of financial assets not measured at fair value through the income statement			
Financial assets at fair value through other comprehensive income	19	1,256,096	
Financial assets available for sale	19		260,012
Financial assets at amortised cost	21	(318,205)	(5,263)
Impairment or reversal of impairment of non-financial assets			
Other	27	1,444	10,947
<b>Operating costs</b>		<b>(27,681,172)</b>	<b>(32,559,762)</b>
<b>Pre-tax profit</b>		<b>27,502,424</b>	<b>71,177,579</b>
Tax expenses or revenue related with results from ongoing operating units			
Current	33	(3,830,382)	(18,520,409)
Deferred	33	(526,438)	(310,552)
<b>Profit or loss of the year before minority interests</b>		<b>23,145,604</b>	<b>52,346,618</b>
Minority interests		(89,388)	-
<b>Profit or loss of the year</b>		<b>23,056,216</b>	<b>52,346,618</b>
Earnings per basic share	15	0.13	0.34
Earnings per diluted share	15	0.13	0.34

The explanatory Notes attached form part of these consolidated financial statements,

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2018 and 2017

	Note	2018	2017
Net Profit / Loss of the year		23,056,216	52,346,618
Items which could be reclassified for results			
Financial assets at fair value through other comprehensive income			
Gains and losses of the year		(33,989,600)	
Deferred tax		10,686,718	
Current tax		-	
Exchange differences		844,133	
Financial assets available for sale			
Gains and losses of the year	35		30,347,370
Deferred tax	35		(7,186,345)
Current tax	35		(275,407)
Exchange differences	35		382,181
		(22,458,749)	23,267,799
<b>Total comprehensive income of the year</b>		<b>597,467</b>	<b>75,614,417</b>
<b>Impact IFRS 9</b>		<b>52,270,550</b>	
<b>Variation of Other Comprehensive Income of the year</b>		<b>52,868,017</b>	<b>75,614,417</b>

## ▲ CONSOLIDATED BALANCE SHEET

On 31 December 2018 and 2017

	Note	2018	2017
<b>Assets</b>			
Cash, cash balances in central banks and other demand deposits			
Money in cash and Cash balances in central banks	16	71,318,698	84,408,539
Other demand deposits	17	85,451,838	69,913,214
Financial assets held for trading	18	73,246,011	30,330,358
Financial assets at fair value through other comprehensive income	19	1,570,404,852	
Financial assets available for sale	19		1,300,718,258
Financial assets at amortised cost			
Debt securities	20	336,293,487	
Loans and advances - Clients	21	38,826,818	309,093,538
Loans and advances - Banks	22	4,064,442	3,412,730
Tangible assets	24	15,452,911	15,376,668
Intangible assets	25	2,114,081	1,994,876
Tax assets			
Current tax assets	26	17,709,259	-
Deferred tax assets	33	14,871,407	28,717,793
Other assets	27	48,235,999	7,256,098
<b>Total assets</b>		<b>2,277,989,803</b>	<b>1,851,222,072</b>
<b>Liabilities</b>			
Financial liabilities held for trading	18	183,444	543,390
Financial liabilities measured at amortised cost			
Funding from other Banks	28	554,333,884	410,260,634
Funding from clients	29	1,312,210,871	1,035,793,975
Derivatives - Hedge accounting	23	18,197,101	-
Provisions	30	3,338,288	4,740,788
Current tax liabilities	26	-	7,971,052
Share capital reimbursable at sight	31	16,341,508	16,765,717
Other liabilities	34	26,237,110	35,613,287
<b>Total liabilities</b>		<b>1,930,842,206</b>	<b>1,511,688,843</b>
<b>Capital</b>			
Capital	35	171,947,388	171,947,388
Issue premiums	35	1,362,281	1,362,281
Other accumulated comprehensive income	35	(34,015,688)	(63,827,489)
Other reserves	35	184,799,726	188,626,575
Treasury stock	35	(2,326)	(2,326)
Profit/loss attributable to owners of the parent company		23,056,216	52,346,618
Interim dividends	35	-	(10,919,818)
<b>Total equity</b>		<b>347,147,597</b>	<b>339,533,229</b>
<b>Total equity and Total liabilities</b>		<b>2,277,989,803</b>	<b>1,851,222,072</b>

The explanatory Notes attached form part of these consolidated financial statements,

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2018 and 2017

	Capital	Issue premiums	Treasury Stock	Fair value reserve	Legal reserve	Other reserves	Net result of the year	Interim dividends	Total Equity
<b>Balances on 31 December 2016</b>	<b>156 000 000</b>	<b>1 362 281</b>	<b>(2 326)</b>	<b>(87 095 288)</b>	<b>32 168 886</b>	<b>128 825 092</b>	<b>43 712 337</b>	<b>(9 359 844)</b>	<b>265 611 138</b>
Comprehensive income									
Other comprehensive income									
Changes in fair value of financial assets available for sale	-	-	-	30,347,370	-	-	-	-	30,347,370
Deferred tax	-	-	-	(7,186,345)	-	-	-	-	(7,186,345)
Current tax	-	-	-	(275,407)	-	-	-	-	(275,407)
Exchange differences	-	-	-	382,181	-	-	-	-	382,181
Net result of the year	-	-	-	-	-	-	52,346,618	-	52,346,618
<b>Total comprehensive income recognised in the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,267,799</b>	<b>-</b>	<b>-</b>	<b>52,346,618</b>	<b>-</b>	<b>75,614,417</b>
Distribution of the result of the year of 2016									
Transfer to reserves	-	-	-	-	4,342,915	23,289,682	(27,632,597)	-	-
Distribution of dividends	-	-	-	-	-	-	(16,079,740)	9,359,844	(6,719,896)
Interim dividends	-	-	-	-	-	-	-	(10,919,818)	(10,919,818)
Increase in capital	15,947,388	-	-	-	-	-	-	-	15,947,388
<b>Balances on 31 December 2017</b>	<b>171,947,388</b>	<b>1,362,281</b>	<b>(2,326)</b>	<b>(63,827,489)</b>	<b>36,511,801</b>	<b>152,114,774</b>	<b>52,346,618</b>	<b>(10,919,818)</b>	<b>339,533,229</b>
Impact of the transition to IFRS 9 (Note 3)	-	-	-	52,270,550	-	(29,974,557)	-	-	22,295,993
<b>Balances on 1 January 2018</b>	<b>171,947,388</b>	<b>1,362,281</b>	<b>(2,326)</b>	<b>(11,556,939)</b>	<b>36,511,801</b>	<b>122,140,217</b>	<b>52,346,618</b>	<b>(10,919,818)</b>	<b>361,829,222</b>
Comprehensive income									
Other comprehensive income									
Changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	(33,989,600)	-	-	-	-	(33,989,600)
Deferred tax	-	-	-	10,686,718	-	-	-	-	10,686,718
Exchange differences	-	-	-	844,133	-	-	-	-	844,133
Net result of the year	-	-	-	-	-	-	23,056,216	-	23,056,216
<b>Total comprehensive income recognised in the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(22,458,749)</b>	<b>-</b>	<b>-</b>	<b>23,056,216</b>	<b>-</b>	<b>597,467</b>
Distribution of the result of the year 2017									
Transfer to reserves	-	-	-	-	5,082,311	21,065,397	(27,671,217)	-	(1,523,509)
Distribution of dividends	-	-	-	-	-	-	(24,675,401)	10,919,818	(13,755,583)
<b>Balances on 31 December 2018</b>	<b>171,947,388</b>	<b>1,362,281</b>	<b>(2,326)</b>	<b>(34,015,688)</b>	<b>41,594,112</b>	<b>143,205,614</b>	<b>23,056,216</b>	<b>-</b>	<b>347,147,597</b>

The explanatory Notes attached form part of these consolidated financial statements,

## ▲ CONSOLIDATED CASH FLOW STATEMENT

For the years ended 31 December 2018 and 2017

	Note	2018	2017
<b>Cash flows from operating activities</b>			
Interest and income received		46,835,142	49,398,465
Interest and costs paid		(27,327,964)	(25,874,065)
Services and commission		10,033,849	10,317,822
Contributions to the pension fund		(758,458)	(1,147,294)
Cash payments to employees and suppliers		(28,807,898)	(33,301,707)
Other costs and income paid/received		(1,412,470)	(1,241,660)
		<b>(1,437,999)</b>	<b>(1,848,439)</b>
<b>Variation in operating assets and liabilities:</b>			
Deposits in central banks		13,054,653	(31,102,308)
Financial assets and liabilities held for trading		227,556,132	25,762,769
Applications in Banks		(360,578)	(983,452)
Funding from central banks		-	-
Funding from Banks		143,513,278	13,441,639
Financial assets and liabilities at amortised cost		(27,487,123)	128,042,340
Funding from clients		276,727,617	(13,068,587)
Derivatives for risk management		21,642,936	(12,373,005)
Other operating assets and liabilities		(49,003,120)	52,070,179
<b>Cash flow net of the operating activities, before taxation</b>		<b>604,205,996</b>	<b>159,941,136</b>
Taxation on profits paid / received		(19,656,318)	(8,020,927)
		<b>584,549,678</b>	<b>151,920,209</b>
<b>Cash flow from investment activities</b>			
Dividends received		-	-
Financial assets available for sale		(553,399,884)	(146,918,478)
Purchase of financial investments		(1,995,974)	(790,427)
		<b>(555,395,858)</b>	<b>(147,708,905)</b>
<b>Cash flow from financing activities</b>			
Dividends paid from ordinary shares		(13,755,583)	(17,639,714)
Instruments representing capital		-	-
Increase in capital		-	15,947,388
<b>Cash flow net of financing activities</b>		<b>(13,755,583)</b>	<b>(1,692,326)</b>
Cash and cash equivalents at the start of the period		72,267,744	72,755,876
<b>Net variation in cash and cash equivalents</b>		<b>15,398,237</b>	<b>2,518,978</b>
Effect of the change in the exchange rate on cash and cash equivalents		105,199	(3,007,110)
<b>Cash and cash equivalents at the end of the period</b>		<b>87,771,180</b>	<b>72,267,744</b>
Cash and cash equivalents includes:			
Cash	16	2,319,342	2,354,530
Deposits in other Banks	17	85,451,838	69,913,214
<b>Total</b>		<b>87,771,180</b>	<b>72,267,744</b>

The explanatory Notes attached form part of these consolidated financial statements,

# ▲ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2018 and 2017  
(Amounts in Euros)



## INTRODUCTION

Banco de Investimento Global, S.A. (Bank or BiG) was created by public deed on 10 December 1998, and began its banking activity on 1 March 1999. The Bank is licensed to perform all transactions and provide all services allowed in the banking sector, with no legal restriction.

On 31 December 2013, the Bank held a shareholding of 34.76% in the share capital of ONETIER PARTNERS, S.G.P.S., S.A. (ONETIER). In November of 2014 the Banco repurchased a 65.24% stake in ONETIER from the other shareholders, thereby owning 100% of the share capital of this company. This acquisition was made at a price per share of 0.94 Euros, which corresponded to a total price of 9,811,590 Euros. This company was founded on 29 November 1999, its main object being to manage shareholdings in other entities with the indirect purpose of exercising economic activities. This entity is consolidated the full consolidation method.

BiG Serviços Financeiros, S.A. fully owned by the Bank, was founded on the 11<sup>th</sup> of September 2008, and has the main object of providing financial consultancy services, and also owns or manages buildings. This entity is consolidated using the full consolidation method.

On 31 December 2016, the Bank held a shareholding of 99.99% in the capital of Banco BiG Moçambique, S.A. (BiG Moçambique). BiG Moçambique was founded on 8 October 2014, based in Maputo, its main social purpose being the realization of any operations and provision of any services that banks are allowed in Mozambique, with no legal restriction.

BiG Moçambique, initially established with a share capital of MZN 70,000,000, performed its first capital increase in 2015 to MZN 226.125.000 and in 2016 a second capital increase to MZN 370,000,000, both fully subscribed by the Bank. During 2017 BiG's holding in BiG Moçambique was increased by MZN 114,791,661.10. This entity is consolidated using the full consolidation method.

BiG Diversified Macro Fund, an open-ended collective investment undertaking, set up on 25 April 2018, based in Dublin, Ireland, and regulated under the Alternative Investment Fund Managers Directive (AIFMD), is held by the Bank in 90.9% of its investment units and is consolidated using the full consolidation method.

## ▲ NOTE 1 BASES OF PRESENTATION

Notice no. 5/2015 (of 7 December) of the Bank of Portugal establishes that, as of 1 January 2016, all institutions under the supervision of the Bank of Portugal should prepare the financial statements on an individual basis and on a consolidated basis in accordance with the International Financial Reporting Standards (IAS/IFRS), as adopted by the European Union.

IFRS include the accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), and by the respective preceding bodies.

BiG's individual financial statements now presented, relate to the year ended on 31 December 2018 and were prepared in accordance with the IFRS, as adopted in the European Union by 2018.

The accounting policies were applied consistently to all the entities of the Group, and are consistent with those used in the preparation of the financial statements of the previous period, except with regard to the alterations arising from the adoption of the following standards with reference to 1 January 2018: IFRS 9 – Financial instruments and IFRS 15 – Revenue of contracts with clients.

IFRS 9 replaces IAS 39 Financial instruments – Recognition and Measurement and establishes new rules for the accounting of financial instruments presenting significant alterations above all to the level of classification and measurement, including requisites on impairment for financial assets (see Note 3 – Alterations to accounting policies and comparability of information)

The individual financial statements are stated in Euros. These were prepared in accordance with the historical cost principle, with the exception of assets and liabilities recorded at fair value, namely derivative financial instruments, financial assets and liabilities held for trading, financial assets available for sale (IAS 39) and assets at fair value through other comprehensive income (IFRS 9), and bonds for which the interest rate risk is hedged by derivatives in their component that is being hedged.

The preparation of financial statements in accordance with the in 2018 requires the Group to make judgements and estimates and uses assumptions which affect the application of accounting policies and amounts of revenues, costs, assets and liabilities. Alterations in these assumptions or differences between these and the actual situation can have an impact on the actual estimates and judgements. The areas which involve a greater degree of judgement or complexity, or where significant assumptions and estimates are used in the preparation of the Consolidated Financial Statements are analysed in Note 4.

These financial statements were approved in the meeting of the Board of Directors on 20 March 2019.

## ▲ NOTE 2 MAIN ACCOUNTING POLICIES

The most important accounting policies that were used in the preparation of the financial statements are described below. At the time of the adoption of IFRS 9, the Group chose not to restate the comparison with reference to 31 December 2017, and so the accounting policies related with financial instruments mentioned below are divided into two different headings, (i) financial instruments IAS 39 and (ii) financial instruments IFRS 9.

### 2.1. Accrual accounting

The Group adopts the accounting principle of accrual accounting in relation to most of the captions of the financial statements. So, costs and revenue are recorded as they are generated, regardless of when they are paid or received.

### 2.2. Transactions in foreign currency

The Group's accounts are prepared in the currency of the economic environment in which it operates (functional currency), being stated in Euros.

Transactions in foreign currency are converted at the rate of exchange in force on the date of the transaction. Monetary assets and liabilities expressed in foreign currency are converted into Euros at the rate of exchange in force on the date of the balance sheet. The exchange differences resulting from this conversion are recognised in profit and loss. Non-monetary assets and liabilities recorded at historical cost expressed in foreign currency are converted at the rate of exchange on the date of the transaction. Non-monetary assets and liabilities expressed in foreign currency recorded at fair value are converted at the rate of exchange in force on the date on which the fair value was determined. The resulting exchange differences are recognised in profit and loss, except in respect of differences classified as financial assets available for sale, which are recorded as a counter-entry of equity.

## 2.3. Derivative financial instruments and hedge accounting IAS 39

### **Classification**

The Group classifies the following as derivatives for risk management (i) hedging derivatives and (ii) derivatives taken out with the aim of hedging certain assets and liabilities designated at fair value through the income statement but which were not classified as hedges.

All other derivatives are classified as trading derivatives.

### **Recognition and measurement**

Financial derivative instruments are recognised on their trade date at their fair value. Subsequently, the fair value of these instruments is revaluated on a regular basis, with the gains or losses resulting from this revaluation being entered directly in the income statement of the year, except in respect of hedge derivatives.

There may be two types of hedging with measurement varying according to their nature:

- ▲ Fair value hedging consists in the hedging of exposure to changes in the fair value of a recognised asset and liability, any gain or loss in the hedging instrument and with the opposite sign in the hedged instrument will be included in the results of the year;
- ▲ Cash flow hedge, consists in the hedging of exposure to the variability in cash flows that is attributable i) to a particular risk of a recognised asset and liability ii) or to a transaction considered highly probable and that might affect profits and losses. The variation in gains and losses in the hedging instrument will be measured in equity.

The fair value of financial derivative instruments corresponds to their market value, when available, or is determined based on valuation techniques including discounted cash flow models and option evaluation models, as appropriate.

### **Hedge accounting**

#### *Classification criteria*

Financial derivative instruments used for hedging may be classified in the accounts as hedges provided that they cumulatively meet the following conditions:

- ▲ On the start date of the transaction the hedge relationship is identified and formally documented, including the identification of the hedged item, of the hedge instrument and the evaluation of the effectiveness of the hedge;
- ▲ There is the expectation that the hedge relationship is highly effective, on the start date of the transaction and throughout the life of the transaction;
- ▲ The efficacy of the hedge can be reliably measured on the start date of the transaction and throughout the life of the operation.

### **Fair value hedge**

In a fair value hedge transaction of an asset or liability, the balance sheet value of this asset or liability, based on the respective accounting policy, is adjusted so as to reflect the variation in its fair value attributable to the hedged risk. The variations in the fair value of hedging derivatives are recognised in the income statement, together with the variations in fair value of the hedged assets or liabilities attributable to the hedged risk.

If the hedge ceases to meet the criteria of enforceability of hedge accounting, the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed return instrument, the adjustment to the book value of the hedged instrument is amortised in results for the remaining period of useful life of the hedged item.

### **Embedded derivatives**

Derivatives which are embedded in other financial instruments are treated separately when their economic characteristics and their risks are not strictly related with the rest of the contract and with the characteristics of the underlying financial instrument. Embedded derivatives are revaluated at fair value in the income statement.

## 2.4. Credit and other accounts receivable (IAS 39)

Loans to clients include the loans originated by the Group, the intention of which is not their short term sale, and which are recorded at fair value when the Bank forms part of the contractual provisions of the instrument.

Loans to clients are not recognised in the balance sheet when (i) the contractual rights of the Group relating to the respective cash flow have expired, (ii) the Group substantially transferred all the risks and benefits associated with holding them, or (iii) notwithstanding the fact that the Group may have retained part, but not substantially all, of the risks and benefits associated with holding them, control over the assets was transferred.

Loans to clients is recognised initially at fair value plus transaction costs and is subsequently valued at amortised cost, based on the effective rate method, less impairment losses.

In this caption the Group presents ABS operations (asset backed securities). These assets are initially recognised at fair value and subsequently at amortised cost net of impairment. Interest is recorded in the net interest income caption.

### **Impairment**

In 2017 and in accordance with the NCA, the value of the credits should be corrected in accordance with criteria of thoroughness and prudence in order to reflect their realizable value at any time. This correction of value (impairment) may not be less than what is determined pursuant to Notice no. 3/95, of the Bank of Portugal, which establishes the minimum table of reference for the entity supervising the constitution of specific and generic provisions.

The credit portfolio is subject to the constitution of provisions in accordance with Notice no. 3/95 of the Bank of Portugal, specifically for:

- ▲ specific credit risks (due and bad debt);
- ▲ general credit risks; and
- ▲ country risk.

Provisions for credit and accrued interest are intended to address the risk of the uncollectability of credits with unpaid capital instalments or unpaid accrued interest, depending on any guarantees that there may be, the amount of which increases depending on the time elapsed since initial default.

Provisions for other bad loans are intended to address the risk of not collecting outstanding instalments relating to credits of that nature that are not yet due.

Provisions for general credit risks correspond to 1.5% of the value of consumer credit and loans to individuals for a non-specific purpose, to 0.5% of mortgage-backed loans or property leasing transactions, in both cases when the building is intended for the borrower's own occupation, and to 1% for other credit granted, including the represented by acceptances, guarantees and other instruments of an analogous nature.

Provisions for country risk are constituted to address the risk imputed to off-balance sheet financial assets and elements on residents of countries considered of risk. The regime of constitution of these provisions is that contemplated in Instruction no. 94/96 of the Bank of Portugal.

In parallel to the calculation of the minimum provisions required by the Bank of Portugal, the Group calculates impairment for the credit portfolio. The value of impairment of the credit will be accounted whenever the result of the calculation of impairment is higher than the minimum required by the rules of the Bank of Portugal.

In 2017 the Group's policy consists in regularly assessing if there is objective evidence of impairment in its credit portfolio. Impairment losses identified are charged against income and the charge is subsequently reversed if the amount of the estimated impairment loss is reduced in a later period.

A loan or loan portfolio, defined as a group of loans with similar risk characteristics, granted to clients may be classified as impaired when there is objective evidence that indicates that one or more events, which occurred after their initial recognition, have an impact on the recoverable value of the future cash flow of this loan or loan portfolio.

Every month the Group assesses if an exposure or group of exposures have objective evidence of impairment, as a result of one or more events that occur from the start of the credit (loss events), and if these had an impact on the estimated future cash flow. For this assessment and in the identification of the credits with impairment on an individual basis, the Group considers the following factors as objective evidence of impairment:

- ▲ the aggregate exposure to the client and if there are any overdue loans;
- ▲ the economic-financial viability of the business or activity of the client and its capacity to generate sufficient cash flow to service its debt obligations in the future;
- ▲ potential changes in amount and estimated recovery periods due to financial difficulties of the client.

If an impairment loss is identified on an individual basis, the amount of the loss to be recognised corresponds to the difference between the accounting value of the loan and the actual value of the estimated future cash flow (considering the recovery period) discounted at

the original effective interest rate of the contract. For a credit with a variable interest rate, the discount rate to be used to determine the respective impairment loss is the current effective interest rate, determined based on the rules of each contract.

The calculation of the present value of the estimated future cash flow of a guaranteed loan reflects the cash flow which might result from the recovery and sale of the collateral, less the costs inherent with its recovery and sale.

When a loan is considered to be definitively uncollectable (e.g. court decision) or the Group decides to forgive the debt or cede its rights over the credits to third parties.

The Group writes the debt off when the credit is considered definitively uncollectable (e.g. court decision) or the Group decides to forgive the debt or cede its rights over the credits to third parties.

## 2.5. Derivative financial instruments and hedge accounting IFRS 9

### **Classification and measurement**

The Group classifies the following as derivatives for risk management (i) hedge derivatives and (ii) derivatives taken out with the aim of hedging certain assets and liabilities held for trading but which were not classified as hedges.

All other derivatives are classified as trading derivatives.

Derivative financial instruments, with the exception of hedge derivatives, are recognised on their trade date, at fair value. Subsequently, the fair value of these instruments is reassessed on a regular basis, with the gains or losses resulting from this reassessment being recorded directly in the results of the year.

There may be two types of hedging with measurement varying according to their nature:

- ▲ *Fair value hedging* consists in the hedging of exposure to changes in the fair value of a recognised asset and liability, any gain or loss in the hedging instrument and with the opposite sign in the hedged instrument will be included in the results of the year;
- ▲ *Cash flow hedge*, consists in the hedging of exposure to the variability in cash flows that is attributable i) to a particular risk of a recognised asset and liability ii) or to a transaction considered highly probable and that might affect profits and losses. The variation in gains and losses in the hedging instrument will be measured in equity.

### **Hedge accounting**

#### *Criteria of classification*

As of 1 January 2018 the Group applies the provisions of IFRS 9 in relation to hedge accounting on the understanding that this option is more aligned with its risk management, specifically with regard to the interest rate risk.

The adoption of this standard had no impact on the financial statements, seeing that the Group had no hedge relationships on 31 December 2017.

Derivative financial instruments used for the purpose of hedging may be classified for accounting purposes as hedges provided that they, cumulatively, meet the following conditions:

- ▲ There should be an economic relationship between the hedged item and the hedging instrument;
- ▲ the credit risk of the counterparty of the hedged item or of the hedging instrument should not have a dominant effect on changes in value resulting from this economic relationship, and;
- ▲ the hedging ratio of the hedge accounting relationship, understood as the part of the item hedged by the hedging instrument, should be the same as the hedging ratio that is used for management purposes.

At the time when a hedge relationship is established, the Group prepares a dossier where all the information relating to the different hedge relationships is formalised and identifying the hedging instruments and the hedged item, the nature of the risk to be covered and how the Group assesses if the hedge relationship meets the requisites of efficacy of the hedge.

These assumptions are monitored in order to guarantee the effectiveness of the hedge.

**Fair value hedging**

In a fair value hedging operation of an asset or liability, the balance sheet value of this asset or liability, determined based on the respective accounting policy, is adjusted in order to reflect the variation in its fair value attributable to the hedged risk.

Variations in the fair value of hedge derivatives are recognised in the income statement, together with the variations in fair value of the hedged assets or liabilities, attributable to the hedged risk.

If the hedge no longer meets the criteria of enforceability of the hedge accounting.

The derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed return instrument, the adjustment to the book value of the hedged instrument is amortised in results for the remaining period of useful life of the hedged item.

The values accumulated in equity are reclassified to results in the periods in which the hedged item affects results.

If a hedge relationship of a future transaction is discontinued, the variations in fair value of the derivative recorded in equity continue to be recognised there until the future transaction is recognised in the income statement. When it can no longer be expected that the transaction will occur, the accumulated gains or losses recorded as a counter-entry of equity are immediately recognised in results.

**2.6. Other financial assets (IAS 39)***Classification*

The Group classifies its other financial assets at the time of their acquisition at their respective fair value, considering the underlying intention, in accordance with the following categories:

▲ *Financial assets at fair value through the income statement*

This category includes:

- ▲ financial assets held for trading, acquired with the main goal of being traded in the short term, or which are held as an integral part of an asset portfolio, normally of securities, in relation to which there is evidence of recent activities conducive to the realization of short term gains;
- ▲ financial assets designated at the time of their initial recognition at fair value with variations recognised in the income statement;
- ▲ Derivative financial instruments, excluding those that meet the requisites of hedge accounting;
- ▲ Structured products made available by the Group, which correspond to financial instruments containing one or more embedded derivatives, which may not be bifurcated, as they never come within any of the situations described above, follow the method of valuation of these financial assets.

▲ *Financial assets available for sale*

- ▲ Financial assets available for sale are non-derivative financial assets which (i) the Group has the intention of keeping for an indefinite period, (ii) which are designated as available for sale at the time of their initial recognition or (iii) which are not classified in the above categories.

This category includes the following financial instruments:

- ▲ Variable income securities not classified as financial assets at fair value through the income statement, including capital instruments held for an indefinite period;
- ▲ Bonds and other fixed income securities.

**Initial recognition, measurement and non-recognition**

Financial assets are initially recognised at their fair value plus transaction costs, except with regard to financial assets held for trading, in which case the transaction costs are recognised directly in the income statement.

The fair value of a financial instrument corresponds to the amount for which an asset or financial liability may be sold or settled between independent, informed parties that are interested in the realization of an operation in normal market conditions.

The acquisition and disposal of: (i) financial assets at fair value through the income statement, (ii) investments held to maturity and (iii) financial assets available for sale are recognised on the trading date, or rather, on the date on which the Group undertakes to acquire or dispose of the assets.

These assets are not recognised when (i) the contractual rights of the Group to receive their cash flow expire, (ii) the Group substantially transfers all the risks and benefits associated to their detention or (iii) notwithstanding the fact that it may keep part, but not substantially all the risks and benefits associated to their detention, the Group has transferred control over the assets.

### ***Subsequent measurement***

After their initial recognition, financial assets at fair value through the income statement are evaluated at fair value, with any variations being recognised in the income statement.

Financial assets held for sale are also recorded at fair value although respective variations are recognised in reserves until the financial assets are no longer recognised or an impairment loss is identified, at which time the accumulated value of the potential gains and losses recorded in reserves is transferred to the income statement.

The fair value of the listed financial assets is calculated based on their purchase price quoted on a regulated market. In the absence of a quotation, the Group estimates the fair value using an evaluation model which is based on a number of providers who present quotations that the Group considers to be representative of the fair value.

Capital instruments for which it is not possible to reliably measure their fair value are recorded at acquisition cost net of impairment losses.

### ***Impairment***

The Group regularly assesses if there is objective evidence that financial assets, or a group of financial assets, show signs of impairment. For financial assets which show signs of impairment, the respective recoverable value is determined, with impairment losses being charged against income.

A financial asset, or group of financial assets, is in impairment whenever there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition, such as (i) for shares and other capital instruments, a devaluation that is ongoing or of significant value in its market value below acquisition cost, and (ii) for debt securities, when this event has a negative impact on the estimated value of the future cash flow of the financial asset, or group of financial assets, that might be reasonably measured.

When there is evidence of impairment in the financial assets available for sale, the accumulated potential loss in reserves, corresponding to the difference between acquisition cost and the current fair value is transferred to the income statement. If, in a subsequent period, the amount of the impairment loss reduces, the previously recognised impairment loss is reversed against the income statement of the year up to the amount of the acquisition cost, except with regard to shares or other capital instruments, on which this criterion is not applied and the increase in fair value is recognised in Reserves.

### ***Credit Write-Off Policy***

Credits are written off from assets when a credit is considered definitively uncollectable (e.g. court decision) or the Group decides to pardon the debt or cede its rights over the credit to a third party, as mentioned above. Credits are only proposed for write-off when all the steps of the procedure were carried out and there is no expectation of recovering all of the outstanding credit.

Loans written off from assets are recorded in off-balance sheet captions at the time when they cease to be recognised of the balance sheet. Amounts in off-balance sheet captions remain until the definitive termination of the liabilities of each credit operation, by liquidation or formal cessation of the right to receive in accordance with the applicable law and contract (for example: pardon of the debt, judicial sentence or definitive cession of overdue loans), without prejudice to maintaining all the off-balance sheet records relating to clients with credit operations recorded in the balance sheet.

Loans written off from assets and recorded in off-balance sheet captions are maintained at the amount to which the institution is entitled, in accordance with the applicable law and contract, irrespective of the expectations of collection.

Accounting records in off-balance sheet captions relating to loans written off from assets are adequately supported to allow the systematic reconciliation of their components aggregated with the movement of outgoings from the write-off of credit from assets.

### ***Policy on the reversal of impairment***

On each reporting date BiG assesses if there is an indication that an expected impairment loss recognised in previous periods in relation to an asset, may have been altered, through the use of mechanisms (triggers and alerts) which gauge a possible significant increase in the credit risk.

An alteration to an expected impairment loss of an asset is recognised immediately in the profits or losses.

## 2.7. Other financial assets (IFRS 9)

### *Classification and measurement*

At the time of the initial recognition of a financial instrument its classification depends:

- ▲ on the type of financial instrument, debt or capital;
- ▲ on the Group's business model;
- ▲ on the characteristics of the contractual cash flows of the financial asset, being classified in one of the following categories, specifically:
  - ▲ financial assets at amortised cost;
  - ▲ financial assets at fair value through other comprehensive income; or
  - ▲ financial assets at fair value through results.

### **Assessment of the business model**

With reference to 1 January 2018, the Group analysed the business model in order to determine how its assets are managed and how information is made available and analysed by Management, in order to determine the classification and measurement of its financial instruments.

The business model was analysed taking into account the management's objective with regard to the portfolio, having considered the following elements, among others:

- ▲ The policies and objectives established for the portfolio and practical operability of these policies, including the way in which the management strategy focusses on the receipt of interest contracted, maintaining a determined interest rate profile, adapting the duration of the financial assets to the duration of the liabilities that finance these assets or on the realization of cash flows through the sale of the assets;
- ▲ The way in which the portfolio's performance is assessed and reported to the management bodies of the Group;
- ▲ The assessment of the risks that affect the performance of the business model (and of the financial assets held using this business model) and the way in which these risks are managed;
- ▲ Based on the business model and the analysis performed, for accounting purposes the Group will classify its financial instruments into one of the three categories below presented:
  - ▲ financial assets at amortised cost in the situations in which the Group wishes to receive its contractual cash flows, these instruments are measured at amortised cost;
  - ▲ financial assets at fair value through other comprehensive income in the situations in which the Group does not wish to take the contractual cash flows and if a good opportunity comes up to realize the cash flows through their sale, or
  - ▲ financial assets at fair value through results, and also financial assets classified in the fair value option are measured at fair value through results, seeing that the Group does not intend (i) to receive their contractual cash flows or (ii) to take the contractual cash flows and if a good opportunity comes up to realize the cash flows through their sale.

### **Financial assets measured at amortised cost**

#### *Classification*

A debt security is classified in the category of Financial assets at amortised cost if the following conditions are cumulatively met:

- ▲ The financial asset is managed in a business model whose main objective is to hold assets to collect their contractual cash flows; and
- ▲ Their contractual cash flows occur on specific dates and only correspond to payments of capital and interest of the outstanding amount (SPPI – Solely Payments of Principal and Interest). For the purpose of this assessment, the Group uses the following definitions (i) Capital was defined as the fair value of the financial asset on their initial recognition, (ii) Interest was defined as the compensation for the time value of the money, for the credit risk associated to the outstanding amount and for other risks and



costs associated to the business (e.g. liquidity risk and administrative costs), and also a profit margin. In the assessment of the financial instruments in which the contractual cash flows refer exclusively to the receipt of capital and interest, the Group considered the contractual terms at the time of the acquisition of the respective financial instruments.

To ensure that the financial debt instruments meet the SPPI requisites, the Group thoroughly analysed them, taking the following aspects into consideration, among others:

- ▲ Contingent events that could modify the periodicity and amount of the cash flows;
- ▲ Characteristics que result in leverage;
- ▲ Early payment clauses and maturity extension clauses;
- ▲ Clauses that could limit the Group's right to claim the cash flows in relation to specific assets (e.g. contracts with clauses that prevent access to assets in the event of default – non-recourse asset); and characteristics that could modify the compensation for the time value of the money a category of Financial assets at amortised cost includes applications in banks, loans to clients and managed debt securities based on a business model whose objective is the receipt of their contractual cash flows (government bonds, bonds issued by companies and commercial paper).

#### ***Initial recognition and subsequent measurement***

The financial assets measured in this caption, specifically applications in banks, loans to clients and debt securities are recognised on their trade date, or rather, on the date on which the Group undertakes to pay the respective amounts or acquire the respective securities.

Financial assets at amortised cost are recognised initially at their fair value, plus transaction costs, and subsequently are measured at amortised cost. After their initial recognition, impairment losses are also calculated, specifically expected credit losses (see note 21), which are recorded as a counter-entry to the caption Impairment of financial assets at amortised cost.

Interest from financial assets at amortised cost is recognised in the caption of Income with interest, based on the effective interest rate method. The gains or losses generated at the time of their non-recognition are recorded in the caption Gains / (losses) with the non-recognition of financial assets and liabilities at amortised cost.

#### ***Financial assets at fair value through other comprehensive income***

##### *Classification*

A debt security is classified in the category of Financial assets at fair value through other comprehensive income if the following conditions are cumulatively met:

- ▲ The financial asset is held in a business model in which the objective is the collection of their contractual cash flows and the sale of this financial asset;
- ▲ Their contractual cash flows occur on specific dates and only correspond to payments of capital and interest of the outstanding amount (SPPI).

With regard to equity instruments classified in this caption (other than equity instruments which are only classified as an equity instrument from the point of view of the issuer pursuant to the exceptions contemplated in paragraphs 16A to 16D of IAS 32), on their initial recognition, the Group can irrevocably opt to classify them in this category.

This option is exercised on a case-by-case basis, investment by investment.

#### ***Initial recognition and subsequent measurement***

Debt instruments at fair value through other comprehensive income are initially recognised at fair value, plus transaction costs, and are subsequently measured at fair value. Variations in the fair value of these financial assets are recorded as a counter-entry against other comprehensive income and, at the time of their disposal, the respective accumulated gains or losses in other comprehensive income are reclassified to a specific caption of results called Gains or losses as non-recognition of financial assets at fair value through other comprehensive income.

After their initial recognition, debt instruments at fair value through other comprehensive income are also subject to the calculation of impairment losses, more specifically expected credit losses. Estimated impairment losses are recognised in the income statement, in the caption Impairment of financial assets at fair value through other comprehensive income, as a counter-entry against other comprehensive income, without reducing the book value of the financial asset in the balance sheet.

Interest, premiums or discounts of the financial assets at fair value through other comprehensive income are recognised in the caption of Interest and equivalent revenue based on the effective interest rate method.

Capital instruments at fair value through other comprehensive income are recognised initially at fair value, plus transaction costs, and are subsequently measured at fair value. Variations in the fair value of these financial assets are recorded as a counter-entry against other comprehensive income.

Impairment is not recognised for capital instruments at fair value through other comprehensive income, the respective accumulated gains or losses being recorded in variations of fair value transferred to retained earnings at the time of their non-recognition.

#### ***Financial assets at fair value through results***

A financial asset is classified in the category of Financial assets at fair value through results (FVPL) if the business model defined by the Group for its management or the characteristics of its contractual cash flows do not meet the conditions described above for being measured at amortised cost, nor at fair value through other comprehensive income (FVOCI).

Furthermore, the Group can appoint irrevocably um financial asset, which meets the criteria to be measured at amortised cost or at FVOCI, at fair value through results, at the time of its initial recognition, if this eliminates or significantly reduces an accounting mismatch in its measurement or recognition, which otherwise would result from the measurement of assets or liabilities or from the recognition of gains and losses on them on different bases.

#### ***Initial recognition and subsequent measurement***

Considering that the transactions made by the Group in the normal course of its activity are in market conditions, financial assets at fair value through results are recognised initially at fair value, with the costs or revenue associated to the transactions initially recognised in the income statement. Subsequent variations of fair value of these financial assets are recognised in the income statement.

Accrued interest and premium/discount (when applicable) are recognised in the caption of Interest and equivalent revenue based on the effective interest rate of each transaction, and also accrued interest from derivatives associated to financial instruments classified in this category. Dividends are recognised in the income statement when the right to receive them is attributed.

Trading derivatives with positive fair value are included in the caption Financial assets held for trading, with trading derivatives with negative fair value being included in the caption Financial liabilities held for trading.

#### ***Reclassification between categories of financial assets***

Financial assets are reclassified to other categories only if the business model used in their management is altered. In this case, all the financial assets affected are reclassified.

Reclassification is applied prospectively from the date of the respective reclassification, with any gains, losses (including those related with impairment) or interest previously recognised not being restated. The reclassification of investments in capital instruments is not permitted, nor of financial instruments designated at fair value through results.

#### **Impairment**

On each reporting date the Group assesses if there is (i) objective evidence of impairment; or (ii) a significant increase in the credit risk, for its financial debt instruments, in accordance with the rules of the IFRS9. Expected credit losses (ECL) calculated are recorded against the income statement, being subsequently reversed in results if, in a subsequent period, the amount of the estimated loss reduces.

To carry out the processes included in this procedure, the Group divides its credit portfolio by operations, specifically between loans represented by securities and loans not represented by securities.

The Group determines the expected credit losses of each operation depending on the deterioration of the credit risk verified since initial recognition. For this purpose, the operations are classified into one of the following three stages:

- ▲ Stage 1: financial assets are classified into stage 1 whenever no significant increase in the credit risk is noted since the date of their initial recognition. For these assets, an expected credit impairment loss resulting from events of non-compliance that occur during the 12 months after the reporting date should be recognised in the income statement of the year;
- ▲ Stage 2: incorporates financial assets for which there has been a significant increase in the credit risk since the date of their initial recognition, even though this situation may not have led to concrete losses and are only indications. For these financial assets,

expected credit impairment losses are recognised throughout the lifetime of the assets. However, interest will continue to be calculated on the gross amount of the asset;

- ▲ Stage 3: the assets classified in this stage present objective evidence of impairment on the reporting date, as a result of one or more events that have already occurred and which result in a loss. In this case, the expected credit impairment loss during the expected remaining lifetime of the financial assets will be recognised in the income statement of the year. Interest is calculated on the net book value of the assets.

#### **Main drivers in the calculation of expected losses**

The measurement of expected losses is the result of the product between the probability of default (PD) of the financial instrument, a loss given as default (LGD) and the exposure on the date of the default (EAD).

With regard to loans not represented by securities, the Group uses the default rates published quarterly by the EBA and for the calculation of the probability of default. The Loss Given Default is calculated based on the risk and typology of associated credit. The respective PD's are adjusted in order to incorporate forward looking information.

For loans represented by securities, the PD's and LGDs are inferred using information deriving from external providers, specifically Bloomberg.

The main difference between impairment losses measured for financial assets classified in stages 1 and 2 is the respective time horizon in the calculation of the PD. The expected losses for the financial assets in stage 1 will be calculated using a PD at 12 months while the expected losses in stage 2 use a PD-lifetime.

The calculation of the expected loss for financial assets in stage 1, 2 and 3 always considers point-in-time and forward-looking information.

#### **Significant increase in the credit risk and definition of default**

Financial assets go from stage 1 to stage 2 when the credit risk increases significantly when compared with the credit risk on the date of their initial recognition. The significant increase in the credit risk should be determined through the analysis of internal quantitative and/or qualitative indicators used by the Group.

The Group regularly assesses its securities portfolio in order to estimate the expected losses in twelve months, and assess if there is a significant increase in the credit risk and if this is confirmed, it estimates the expected loss for the lifetime of the financial instrument.

To determine if there was a significant increase in the credit risk, the Group has implemented a number of variables that should be analysed, specifically:

- ▲ Negative evolution of the rating since the acquisition date;
- ▲ Negative evolution of the price taking account of the amortised cost;
- ▲ Debt of the issuer restructured due to financial difficulties;
- ▲ Delays in the payment of capital and/or interest of between 30 and 90 days;
- ▲ Inability to measure the credit risk at the time of their origination and/or acquisition.

The concept of impairment, based on an objective loss, or rather classification of the securities in stage 3, is also regularly assessed by the Group, the following indicators being specifically considered:

- ▲ Negative evolution of the price in view of the purchase price;
- ▲ Delays in the payment of capital and/or interest of over 90 days;
- ▲ Securities with rating equal to or less than CCC+ (non-POCI);
- ▲ Loss of the attribution of a rating;
- ▲ Disappearance of an active market for the financial asset under analysis due to financial difficulties;
- ▲ Bankruptcy/insolvency of the issuer;
- ▲ Debt of the issuer restructured due to financial difficulties;

With regard to loans not represented by securities, the Group's credit portfolio is made up principally from loans granted to clients and employees. The Group regularly assesses its portfolio of loans not represented by securities in order to estimate the expected losses at twelve months, and assess if there is a significant increase in the credit risk and if this is confirmed, it estimates the expected loss for the lifetime of the financial instrument.

To determine if there was a significant increase in the credit risk, the Group has implemented a number of variables that should be analysed, specifically.

The concept of impairment, based on an objective loss, or rather classification of the securities in stage 3, is also regularly assessed by the Group, the following indicators being specifically considered:

- ▲ Delays in the payment of capital and/or interest of over 90 days;
- ▲ Bankruptcy/insolvency of the client;
- ▲ Contagion – For clients for whom the exposure in default represents more than 20% of the total exposure, all the operations are classified in stage 3;
- ▲ Delivery of assets in lieu of payment.

#### ***Credit Write-Off Policy***

When a loan is considered to be definitively uncollectable (e.g. by a court decision) or the Group decides to forgive the debt or cede its rights on the loan to third parties, this is written off, as mentioned above. Loans are only proposed for write-off when all the steps of the procedure have been taken and there is no expectation of recovering the whole of the outstanding debt.

Loans written off from assets are recorded in off-balance sheet captions when they are derecognised in the Balance Sheet. The entries in off-balance sheet captions remain until the liabilities of each credit operation are definitively eliminated, either by payment or by formal cessation of the right to receive within the legal and contractual terms applicable (for example: forgiving the debt, court sentence or definitive cession of past due loans), notwithstanding that all off-balance sheet records may be kept relating to clients with credit operations recorded in the Balance Sheet.

Loans written off from assets and recorded in off-balance sheet captions are maintained at the amount to which the institution is entitled, within the legal and contractual terms applicable, regardless of expectations of collecting the payment.

The accounting records in off-balance sheet captions relating to loans written off from assets are adequately supported to permit the systematic reconciliation of their components aggregated with outgoing movements due to the writing off of loans from assets.

#### ***Impairment reversal policy***

On each reporting date BiG assesses if there is an indication that an expected impairment loss recognised in previous periods in relation to an asset, may have been altered, through the use of mechanisms (triggers and alerts) which gauge a possible significant increase in the credit risk.

The evolution of the Group's expectations is translated into the classification of the exposure into one of the 3 stages: Stage 1, Stage 2 or Stage 3.

Different calculation assumptions in relation to the estimate of the expected impairment loss calculated in each reporting period correspond to each stage.

An alteration of an expected impairment loss of an asset, is recognised immediately in profits or losses.

## **2.8. Financial liabilities**

An instrument is classified as a financial liability when there is a contractual obligation for it to be settled by the payment of money or other financial assets, irrespective of its legal type.

Financial liabilities at fair value through the income statement are measured at fair value. The fair value of listed liabilities is their listed value, and gains or losses resulting from their valuation are recorded in the caption "Results in financial transactions". If there is no listing, the Group estimates the fair value using assessment methodologies considering assumptions based on market information.

Other financial liabilities include funding from banks and clients, among other liabilities.

These liabilities are valued at amortised cost with interest being recognised in the income statement.

Financial liabilities will be derecognised when the underlying commitment expires or is cancelled.

## 2.9. Capital instruments

### *Equity instruments with the nature of liabilities*

Equity instruments with the nature of liabilities include redeemable non-voting preference shares whose characteristics lend this instrument a hybrid nature as they share clear characteristics of debt instruments.

Under International Accounting Standard 32, this type of instrument is classified as a financial liability, in the caption Instruments representing capital with the nature of liabilities.

The measurement of these instruments contemplates their initial entry in the accounting caption of capital instruments with the nature of a liability.

Income from this instrument consists of (i) any dividends received that are recorded in the income statement in the caption of other interest and charges and (ii) a redemption premium, if the difference between the book value per ordinary share in the last annual balance sheet before the redemption date and the last annual balance sheet before the issue date is positive ( $> 0$ ), which will be accounted as a cost, in the caption of Interest and similar charges of instruments representative of capital with the nature of a liability, as a counter-entry against the Balance Sheet caption of Other interest and similar charges. During the lifetime of the shares, the estimated value of the redemption premium is recognised and accounted incrementally depending on the calculation formula mentioned in note 32, reported on each accounts reporting date.

### *Other equity instruments*

An instrument is classified as a capital instrument when there is no contractual obligation for its settlement to be made by payment of money or any other financial asset, irrespective of its legal form, showing a residual interest in the assets of an entity after deduction of all liabilities.

Costs directly attributable to the issue of capital instruments are charged against equity capital as a deduction against the amount of the issue. Amounts paid and received for the purchase and sale of capital instruments are entered in equity capital, net of transaction costs.

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

### *Treasury stock*

Treasury Stock is entered in capital accounts at acquisition value and is not subject to revaluation. Capital gains and capital losses made on the sale of Treasury Stock are entered directly in equity capital without affecting the result for the year.

## 2.10. Compensation of financial instruments

Financial assets and liabilities are entered in the balance sheet for their net value when there is an exercisable legal right to compensate the amounts recognised at the same time. The exercisable right legal cannot be contingent on future events, and should be exercisable in the normal course of the Group's activity and also in the case of default, bankruptcy or insolvency of the Group or counterparty.

## 2.11. Sale transactions with repurchase agreement

Securities sold with a repurchase agreement (repos) for a fixed price or for a price which is the same as the sale price plus interest inherent to the period of the operation are recognised in the balance sheet. The corresponding liability is entered as an amount payable to other financial institutions or to clients, as appropriate. The difference between the sale value and the repurchase value is treated as interest and is deferred during the life of the agreement through the effective rate method.

Securities purchased with a resale agreement (reverse repos) for a fixed price or for a price which is the same as the sale price plus interest inherent to the period of the operation are not recognised in the balance sheet, with the purchase value being entered as a loan to other financial institutions or clients, as appropriate. The difference between the purchase value and the resale value is treated as interest and is deferred during the life of the agreement through the effective rate method.

## 2.12. Tangible assets

The tangible assets of the Group are valued at acquisition cost, less the respective accumulated depreciation and impairment losses. The cost includes expenses which are directly attributable to the acquisition of the goods.

Subsequent costs with tangible assets are recognised only if it can be proven that future economic benefits will result from them for the Group. All expenses with maintenance and repairs are recognised as a cost, in accordance with the accrual accounting principle.

Land is not depreciated. The depreciation of other tangible assets is calculated using the straight-line method, at the following rates of depreciation which reflect the expected useful life of the goods:

	Years
Works on rented buildings	5
Furniture and material	8 and 10
Machines and tools	5 and 7
Computer equipment	3 to 4
Interior installations	4 to 8
Transport material	4
Safety equipment	8
Buildings for own use	50

Whenever there is an indication that assets may be impaired, the Group estimates their recoverable value, and an impairment loss should be recognised whenever the book value net of an asset exceeds its recoverable value. Impairment losses are recognised in the income statement of the year, and are reversed in later reporting periods when the reasons that led to their initial recognition cease, for the purpose, and the new amortised amount will not be higher than that that would have been accounted, if impairment losses had not been imputed to the assets, considering the depreciation that this would have suffered.

The recoverable value is determined as being the higher of the net sale price and the value in use, this being calculated based on the current value of the estimated future cash flows that are expected to be obtained from the continued use of the asset and from its sale at the end of its useful life.

### 2.13. Intangible assets

Intangible assets are recorded at cost and are amortised linearly over the expected useful life of three years.

### 2.14. Leasing

The Group classifies leasing operations as finance leasing or operational leasing, according to their substance and not their legal form, fulfilling the criteria defined in IAS 17 – Leasing. Operations in which the risks and benefits inherent to the ownership of assets are transferred to the lessee are classified as finance leasing. All other leasing operations are classified as operational leasing.

#### *Operational leasing*

Payments made by the Group under operational leasing contracts are entered in costs in the periods they relate to.

#### *Finance leasing*

From the lessee's point of view, financial leasing contracts are recorded on their start date, in assets and liabilities, being capitalised at the lower of the fair value of the leased goods and the minimum lease payments contracted at the acquisition cost of the leased goods, which is equivalent to the current value of the lease instalments becoming due. Instalment payments comprise (i) the financial charge which is debited in profit and loss and (ii) the financial amortization of the capital which is deducted from liabilities. Financial charges are recognised as costs through the period of the lease in order to produce a constant periodic interest rate on the remaining balance of the liability in each period. Goods acquired via finance leasing are depreciated at the shorter of the useful life of the goods and the lease period.

From the lessor's point of view, financial leasing contracts are recorded in the balance sheet as credits granted for the value equivalent to the net investment realised in the leased goods. Interest included in the instalments debited to clients are recorded as revenue while the amortisation of capital also included in the instalments is deducted from the value of the credit granted to clients. The recognition of interest reflects a constant periodic rate of return on the remaining net investment of the lessor, together with any residual amount not guaranteed in BiG's favour. Interest included in the instalments debited to the clients is entered as income while the amortizations of the capital also included in the instalment payments are deducted from the value of the loan granted to clients. The recognition of the interest reflects a constant periodic rate of return on the net remaining investment of the lessor.

### 2.15. Employee benefits

Employees under contract with Banco de Investimento Global are all registered with the Social Security. Thus the Group's liabilities with pensions consist in the payment of a supplement which will complete any payment from the Social Security system.

The Group has been providing retirement benefits of its staff through two pension plans, a defined contribution plan and a defined benefit plan, the latter being implemented following the decisions taken in the General meetings of 8 April 2005 and 5 April 2006.

Since that date each member of the board of directors of the company or worker of the Group could choose between the two existing plans, opting for the one that they would benefit from for the purpose of retirement;

The Group's Board of Directors made an analysis of the impact of there being two plans, which in spite of being different in nature (defined benefit vs. defined contribution) they were established equally for most employees. In this context, it saw that since the Defined Benefit Plan was set up in 2006, and after the staff initially joined it, no-one else signed up for this plan, also noticing that there was a trend in the market to convert defined benefit plans into defined contribution plans, namely due to the greater foreseeability, limitation and lower volatility of the inherent liabilities.

In this context, it was agreed in the General Meeting held on 21 May 2014 to stop the defined benefit plan, with the Bank providing only a defined contribution plan that would cover all the members of the board of directors of the company and the workers of the Group.

The participants of the defined benefit pension plan were included in the defined contribution pension plan, with the Group assuming the commitment to maintain a reserve account for any differences that might appear with regard to future liabilities.

With regard to the defined benefit pension plan, there were no pensions being paid or rights acquired that would prevent it from being closed. These alterations were duly authorised by the Insurance and Pension Fund Authority.

#### ***Pension plan***

Up to 2014 the Group provided the retirement benefits of its employees through two pension plans, a defined contribution plan and a defined benefit plan.

In 2015 the defined benefit plan was terminated, leaving the Group with only a defined contribution plan.

Liabilities with retirement pensions are calculated annually on the closing date of the accounts by independent actuaries based on the Projected Unit Credit Method. The discount rate used in this calculation is based on the market rates associated to obligations of highly rated companies, denominated in the currency in which the benefits will be paid and with a similar maturity on the date that the obligations of the plan end.

On each balance sheet date the Group evaluates the possibility of recovering any excess of the fund in relation to responsibilities with retirement pensions, based on an expectation of a reduction in future contributions necessary.

#### ***Variable remunerations to Employees and Corporate Offices***

Variable remunerations attributed to employees and to the corporate offices are accounted in the income statement of the year they relate to.

## **2.16. Provisions**

Provisions are recognised when (i) the Group has a present, legal or constructive obligation, (ii) it can be proven that payment will be required and (iii) when a reliable estimate of the value of this obligation can be made. In the cases where the effect of the discount is material, the provision corresponds to the current value of the expected future payments, discounted at a rate that considers the risk associated to this obligation.

Provisions cease to be recognised through their use for the obligations for which they were initially set up or in cases in which the obligations are no longer observed.

## **2.17. Tax on profits**

The Group is subject to the regime established in the Corporation Tax Code (IRC). Furthermore, deferred tax resulting from the temporary differences between the accounting bases and the fiscal bases of the assets and liabilities is recorded, whenever the criteria established in IAS 12 – Income tax are met.

Taxation on profits includes current taxation and deferred taxation. Taxation on profits is recognised in the income statements, except when related with items which are moved in equity capital, a fact which implies their recognition in equity capital. Taxation on profits recognised in equity capital arising from the revaluation of financial assets available for sale is subsequently recognised in profit and loss at the time the gains and losses which gave rise to it were recognised in profit and loss.

Current taxation is that which is expected to be paid based on the taxable income calculated in accordance with the tax rules in force and using the tax rate approved or substantially approved, and using the tax rate approved or substantially approved in the Group's jurisdiction.

Deferred taxation is calculated in accordance with the fiscal rules in force or substantially approved, and using the tax rates on the Balance Sheet date in each mandate and which are expected to be applied when the temporary differences are reversed.

## 2.18. Recognition of income from services and commissions

Income from services and commissions is recognised in accordance with the following criteria:

- ▲ when obtained as the services are provided, income is recognised in the income statement in the period to which it relates;
- ▲ when income is part of the effective interest rate of a financial instrument it is stated in the income statement by the effective interest rate method.

## 2.19. Recognition of interest

Results relating to interest from non-derivative financial instruments is recognised in the captions of Interest income and costs, using the effective rate method. Interest from other financial assets and liabilities is also included in this, respectively.

The effective interest rate is the rate which exactly discounts estimated future payments or receipts during the expected life of the financial instrument, or when appropriate, a shorter period, for the current net balance sheet value of the financial asset or liability. In the case of a fixed interest rate, the effective interest rate is established on the initial recognition of the financial assets and liabilities and is not subsequently revised.

For the calculation of the effective interest rate, the future cash flow is estimated considering all the contractual terms of the financial instrument (for example early payment options), but without considering, however, possible future credit losses. The calculation includes commissions which are an integral part of the effective interest rate, transaction costs and all the premiums and discounts directly related with the transaction.

In the case of financial assets or groups of similar financial assets for which impairment losses were recognised, the interest recorded in the income statement is determined based on the interest rate used in the measurement of the impairment loss.

With regard to derivative financial instruments, with the exception of those classified as derivatives for risk management (note 2.2), the component of interest inherent to the variation in fair value is not separated and is classified in the caption of results of fair value assets and liabilities through results. The component of interest inherent to the variation in fair value of the derivative financial instruments for risk management is recognised in the captions of Interest income and costs.

Income is recorded as it is generated, regardless of when it is paid. Profits are recognised in as much as it is probable that their economic benefit will occur for the Group.

## 2.20. Earnings per share

Earnings per basic share are calculated by dividing the net result attributable to the shareholders of the Group by the average weighted number of ordinary shares in circulation, excluding the average number of Treasury Stock held by the Group.

For the calculation of results per diluted share, the average weighted number of ordinary shares in circulation is adjusted so as to reflect the effect of all potentially dilutive ordinary shares, like those resulting from convertible debt and from treasury stock options granted to the workers. The effect of the dilution produces a reduction in the earnings per share, resulting from the assumption that convertible instruments are converted or that the options granted are exercised.

## 2.21. Cash and cash equivalents

For the purpose of the cash flow statement, cash and its equivalents include the amounts recorded in the balance sheet with a maturity of less than three months as from the date of acquisition/contracting, with an immaterial risk of fluctuation of the fair value, where cash and deposits in central banks and in other banks are included.

Cash and cash equivalents exclude deposits of an obligatory nature made with Central Banks.



## 2.22. Recognition of dividends

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

## 2.23. Standards and interpretations not yet adopted

Note 44 presents the Standards and Interpretations not yet adopted by the Group.

## 2.24. Consolidation principles

The consolidated financial statements presented here reflect the assets, liabilities, results, and other comprehensive income of BiG and of its subsidiary companies (Group or BiG Group) and the results and other comprehensive income attributable to the Group referring to its shareholding in associated companies. The accounting policies were applied consistently to all of the companies in the Group, in relation to the periods covered by these consolidated financial statements.

### *Subsidiary companies*

Subsidiary companies are all entities (including structured entities) over which the Group exercises control. The Group controls an entity when it is exposed to, or has rights over, the variable returns generated, as a result of its involvement with the entity, and has the capacity to affect these variable returns through the power it exercises over the entity's relevant activities.

### *Associated companies*

Associated companies are classified as all companies over which the Group has the power to exercise more than 20% of the voting rights, although never more than 50%, from the time that the Group acquires a significant influence up to the time that this ends. The dividends attributed by the Associated Companies reduce to the value of the investment made by the Group. Even when the voting rights are less than 20%, the Group may exercise significant influence through participation in the management of the associate company or in the composition of the Boards of Directors with executive powers. Investments in associated companies are recorded in the consolidated financial statements of the Bank by the equity pick-up method from the time that the Group acquires significant influence until the time this ends.

When the value of the accumulated losses incurred by an associate company which are attributable to the Group is equal to or more than the book value of the participation and of any other medium and long term interests in this associate company, the equity pick-up method is interrupted, except if the Group has the legal or constructive obligation to recognise these losses or has made payments in the name of the associate company.

Gains or losses in the sale of parts of the capital in associate companies are stated as a counter-entry in the income statement even if no loss of significant influence occurs with this sale.

### *Balances and transactions eliminated in the consolidation*

Balances and transactions between Group companies, including any unrealised gains or losses resulting from intra-group operations, are eliminated in the consolidation process, except in the cases in which unrealised losses indicate that there is impairment which should be recognised in the consolidated accounts.

Unrealised gains resulting from transactions with associated entities are eliminated in the proportion of the Group's participation in them. Unrealised losses are also eliminated, but only in situations where they do not indicate that there is impairment.

## 2.25. Reporting by segments

Considering that the Group does not have equity or debt securities that are traded publicly, in the light of paragraph 2 of IFRS 8, the Group does not present information relating to segments.

### NOTE 3

#### ALTERATIONS TO THE ACCOUNTING POLICIES AND COMPARABILITY OF THE INFORMATION

In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 – Financial instruments: Recognition and Measurement, which was endorsed by the European Union on 3 November 2017. IFRS 9 introduces new requisites with regard to the (i) classification and measurement of financial assets and liabilities, (ii) measurement and recognition of impairment of credit on financial assets through a model of expected losses and (iii) hedge accounting.

IFRS 9 is of compulsory application in financial years starting on or after 1 January 2018 and these new rules are to be applied retrospectively from that date. However, the respective comparative balance sheets will not be restated.

The adoption of IFRS 9 by the Group resulted in alterations in the accounting policies when compared with IAS 39 with regard to:

- ▲ Classification and measurement of financial assets and liabilities;
- ▲ Recognition of impairment on securities and accounts receivable (through the expected loss model);
- ▲ Requisites for the recognition and classification of hedge accounting.

Adjustments to the book amounts of the financial assets and liabilities on the transition date, 1 January 2018, were recognised in the income statement and, in this way, in the equity reported.

The main impacts deriving from the adoption of IFRS 9 are shown below, specifically:

##### **Classification and measurement**

In the table presented, the category of measurement and the respective balance sheet value of the financial assets in IAS 39 and IFRS 9 may be compared, specifically:

Financial assets	IAS 39		IFRS 9	
	Type of Measurement	Balance Sheet Value	Type of Measurement	Balance Sheet Value
Loans to clients	Amortised cost (Loans to Clients)	38,961,886	Amortised cost	39,059,923
Debt instruments				
- Trading	Fair value (Financial assets held for trading)	12,285,304	Fair value through the income statement	280,341,444
- Investment	Amortised cost (Loans to Clients)	270,131,652	Amortised cost	307,181,641
	Fair value (Financial assets available for sale)	1,298,698,569	Fair value through other comprehensive income	1,029,757,863
Capital instruments				
- Trading	Fair value (Financial assets held for trading)	17,277,565	Fair value through the income statement	18,742,915
- Investment	Fair value (Financial assets available for sale)	2,019,689	Fair value through other comprehensive income	554,339
Derivative financial instruments	Fair value (Financial assets held for trading)	767,489	Fair value through the income statement	767,489

With regard to financial liabilities, there are no alterations and impacts relating to the adoption of IFRS 9, when compared with IAS 39.

**Reconciliation of the demonstration of the financial position**

As mentioned the Group adopted IFRS 9 for the first time on 1 January 2018 and did not restate the comparison. The alterations in the classification and measurement of assets show the following impacts:

<b>Financial assets at amortised cost</b>	<b>Balance IAS 39 31.12.2017</b>	<b>Reclassifications</b>	<b>Revaluations</b>	<b>Balance IFRS 9 01.01.2018</b>
<b>Loans to clients</b>				
Opening balance IAS 39	38,961,886			
Impairment	-	-	98,037	98,037
<b>Balance on IFRS 9</b>				<b>39,059,923</b>
<b>Debt instruments</b>				
Opening balance IAS 39	270,131,652			
In: of Financial assets available for sale (IAS 39)	-	273,989,930	-	273,989,930
Revaluation: from Fair value to Amortised cost (IFRS 9)	-	-	33,193,841	33,193,841
Out: for Financial assets at Fair value through other comprehensive income (IFRS 9)	-	(270,133,782)	-	(270,133,782)
Impairment (IFRS 9)	-	-	-	-
<b>Balance on IFRS 9</b>				<b>307,181,641</b>
<b>Total Financial assets at amortised cost</b>	<b>309,093,538</b>	<b>3,856,149</b>	<b>33,291,878</b>	<b>346,241,564</b>

<b>Financial assets at fair value through profit and loss</b>	<b>Balance IAS 39 31.12.2017</b>	<b>Reclassifications</b>	<b>Revaluations</b>	<b>Balance IFRS 9 01.01.2018</b>
<b>Debt instruments</b>				
Opening balance IAS 39	12,285,304			
In: Financial assets available for sale	-	268,056,140	-	268,056,140
<b>Balance on IFRS 9</b>				<b>280,341,444</b>
<b>Capital instruments</b>				
Opening balance IAS 39	17,277,565			
In: Financial assets available for sale	-	1,465,350	-	1,465,350
<b>Balance on IFRS 9</b>				<b>18,742,915</b>
<b>Derivative financial instruments</b>				
Opening balance IAS 39	767,489			
<b>Balance on IFRS 9</b>				<b>767,489</b>
<b>Total Financial assets at fair value through profit and loss</b>	<b>30,330,358</b>	<b>269,521,490</b>	<b>-</b>	<b>299,851,848</b>

<b>Financial assets at fair value through Other comprehensive income</b>	<b>Balance IAS 39 31.12.2017</b>	<b>Reclassifications</b>	<b>Revaluations</b>	<b>Balance IFRS 9 01.01.2018</b>
<b>Debt instruments</b>				
Opening balance IAS 39	1,298,698,569			
In: Amortised cost - Loans to Clients (IFRS 9)	-	270,133,782	-	270,133,782
Revaluation: from Amortised cost to Fair value (IFRS 9)	-	-	5,308,968	5,308,968
Out: Financial assets held for trading (IFRS 9)	-	(268,056,140)	-	(268,056,140)
Out: Amortised cost (IFRS 9)	-	(273,989,930)	-	(273,989,930)
Impairment (IFRS 9)	-	-	(2,337,386)	(2,337,386)
<b>Balance on IFRS 9</b>				<b>1,029,757,863</b>
<b>Capital instruments</b>				
Opening balance IAS 39	2,019,689			
Out: Financial assets at fair value through profit and loss (IFRS 9)	-	(1,465,350)	-	(1,465,350)
<b>Balance on IFRS 9</b>				<b>554,339</b>
<b>Total Financial assets at fair value through Other comprehensive income</b>	<b>1,300,718,258</b>	<b>(273,377,638)</b>	<b>2,971,582</b>	<b>1,030,312,202</b>

The impacts of the implementation of IFRS 9 result essentially from the reclassification of financial assets for the portfolios defined in accordance with the business models approved by the Administration and from the recognition of expected impairment losses of financial assets.

The financial statements for 2018 are in all materially relevant aspects comparable with the financial statements that are presented in this document relating to the previous period, with the exception of the normative changes that came into force on 1 January 2018.

#### **Reconciliation of impairment recognised in IAS 39 and IFRS 9**

IFRS 9 introduces the concept of expected credit losses (ECL – Expected Credit Loss) which differs significantly from the concept of losses incurred contemplated in IAS 39, thereby anticipating the recognition of credit losses in institutions' financial statements. IFRS 9 determines that the concept of impairment based on expected losses is applied to all financial assets except financial assets measured at fair value through results and equity instruments measured at fair value through equity. Also covered by the concept of expected losses of IFRS 9 are financial assets at amortised cost, debt instruments measured at fair value through equity, off-balance sheet exposures, financial leasing, other amounts receivable, financial guarantees and loan commitments not valued at fair value.

This conceptual alteration is introduced together with new criteria of classification and measurement of expected losses from the impairment of credit, requiring that financial assets subject to impairment be classified by different stages according to the evolution of their credit risk from the date of initial recognition and not depending on the credit risk on the reporting date:

- ▲ Stage 1: financial assets are classified in stage 1 whenever there is no significant increase in credit risk since the date of their initial recognition. For these assets should be recognised in results of the year an expected credit impairment loss resulting from events of non-fulfilment occurring during the 12 months after the reporting date;
- ▲ Stage 2: incorporates financial assets for which there has been a significant increase in the credit risk since the date of their initial recognition, even though this situation may not have led to concrete losses and are only indications. For these financial assets, expected credit impairment losses are recognised throughout the lifetime of the assets. However, interest will continue to be calculated on the gross amount of the asset;
- ▲ Stage 3: the assets classified in this stage present objective evidence of impairment on the reporting date, as a result of one or more events that have already occurred and which result in a loss. In this case, the expected credit impairment loss during the expected remaining lifetime of the financial assets will be recognised in the income statement of the year. Interest is calculated on the net book value of the assets.

#### **Main drivers in the calculation of expected losses**

The measurement of expected losses is the result of the product between (i) the probability of default (PD) of the financial instrument, (ii) the loss given default (LGD) and (iii) the exposure on the date of the default (EAD), discounted at the initial effective interest rate of the contract.

As mentioned previously, the main difference between the impairment losses measured for financial assets classified in stages 1 and 2 is the respective time horizon in the calculation of the PD. The expected losses for the financial assets in stage 1 will be calculated using a 12 month PD while expected losses in stage 2 use a lifetime PD. The calculation of the expected loss for the financial assets in stage 3 always considers point-in-time and forward-looking information.

For the segments where there is no information available, but the external rating of the debtor can be determined, the Group used external information disclosed by the rating agencies or market data, such as CDS spreads and Yields of bonds.

#### **A Significant increase in the credit risk and definition of default**

Financial assets go from stage 1 to stage 2 when the credit risk increases significantly when compared with the credit risk on the date of their initial recognition. The significant increase in the credit risk should be determined through the analysis of internal quantitative and/or qualitative indicators used by the Group in the normal management of credit risk, thus requiring greater articulation of the accounting requisites with the management policies on credit risk established by the Group.

The assessment of the significant increase in the credit risk is a new concept introduced by IFRS 9, which requires the application of a strong component of judgement. The existence of a significant increase in the credit risk is assessed for each financial asset, considering a number of quantitative and qualitative indicators. The transition of financial assets from stage 2 for the stage 3 occurs when these are in default.

Description	Impairment on IAS 39 31.12.2017	Revaluations	Impairment on IFRS 9 01.01.2018
Loans to Clients (IAS 39) /Financial assets at amortised cost (IFRS 9)			
Loans to clients	248,282	(98,037)	150,245
<b>Total</b>	<b>248,282</b>	<b>(98,037)</b>	<b>150,245</b>
Financial assets held for sale (IAS 39) / Financial assets at fair value through Other Comprehensive Income (IFRS 9)			
Debt instruments	-	2,337,386	2,337,386
<b>Total</b>	<b>-</b>	<b>2,337,386</b>	<b>2,337,386</b>
<b>Total Impairment</b>	<b>248,282</b>	<b>2,239,350</b>	<b>2,487,631</b>

With the entry in force of IFRS 9, the Group adopted a structure of the financial statements that is in line with the orientations of Implementing Regulation 2017/1443 of the Commission of 29 June 2017, the alterations being of nomenclature of the captions indicated below:

Implementing Regulation 2017/1443	2017	Instruction 18/2005	2017
<b>Assets</b>			
Cash, cash balances in central banks and other demand deposits			
Money in cash and Cash balances in central banks	84,408,539	Cash and deposits in central banks	84,408,539
Other demand deposits	69,913,214	Deposits in other Banks	69,913,214
Financial assets held for trading	30,330,358	Financial assets held for trading	30,330,358
Financial assets at fair value through other comprehensive income	1,300,718,258	Financial assets available for sale	1,300,718,258
Financial assets at amortised cost			
Debt securities			
Loans and advances - Clients	309,093,538	Loans to clients	309,093,538
Loans and advances - Banks	3,412,730	Applications in Banks	3,412,730
Tangible assets	15,376,668	Tangible assets	15,376,668
Intangible assets	1,994,876	Intangible assets	1,994,876
Tax assets			
Current tax assets	-	Current tax assets	-
Deferred tax assets	28,717,793	Deferred tax assets	28,717,793
Other assets	7,256,098	Other assets	7,256,098
<b>Total assets</b>	<b>1,851,222,072</b>	<b>Total assets</b>	<b>1,851,222,072</b>
<b>Liabilities</b>			
Financial liabilities held for trading	543,390	Financial liabilities held for trading	543,390
Financial liabilities measured at amortised cost			
Funding from other Banks	410,260,634	Funding from other Banks	410,260,634
Funding from clients	1,035,793,975	Funding from clients	1,035,793,975
Derivatives - Hedge accounting	-	Hedging derivatives	-
Provisions	4,740,788	Provisions	4,740,788
Current tax liabilities	7,971,052	Current tax liabilities	7,971,052
Share capital reimbursable at sight	16,765,717	Instruments representing capital	16,765,717
Other liabilities	35,613,287	Other liabilities	35,613,287
<b>Total liabilities</b>	<b>1,511,688,843</b>	<b>Total liabilities</b>	<b>1,511,688,843</b>
<b>Capital</b>			
Capital	171,947,388	Capital	171,947,388
Issue premiums	1,362,281	Issue premiums	1,362,281
Other accumulated comprehensive income	(63,827,489)	Fair value reserve	(63,827,489)
Other reserves	188,626,575	Other reserves and retained earnings	188,626,575
Treasury stock	(2,326)	Treasury stock	(2,326)
Profit/loss attributable to owners of the parent company	52,346,618	Net result of the year	52,346,618
Interim dividends	(10,919,818)	Interim dividends	(10,919,818)
<b>Total Equity</b>	<b>339,533,229</b>	<b>Total Capital</b>	<b>339,533,229</b>
<b>Total Equity and Total liabilities</b>	<b>1,851,222,072</b>	<b>Total liabilities and Capital</b>	<b>1,851,222,072</b>

Implementing Regulation 2017/1443	2017	Instruction 18/2005	2017
Interest income	46,401,771	Interest and similar income	46,401,771
Interest costs	(30,448,308)	Interest and similar charges	(30,448,308)
<b>Net interest income</b>	<b>15,953,463</b>	<b>Net interest income</b>	<b>15,953,463</b>
Income from rates and commission	12,374,993	Income from services and commission	12,374,993
Expenses of rates and commission	(1,783,045)	Charges with services and commission	(1,783,045)
Gains or losses with the derecognition of financial assets and liabilities not measured at fair value through the income statement	42,710,523	Profit/loss from financial assets available for sale	42,710,523
Gains or losses with financial assets and liabilities held for trading and hedge accounting	14,125,201	Profit/loss from assets and liabilities at fair value through the income statement	14,125,201
Exchange differences	(3,580,178)	Profit/loss from currency revaluation	(3,580,178)
Profit/loss from sale of other assets	25,164,633	Profit/loss from sale of other assets	25,164,633
Other operating results	(1,228,249)	Other operating results	(1,228,249)
<b>Operating income</b>	<b>103,737,341</b>	<b>Operating income</b>	<b>103,737,341</b>
Administrative costs			
Staff costs	(23,089,898)	Staff costs	(23,089,898)
Other administrative costs	(9,627,285)	General administrative costs	(9,627,285)
Depreciation	(2,109,865)	Depreciation and amortization	(2,109,865)
Provisions or reversal of provisions	2,001,590	Provisions net of cancellations	2,001,590
Impairment or reversal of impairment of financial assets not measured at fair value through the income statement			
Financial assets at fair value through other comprehensive income	260,012		
Financial assets available for sale		Impairment of other financial assets net of reversals and recoveries	260,012
Financial assets at amortised cost	(5,263)	Impairment of credit net of reversals and recoveries	(5,263)
Impairment or reversal of impairment of non-financial assets			
Other	10,947	Impairment of other assets net of reversals and recoveries	10,947
<b>Operating costs</b>	<b>(32,559,762)</b>	<b>Operating costs</b>	<b>(32,559,762)</b>
<b>Pre-tax profit</b>	<b>71,177,579</b>	<b>Pre-tax profit</b>	<b>71,177,579</b>
Tax expenses or revenue related with results from ongoing operating units		Taxation	
Current	(18,520,409)	Current	(18,520,409)
Deferred	(310,552)	Deferred	(310,552)
<b>Profit or loss of the year</b>	<b>52,346,618</b>	<b>Net result of the year</b>	<b>52,346,618</b>

## NOTE 4

### MAIN ESTIMATES AND JUDGEMENTS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Estimates and judgements that have an impact on the Group's individual financial statements are continually assessed, representing the Board of Directors' best estimate on the date of each report, taking into account historic performance, accumulated experience and expectations concerning future events which, in the circumstances in question, are believed to be reasonable.

The intrinsic nature of estimates means that the real reflection of the situations that were subject to an estimate may, for the purposes of financial reporting, differ from the estimated amounts.

The IFRS establish a series of accounting procedures and require management to make necessary judgements and estimates in order to decide the most appropriate accounting procedure. The main accounting estimates and judgements used by the Group in the application of the accounting principles are presented in this note with the objective of improving the understanding of how its application affects the results reported by the Group and their notification. A more detailed description of the main accounting policies used by the Group is presented in note 2 to the financial statements.

#### 4.1. Impairment of financial assets

Based on IAS 39 and until 2017 the Group decides that there is impairment in its financial assets available for sale when there is a continued devaluation or significant drop in value in their fair value or when it expects there to be an impact on the future cash flow of the assets. The determination of a continued devaluation or significant drop in value requires judgement. In the judgement made, amongst other factors, the Group evaluates the normal volatility of the price of the financial assets. The following triggers for the existence of impairment were considered:

- ▲ Capital securities: devaluations in the acquisition value or market value of more than 30% lower than acquisition value for a period of over twelve months;
- ▲ Debt securities: whenever there is objective evidence of events which impact on the recoverable value of the future cash flow of these assets.

In IAS 39, impairment losses relating to the process of assessment of the credit portfolio result from a number of estimates and judgements, specifically frequency of non-compliance, risk notation and rates of recovery of future losses.

With the introduction of the IFRS 9 on 01 January 2018 was introduced the concept of expected credit losses (ECL) which differs significantly from the concept of losses incurred contemplated in IAS 39, anticipating, in this way, the recognition of credit losses in the financial statements.

IFRS 9 states that the concept of impairment based on expected losses is applied to all financial assets except financial assets measured at fair value through results and equity instruments measured at fair value through equity.

To record the expected impairment losses for financial instruments various judgements are used, specifically:

#### ***Significant increase in the credit risk and definition of default***

The transition of financial assets from stage 1 to stage 2 occurs when their credit risk increases significantly when compared with the credit risk on the date of their initial recognition. A significant increase in the credit risk should be determined through the analysis of quantitative and/or qualitative internal indicators used by the Group in the normal management of credit risk, thus requiring greater articulation of the accounting requisites with the credit risk management policies established by the Group.

The assessment of the significant increase in the credit risk is a new concept introduced by IFRS 9, which requires the application of a strong component of judgement. The existence of a significant increase in the credit risk is assessed for each financial asset, considering a set of quantitative and qualitative indicators. The transition of financial assets from stage 2 to stage 3 occurs when these are in default.

#### ***Nature of the main judgements, estimates and hypotheses used in the determination of the ECL***

##### **Loans represented by securities**

The Group uses a broad set of market data in estimating the ECL for this typology of assets.

For BiG Moçambique, seeing that the securities held do not have market data, generic studies of S&P and Moody's are used to extrapolate the risk parameters and calculate the ECL.

##### **I – Staging**

To determine the staging, besides the regulatory indicators related with delay (< 30 days, 30-90 days, > 90 days), and other more qualitative alerts and triggers, the Group assesses if there is a significant increase in the credit risk based on two criteria/alerts:

- ▲ variation in rating
- ▲ variation in price

##### **a) Variation in price**

In the case of a variation in price, a number of external data is used, specifically, Moodys' transition matrix and accumulated PD. In this case, the Group constructed Price Matrices where the thresholds are defined from which a significant increase in credit risk occurs. The construction of these matrices is based on yield curves per rating.

##### **b) Variation in rating**

The attribution of a rating is based on the following rules, whether on the date of origination, or on the reference date:

- (i) if there are ratings of 3 agencies, the Group selects the best of the 2 worst;
- (ii) if there are ratings of 2 agencies, the Group selects the lower;
- (iii) if there is no majority, the intermediate rating is chosen.

Seeing that the majority of the assets in portfolio are acquired at different times, the acquisition date considered to determine the rating on origination is calculated by the weighting of the amount acquired and the respective acquisition date.

The Ratings Matrix, built based on observable data from Moody's, allows us to see how many notches a security can vary without implying a significant increase in the credit risk. This matrix depends on the rating and the number of years the Group has held the position.

In the case of securities without a rating attributed by an external financial notation agency, the Bank uses as a basis the notation resulting from its internal risk analysis which, based on the Group's policy on credit risk, is equivalent to an external rating.

#### II – Calculation of the ECL

To estimate the ECL, the parameters PD, LGD are used.

- ▲ The PD-Probability of Default is determined differently, according to the market information available:
  - ▲ Sovereign securities: the PD may be inferred based on the CDS/Yield curve of the issuer, also considering the characteristics of the security. (e.g. tenor, currency, subordination, among others);
  - ▲ Non-sovereign securities: the PD is estimated based on the generic curves available on the market, deriving from comparable issuers by rating.
- ▲ The LGD-Loss Given Default used for the calculation of the expected credit losses is based on studies carried out by Moody's by typology of financial asset (sovereign, collateralized bonds, non-collateralized).

Seeing that the parameters used are based on market information, the point-in-time, forward-looking and through-the-cycle assumptions of the IFRS 9 are ensured.

Economic cycles of 7 years are assumed in the estimation of these parameters.

#### Loans not represented by securities

Considering the simplicity and dimension of the portfolio, and also the absence of a history of statistically relevant non-compliance, in addition to the internal data available, the Group uses some data of the EBA – CREDIT RISK PARAMETERS, relating to Portugal, in the calculation of its risk parameters.

#### I – Staging

Besides the mandatory criteria defined in IFRS 9, relating to the length of the delay (< 30 days, 30-90 days, > 90 days), the Group also uses a number of alerts and qualitative triggers to determine if a significant increase has occurred in the credit risk.

#### II – Calculation of the ECL

The parameters PD, LGD are used to estimate the ECL.

- ▲ Considering that the credit portfolio of this typology is Retail, for the estimate of the PD-Probability of Default, the Group uses the Default Rates published by the EBA, for the segments Retail – Secured on real estate property (Mortgage) and Retail – Other Retail (Other Non-mortgage loans);
- ▲ To estimate the LGD-Loss Given Default, the Group uses internal data for the Motor, Mortgage and Margin account credit portfolio. For the other products, and for the segment Retail – Other Retail (Other Non-mortgage loans), the LGD published in the above-mentioned study of the EBA is used.

As for the portfolio of loans represented by securities, the Group presupposes an economic cycle of 7 years in its calculations, which covers 4 past years and 3 future years, these being extrapolated based on macroeconomic estimates that may influence it in the future.

## 4.2. Fair value of financial instruments

Fair value is based on market quotations, when available, and, in the absence of a quotation, it is based on recent, similar transaction prices made in market conditions, or based on evaluation methodologies, based on discounted future cash flow techniques considering market conditions, the temporal value, the profitability curve and volatility factors. These methodologies can require the use of assumptions or judgements in the estimate of fair value. Consequently, the use of different methodologies or of different assumptions or judgements in the application of a certain model may lead to financial results different from those reported.

## 4.3. Tax on profits

The determination of the global amount of taxation on profits requires certain interpretations and estimates. There are diverse transactions and calculations for which the determination of the final amount of tax payable is uncertain during the normal business cycle.



Other interpretations and estimates may result in a different level of current and deferred taxation on profits recognised in the period.

The Tax Authorities are empowered to review the Group's fiscal situation for a period of 4 years, except in cases where reportable tax losses are used, in which case the period of expiry is the year of this right. In this way it is possible that there may be corrections to the annual taxable earnings resulting mainly from differences in the interpretation of tax law. However, the Board of Directors of the Group is confident that there will be no material corrections to the taxation on profits recorded in the financial statements.

## NOTE 5 NET INTEREST INCOME

The amount of this caption is made up as follows:

	2018			2017		
	From assets/liabilities at amortised cost and assets available for sale	From assets/liabilities at fair value through the income statement	Total	From assets/liabilities at amortised cost and assets available for sale	From assets/liabilities at fair value through the income statement	Total
Interest income						
Interest from applications	862,934	-	862,934	59,357	-	59,357
Interest from securities at fair value through other comprehensive income	33,376,593	-	33,376,593			
Interest from securities available for sale				37,770,202	-	37,770,202
Interest from deposits	106,129	-	106,129	1,115,367	-	1,115,367
Interest from credit to clients	960,659	-	960,659	1,190,277	-	1,190,277
Interest from Debt securities	4,926,478	-	4,926,478	-	-	-
Interest from financial assets held for trading	-	1,916,542	1,916,542	-	446,576	446,576
Other interest revenue	9,147,050	-	9,147,050	5,819,992	-	5,819,992
	<b>49,379,843</b>	<b>1,916,542</b>	<b>51,296,385</b>	<b>45,955,195</b>	<b>446,576</b>	<b>46,401,771</b>
Interest costs						
Interest from funding from clients	4,536,061	-	4,536,061	4,291,044	-	4,291,044
Interest from funding from other Banks	3,290,543	-	3,290,543	546,073	-	546,073
Other interest costs	19,888,266	-	19,888,266	25,611,191	-	25,611,191
	<b>27,714,870</b>	<b>-</b>	<b>27,714,870</b>	<b>30,448,308</b>	<b>-</b>	<b>30,448,308</b>
	<b>21,664,973</b>	<b>1,916,542</b>	<b>23,581,515</b>	<b>15,506,887</b>	<b>446,576</b>	<b>15,953,463</b>

The amount relating to Other interest income or Other interest costs refers essentially to the depreciation of the premium/discount resulting from the difference between the nominal value of the bonds acquired and their purchase price. The value of the depreciation of the discount and of the premium is calculated using the effective rate method and is recorded in the income statement of the year throughout the life of the bond.

The caption Other interest costs also includes the accrual of interest payable relating to positions of hedging derivatives.

## NOTE 6 RESULTS OF RATES AND COMMISSION

The amount of this caption is made up as follows:

	2018	2017
Income from rates and commission		
For transactions on behalf of third parties	4,313,480	4,067,928
For services rendered	4,674,780	4,924,492
Other income from services and commissions	845,700	871,201
For commission sharing	1,456,159	2,203,362
For financial consultancy services	876,468	219,346
For commitments before third parties	2,200	76,673
For guarantees provided	15,581	11,991
	<b>12,184,368</b>	<b>12,374,993</b>
Charges with rates and commission		
For transactions performed by third parties	896,958	805,206
Other charges with services and commissions	206,195	40,926
For banking services from third parties	663,009	507,074
For guarantees received	-	60
For transactions on financial instruments	383,247	429,779
	<b>2,149,409</b>	<b>1,783,045</b>
	<b>10,034,959</b>	<b>10,591,948</b>

## NOTE 7 GAINS OR LOSSES WITH FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING AND HEDGE ACCOUNTING

The amount of this caption is made up as follows:

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed return securities						
From national public issuers	1,027,480	191,276	836,204	4,564,943	1,053,512	3,511,431
From foreign public issuers	4,590,806	3,119,288	1,471,518	3,019,979	364,964	2,655,015
From other national issuers	64,286	161,240	(96,954)	244,833	27,261	217,572
From other foreign issuers	1,528,190	1,252,254	275,936	233,119	51,727	181,392
Shares of national issuers	1,488,991	938,540	550,451	1,767,942	751,705	1,016,237
Shares of foreign issuers	785,608	541,110	244,498	847,113	171,580	675,533
Participation units of foreign issuers	2,382,294	1,847,946	534,348	1,174,407	561,964	612,443
Derivative financial instruments						
Contracts on exchange rates	1,926,910	4,834,850	(2,907,940)	5,409,632	3,149,043	2,260,589
Contracts on interest rates	29,126,490	29,404,307	(277,817)	61,655,912	63,620,059	(1,964,147)
Contracts on shares / indices	4,189,522	4,576,430	(386,908)	5,942,996	6,898,894	(955,898)
Other	1,835,009	692,235	1,142,774	28,362,841	17,807,414	10,555,427
Derivatives - Hedge accounting	49,623,205	46,177,370	3,445,835	10,955,488	15,595,881	(4,640,393)
Credit and other amounts receivable	2,667	167,546	(164,879)	-	-	-
	<b>98,571,458</b>	<b>93,904,392</b>	<b>4,667,066</b>	<b>124,179,205</b>	<b>110,054,004</b>	<b>14,125,201</b>

## NOTE 8

### GAINS OR LOSSES WITH THE NON-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH RESULTS

The amount of this caption is made up as follows:

	2018			2017		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed return securities						
From national public issuers	4,557,967	928,738	3,629,229	30,152,450	822,949	29,329,501
From foreign public issuers	11,713,617	593,879	11,119,738	10,827,012	61,916	10,765,096
From other national issuers	626,515	-	626,515	1,552,979	-	1,552,979
From other foreign issuers	2,966,789	946,087	2,020,702	1,021,727	375	1,021,352
Shares of foreign issuers	27,577	21	27,556	-	-	-
Participation units of foreign issuers	-	-	-	43,314	1,719	41,595
	<b>19,892,465</b>	<b>2,468,725</b>	<b>17,423,740</b>	<b>43,597,482</b>	<b>886,959</b>	<b>42,710,523</b>

## NOTE 9

### EXCHANGE DIFFERENCES

On 31 December 2018, this caption comprises gains, amounting to 760,356 Euros of which 123,483 Euros relates to losses with term currency revaluation and 883,839 Euros relates to gains from currency revaluation at sight (31 December 2017: 3,580,178 Euros).

This caption includes the results arising from the currency revaluation of monetary assets and liabilities expressed in foreign currency in accordance with the accounting policy described in Note 2.2.

## NOTE 10

### PROFIT/LOSS ON THE SALE OF OTHER ASSETS

The amount of this caption is made up as follows:

	2018	2017
Financial transactions		
Other losses	(7,043)	(42,420)
Other gains	130,973	25,207,053
	<b>123,930</b>	<b>25,164,633</b>

Gains from financial transactions recorded in this caption refer, essentially, to capital reimbursements, both scheduled and paid beforehand. In 2017, ABS (asset backed securities) positions were also sold off, which were classified as Financial assets at amortised cost – Loans and advances – Clients (Note 21).

## NOTE 11 OTHER OPERATING RESULTS

The amount of this caption is made up as follows:

	2018	2017
Other operating income		
Provision of diverse services	145,458	107,134
Repayment of expenses	352	731
Other	660,726	574,629
	<b>806,536</b>	<b>682,494</b>
Other operating costs		
Direct and indirect taxation	1,329,637	1,216,943
Contributions to deposit guarantee fund	1,474	-
Dues and donations	87,834	80,029
Other	795,561	613,771
	<b>2,214,506</b>	<b>1,910,743</b>
<b>Other operating results</b>	<b>(1,407,970)</b>	<b>(1,228,249)</b>

The caption Other operating income – Other includes amounts relating to operations of the Multibanco network.

The caption Other operating costs – Other essentially includes contributions for the Resolution Fund national and for the European Single Resolution Fund.

## NOTE 12 ADMINISTRATIVE EXPENSES – STAFF EXPENSES

The amount of this caption is made up as follows:

	2018	2017
Remunerations	14,050,938	12,274,114
Costs with retirements pensions		
of defined Contributions (See Note 13)	554,120	873,431
Obligatory social charges	2,872,946	3,190,850
Other staff costs	2,130,210	6,751,503
	<b>19,608,214</b>	<b>23,089,898</b>

On 31 December 2018 costs with remunerations and other benefits attributed to the Corporate Offices were stated at 7,879,152 Euros (31 December 2017: 11,091,976 Euros).

The caption Other staff expenses comprises health insurance and life assurance, among others. The variation is due essentially to the payment of the complementary benefit relating to the capitalization life insurance. This caption also includes the recognition of the differential of the interest rate of the loans granted to employees and the market interest rate.

Expenses with remunerations and other benefits attributed to key management staff with senior management functions may be analysed as follows:

	2018	2017
Short-term employee benefits	4,928,365	4,557,165
Post-employment benefits	259,896	256,079
Other long-term benefits	20,699	11,924
	<b>5,208,960</b>	<b>4,825,168</b>

By professional category, the number of employees on 31 December 2018 and 2017 is broken down as follows:

	2018	2017
Specific functions	169	156
Middle management functions	34	35
Senior management functions	52	48
Administrative functions	12	11
Auxiliary functions	5	5
	<b>272</b>	<b>255</b>

## ▲ NOTE 13 EMPLOYEE BENEFITS

The Bank takes care of the retirement benefits of its employees through a defined contribution pension plan.

Besides the base contribution, during 2018 and 2017, the Bank made an additional contribution (incentive) of an amount equal to that of the voluntary contribution of the employees, with a cap of 4.5% of the monthly base salary.

On 31 December 2018, the Bank recognised as a cost the total amount of 758,458 Euros (31 December 2017: 1,147,294 Euros) relating to the Defined Contribution Plan, of which 204,338 Euros relate to the additional contribution (incentive).

Since 2006 the Bank has been providing the retirement benefits of its staff through two pension plans, a defined contribution plan and a defined benefit plan, the latter being implemented following the decisions taken in the general meetings of 8 April 2005 and 5 April 2006.

Since that date each member of the board of directors of the company or worker of the Bank could choose between the two existing plans, opting for the one that they would benefit from for the purpose of retirement;

The Bank's Board of Directors made an analysis of the impact of there being two plans, which in spite of being different in nature (defined benefit vs defined contribution) they were established equally for most employees. In this context, it saw that since the Defined Benefit Plan was set up in 2006, and after the staff initially joined it, no-one else signed up for this plan, also noticing that there was a trend in the market to convert defined benefit plans into defined contribution plans, namely due to the greater foreseeability, limitation and lower volatility of the inherent liabilities.

In this context, it was agreed in the General Meeting held on 8 May 2014 to stop the defined benefit plan, with the Bank providing only a defined contribution plan that would cover all the members of the board of directors of the company and the workers of the Bank.

With regard to the defined benefit pension plan, there were no pensions being paid or rights acquired that would prevent it from being closed. These alterations were duly authorised by the Insurance and Pension Fund Authority.

The participants of the defined benefit pension plan were included in the defined contribution pension plan, with the Bank assuming the commitment to maintain a reserve account for any differences that might appear compared with the defined benefits established for the participants of the previous defined benefit plan.

Only 6 employees in service are participants in the Defined Benefits Plan. Under the terms of the Plan, the benefits defined are acquired by right after 60 years of age with a minimum of 10 years' service.

On 31 December 2015, the Bank made its best estimate of its liability with pensions inherent to the defined benefit plan, taking into consideration the number of employees it expected to opt for this benefit. The value of the responsibilities corresponding to past services, up to 2012, was being deferred over a period of 11.5 years, when the plan was introduced, corresponding to the estimated period of service of these employees. The discount rate used to estimate the liability with retirement pensions corresponds to the market rates in force on the balance sheet date, stated in the currency in which the benefits will be paid.

In 2018 the provision constituted in 2017 was updated, corresponding to the actuarial estimate of the commitment assumed by the Bank as a result of the defined benefit plan, by 1,360,870 Euros (31 December 2017: 78,494 Euros), totalling 4,038,491 Euros (31 December 2017: 2,676,469).

### **BiG Stock Option Plan**

On 31 December 2018, BiG's stock option programs had the following main characteristics:

Plan	Expected date of the end of the plan (1)	Number of options on the start date of the plan	Exercise price	Number of options	Number of shares per option
2012	jan/2025	7,150,000	1.00	4,544,121	1.94
2013	jan/2027	5,000,000	1.00	4,500,000	1.58

(1) The expiry date refers to the lapse date of the last year for each Plan.

On 31 December 2017, the main characteristics of the BiG stock option programs were as follows:

Plan	Expected date of the end of the plan (1)	Number of options on the start date of the plan	Exercise price	Number of options	Number of shares per option
2005	nov/2018	9,000,000	1.00	1,802,965	1.96
2007	mar/2020	1,824,000	1.00	77,400	1.76
2007	mar/2020	66,800	1.00	10,020	1.67
2007	mar/2020	15,600	1.00	1,632	1.66
2010	mar/2023	65,000	1.00	23,450	1.67
2012	jan/2025	7,150,000	1.00	6,350,000	1.94
2013	jul/2026	1,473,250	1.00	1,393,250	1.58
2013	jan/2027	5,000,000	1.00	4,500,000	1.58
2013	abr/2027	200,000	1.00	200,000	1.58

(1) The expiry date refers to the lapse date of the last year for each Plan.

The options mature, individually, after ten years has passed after the respective due dates.

The regulations relating to the stock options plan have remained substantially the same since 2005, except with regard to the due dates and to the financing. Normally the due dates are distributed over 3 years, except in the case of the corporate offices which fall due 3 years after their attribution. The maturity period, 10 years after the first due date, remained unchanged. Taking into consideration that the Bank is not listed, the exercise of the options occurs only when the Bank makes a capital increase, which cannot coincide with the communication of intention to exercise by the holders of the options.

### **Valuation methodology of the options**

The valuation of the BiG's stock options is based on the adoption of internationally accepted market methodologies and takes the specific characteristics of the BiG's stock option programs and market data into consideration.

For the purpose of the application of the option valuation model, the value of BiG's shares is estimated based on a combination of the Discounted Cash Flows to Equity, Market Multiples and Adjusted Book Value methodologies based on the Gordon model.

## NOTE 14 ADMINISTRATIVE EXPENSES – OTHER ADMINISTRATIVE EXPENSES

The amount of this caption is made up as follows:

	2018	2017
Supplies	1,354,215	1,493,869
Rents	1,019,648	1,004,711
Communications	597,001	603,637
Travel, hotel and representation costs	588,026	434,482
Advertising and publications	206,434	1,140,255
Specialised services		
Fees	242,008	291,603
Information Technology	1,957,471	2,175,950
Security and surveillance	182,952	181,810
Information	491,455	585,950
Databases	49,027	26,022
Manual labour	66,283	100,826
Other specialised services	1,218,547	1,247,551
Other	479,859	340,619
	<b>8,452,926</b>	<b>9,627,285</b>

The fees billed during the year by the external auditors are detailed as follows:

	2018	2017
Accounts Auditing and Supervision Services	162,706	246,163
Other reliability guarantee services related with the Statutory Auditor	39,385	24,000
	<b>202,091</b>	<b>270,163</b>

The fees relating to the different services of the audit include the services provided with regard to the issue of the Impairment Report and of the Opinions on the Group's Internal Control System on the Safekeeping of Clients' Goods.

## NOTE 15 EARNINGS PER SHARE

Earnings per basic share are calculated by dividing the net income by the weighted average number of ordinary shares in circulation during the year.

Earnings per diluted share are calculated by adjusting the effect of all potential dilutive ordinary shares to the average weighted number of ordinary shares in circulation and to the net result attributable to the shareholders of the Bank.

	2018	2017
Net profit attributable to the bank's shareholders	23,056,216	52,346,618
Weighted average number of ordinary shares issued	171,947,388	156,863,447
Weighted average number of Treasury Stock in portfolio	(2,598)	(2,598)
<b>Average number of ordinary shares in circulation</b>	<b>171,944,790</b>	<b>156,860,849</b>
<b>Earnings per share attributable to the bank's shareholders (in Euros)</b>	<b>0.13</b>	<b>0.34</b>

Earnings per diluted share are no different from Earnings per ordinary share as there were no dilutive shares on 31 December 2018 and 2017.

## NOTE 16

### CASH, CASH BALANCES IN CENTRAL BANKS AND OTHER DEMAND DEPOSITS – CASH AND CASH IN CENTRAL BANKS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Cash	2,319,342	2,354,530
Demand deposits in central banks	68,999,356	82,054,009
	<b>71,318,698</b>	<b>84,408,539</b>

The caption Demand Deposits in Central Banks includes the deposits made to satisfy the requirements of the Minimum Reserve System of the European System of Central Banks. Pursuant to regulation (EC) no. 2818/98 of the European Central Bank, of 1 December 1998, the minimum obligatory amount held in demand deposits in the Bank of Portugal is remunerated and correspond to 1% of the deposits and debt securities with a maturity period of less than 2 years, excluding deposits and debt securities of institutions subject to the European System of Central Banks' regime of minimum reserves.

Fulfilment of the minimum obligatory amounts, for a given period of observation, is achieved taking into consideration the value of the balances of the deposits in the Bank of Portugal during this period. The balance of the account in the Bank of Portugal on 31 December 2018 includes an average mandatory reserve of 15,051,300 Euros which corresponds to the maintenance period from 19 December 2018 to 29 January 2019.

This caption also includes the demand deposits in the Bank of Mozambique to meet the requirements of the regime for the constitution of obligatory minimum reserves, as established by Notice 12/GBM/2017 of 8 June 2017. Pursuant to this Notice, obligatory reserves correspond, as a percentage of the balance of clients' deposits, to 14% and 27% in national currency and foreign currency, respectively, from which the banks subject to the regime of obligatory reserves are excluded. The reserves are kept in Meticaís for deposits in national currency and in North American Dollars for deposits in foreign currency, these deposits not being remunerated.

The fulfilment of the minimum obligatory amounts, for a given period, takes into consideration the value of the balances of deposits in the Bank of Mozambique during this period. The balance of the accounts in the Bank of Mozambique on 31 December 2018 includes 97,127,360 Meticaís and 89,487 North American Dollars corresponding to the minimum obligatory reserves to be observed in the maintenance period from 7 December 2018 to 6 January 2019.

On 31 December 2018 and 2017 there is no impairment allocated to Cash, cash balances in central banks and other demand deposits – Cash on hand and cash balances in central banks, seeing that these financial instruments are redeemable at any time, and the Group, in accordance with its credit risk management policies, controls and assesses the credit quality of the respective counterparties (banks) daily.

## NOTE 17

### CASH, CASH BALANCES IN CENTRAL BANKS AND OTHER DEMAND DEPOSITS – OTHER DEMAND DEPOSITS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Deposits in other Banks in Portugal		
Demand deposits	2,622,319	1,846,618
Deposits in other Banks abroad		
Demand deposits	82,829,519	68,066,596
	<b>85,451,838</b>	<b>69,913,214</b>

The banks where the BiG has deposits have a high rating, and at the end of the year 83% of these are in institutions whose rating is investment grade. The other deposits are in banks that are not classified (14%) or in banks whose rating is lower than investment grade (3%).



## NOTE 18 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Financial assets held for trading		
Securities		
Bonds and other fixed return securities		
From national public issuers	6,910,085	5,153,710
From foreign public issuers	9,075,113	37,458
From other national issuers	8,497,882	6,371,173
From other foreign issuers	45,046,345	722,963
Shares of national issuers	932,824	-
Shares of foreign issuers	1,326,616	13,895,453
Participation units of foreign issuers	621,666	3,382,112
	<b>72,410,531</b>	<b>29,562,869</b>
Derivatives		
Derivative financial instruments with positive fair value	384,497	767,489
Credit and other amounts receivable	381,008	-
Other equity instruments	69,975	-
	<b>73,246,011</b>	<b>30,330,358</b>
Financial liabilities held for trading		
Derivatives		
Derivative financial instruments with negative fair value	183,444	543,390
	<b>183,444</b>	<b>543,390</b>

As per the accounting policy described in Note 2.5. Financial assets held for trading are those acquired with the objective of being traded in the short term, regardless of their maturity.

The captions of Shares and Other equity instruments include participations in early-stage start-ups located in Portugal, United Kingdom, Germany and United States of America amounting to a total of 1,888,253 Euros. The amounts recorded in the caption Credits and Other Amounts receivable refer to convertible loans (85,000 Euros) and other debt instruments (296,008 Euros).

The caption Derivative financial instruments on 31 December 2018 and 2017 is broken down as follows:

	2018			2017		
	Notional	Fair value		Notional	Fair value	
		Assets	Passivo		Assets	Liabilities
Derivatives held for trading						
Contracts on exchange rates						
Currency Options	-	-	-	6,804,329	16,204	16,908
Contracts on shares/indices						
Equity / Index Options	6,983,137	332,870	132,965	21,519,261	625,972	493,170
Term transactions	-	-	48,857	12,600,285	125,313	693
Other	157,205	51,627	1,622	346,035	-	32,619
	<b>7,140,342</b>	<b>384,497</b>	<b>183,444</b>	<b>41,269,910</b>	<b>767,489</b>	<b>543,390</b>

The value recorded in the Balance Sheet, in the caption Derivative financial instruments, in line with Note 2.3., is the fair value of the derivatives, while the notional amount is recorded off-Balance Sheet.

On 31 December 2018 the notional total of derivatives associated to complex financial products is entered in the classes of *Equity/Index Options, and Others*, amounts to 7,140,342 Euros. The positive fair value of these notional assets is 334,503 Euros and the negative fair value is 134,586 Euros, representing 87% of total assets and 73% of total liabilities.

On 31 December 2018 and 2017, the distribution of the Financial assets held for trading – Securities by residual maturity, is as follows:

	2018	2017
Securities		
Up to 3 months	306,568	-
3 months to 1 year	1,707,127	384,573
From 1 to 5 years	43,721,340	4,488,055
Over 5 years	23,794,390	7,412,676
From 1 to 5 years	2,881,106	17,277,565
	<b>72,410,531</b>	<b>29,562,869</b>

On 31 December 2018 and 2017, the distribution of the Financial assets and liabilities held for trading – Derivative financial instruments, by residual maturity is presented as follows:

	2018		2017	
	Notional	Fair value	Notional	Fair value
Derivative financial instruments				
Up to 3 months	1,775,248	(97,147)	12,600,285	124,620
3 months to 1 year	4,136,753	197,595	-	-
From 1 to 5 years	1,228,341	100,605	28,669,625	99,479
	<b>7,140,342</b>	<b>201,053</b>	<b>41,269,910</b>	<b>224,099</b>

On 31 December 2018, the distribution of Financial assets and liabilities held for trading – Credits and other amounts receivable, by periods of residual maturity, is presented as follows:

	2018	2017
Créditos e outros valores a receber		
From 1 to 5 years	303,341	-
From 1 to 5 years	147,642	-
	<b>450,983</b>	-

## NOTE 19

### FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, FINANCIAL ASSETS AVAILABLE FOR SALE

On 31 December 2018 and 2017, this caption was broken down as follows:

	Cost (1)	Fair value reserve		Expected credit loss	Balance Sheet Value
		Positive	Negative		
Financial assets at fair value through other comprehensive income					
Financial assets available for sale					
Bonds and other fixed return securities					
From national public issuers	48,580,351	259,094	-		48,839,445
From foreign public issuers	1,200,532,967	123,303	(90,921,260)		1,109,735,010
From other national issuers	76,874,164	205,761	(226,701)		76,853,224
From other foreign issuers	62,556,136	375,978	(181,198)		62,750,916
Shares of national issuers	1,070,976	16,500	(117,163)		970,313
Shares of foreign issuers	104,000	-	-		104,000
Participation units of foreign issuers	1,505,157	-	(39,807)		1,465,350
<b>Balance on 31 December 2017</b>	<b>1,391,223,751</b>	<b>980,636</b>	<b>(91,486,129)</b>		<b>1,300,718,258</b>
Financial assets at fair value through other comprehensive income					
Bonds and other fixed return securities					
From national public issuers	204,217,529	113,994	(5,650,489)	-	198,681,034
From foreign public issuers	585,838,028	125,545	(22,394,315)	709,582	563,569,258
From other national issuers	239,492,797	103,286	(4,967,204)	192,537	234,628,879
From other foreign issuers	589,469,893	2,317,344	(18,292,034)	186,484	573,495,203
Shares of national issuers	13,978	-	-	-	13,978
Shares of foreign issuers	16,500	-	-	-	16,500
Participation units of foreign issuers	-	-	-	-	-
Financial assets available for sale					
<b>Balance on 31 December 2018</b>	<b>1,619,048,725</b>	<b>2,660,169</b>	<b>(51,304,042)</b>	<b>1,088,603</b>	<b>1,570,404,852</b>

(1) amortised cost for debt securities and acquisition cost with regard to shares and others.

On 31 December 2018, the caption Bonds and other fixed income securities – Of other national and foreign issuers includes 301,260,606 Euros relating to asset backed securities (ABS).

On 31 December 2018, around 99% of the asset portfolio financial at fair value through other comprehensive income, comprising bonds and other fixed income securities, was hedged by derivative financial instruments, specifically interest rate futures.

The average interest rate during the year ended on 31 December 2018, was 2.2% (31 December 2017: 3.2%).

In accordance with the accounting policy described in Note 2.5., the Group regularly assesses whether there is objective evidence of impairment in its portfolio of Financial assets at fair value through other comprehensive income following the criteria of judgement described in Note 4.1..

The securities in the Group's portfolio which are given by it as a guarantee are analysed in Note 36 (off-balance sheet accounts).

On 31 December 2018 and 2017, the distribution of this caption by residual maturity periods is as follows:

	2018	2017
Up to 3 months	52,202	53,751
3 months to 1 year	148,561	284,672
From 1 to 5 years	205,514,058	52,636,134
Over 5 years	1,364,659,553	1,245,204,037
Unspecified duration	30,478	2,539,664
	<b>1,570,404,852</b>	<b>1,300,718,258</b>

The movements in expected credit loss in Financial assets at fair value through other comprehensive income, Financial assets available for sale are presented as follows:

	2018	2017
<b>Opening balance</b>	-	<b>283,359</b>
Implementation IFRS 9	2,337,387	
Additions	3,760,513	-
Reversals	(5,009,297)	(260,012)
Cambial	-	(23,347)
<b>Closing balance</b>	<b>1,088,603</b>	-

## NOTE 20

### FINANCIAL ASSETS AT AMORTISED COST – DEBT SECURITIES

On 31 December 2018 the caption Financial assets at amortised cost – Debt securities comprised fixed income securities of public issuers, amounting to 336,293,487 Euros with a period of maturity of over 5 years, and whose interest rate risk is covered through the contracting of IRS (interest rate swap), for the maturity of each of the securities.

The Group regularly assesses if there is any significant increase in the credit risk of these financial debt instruments, as per note 2.3.3..

On 31 December the impairment of credit, constituted for performing credits, (stage 1) amounted to 434,996 Euros.

The average interest rate, before interest rate hedging during the year ending on 31 December 2018, amounted to 1.6%.

## NOTE 21 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES – CLIENTS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Domestic loans		
To companies		
Loans	321,986	107,134
Loans at sight	5,371,936	4,160,264
Overdrafts	38,627	1,224
Leasing	445,087	444,589
Other specialised loans	11,629	25,182
To private individuals		
Loans at sight	9,617,640	7,220,867
Mortgages	5,838,539	6,387,610
Leasing	1,988,841	1,810,757
Overdrafts	88,155	34,531
Other specialised loans	585,410	742,891
Other credit	12,839,458	16,445,999
	<b>37,147,308</b>	<b>37,381,048</b>
Foreign loans		
To companies		
Overdrafts	5,598	179
To private individuals		
Loans at sight	1,315,113	1,196,097
Mortgages	360,025	480,654
Overdrafts	3,653	3,750
	<b>1,684,389</b>	<b>1,680,680</b>
Loans represented by securities		
Unsubordinated debt securities		
Issued by residents	-	56,448,460
Issued by non-residents	-	213,683,192
	-	<b>270,131,652</b>
Past due loans and interest		
Over 90 days	27,472	148,440
	<b>27,472</b>	<b>148,440</b>
	<b>38,859,169</b>	<b>309,341,820</b>
Impairment of loans to clients	(32,351)	(248,282)
<b>Loans to clients</b>	<b>38,826,818</b>	<b>309,093,538</b>

Regarding the implementation of IFRS 9 on 1 January 2018, and as a result of the revision of the business model, the ABS securities portfolio was reclassified to the asset portfolio at fair value through other comprehensive income.

On 31 December 2018 and 2017 the caption Loans at sight reflects loans granted under the margin account, which are collateralised with deposits and/or securities held in the Group.

On 31 December 2018, the Group's credit portfolio included loans granted to a member of the Board of Directors amounting to 8,772,984 Euros arising from the staff policy, pursuant to art. 85(4) of the General Regime of Credit Institutions and Financial Companies (31 December 2017: 11,079,234 Euros). The loans granted to key management staff with senior management functions amounted to 5,828,119 Euros (31 December 2017: 7,532,672 Euros).

The average interest rate during the year ended on 31 December 2018 was 2.4% (31 December 2017: 0.3%).

The residual periods of Loans and advances – Clients, including past due loans and interest, were structured as follows:

	2018	2017
Up to 3 months	16,456,604	12,680,682
3 months to 1 year	12,047,065	41,530
From 1 to 5 years	2,966,289	18,496,117
Over 5 years	7,361,739	277,975,051
Unspecified duration	27,472	148,440
	<b>38,859,169</b>	<b>309,341,820</b>

The movements in impairment of Loans and advances – Clients are presented as follows:

	2018	2017
<b>Opening balance</b>	<b>248,282</b>	<b>243,014</b>
Additions	2,549	7,342
Reversals	(119,340)	(2,079)
Used	(1,374)	-
Exchange	-	5
IFRS 9	(97,766)	-
<b>Closing balance</b>	<b>32,351</b>	<b>248,282</b>

The distribution of Loans and advances – Clients by type of rate may be presented as follows:

	2018	2017
Variable rate	38,331,362	308,836,707
Fixed rate	527,807	505,113
	<b>38,859,169</b>	<b>309,341,820</b>

The residual periods of leased capital were structured as follows:

	2018	2017
<b>Instalments and residual values due</b>		
Up to 3 months	7,128	10,040
3 months to 1 year	65,255	38,572
From 1 to 5 years	1,659,813	1,653,447
Over 5 years	877,825	729,217
	<b>2,610,021</b>	<b>2,431,276</b>
<b>Interest due</b>		
Up to 3 months	18	39
3 months to 1 year	1,136	940
From 1 to 5 years	91,419	98,586
Over 5 years	83,520	76,365
	<b>176,093</b>	<b>175,930</b>
<b>Capital due</b>		
Up to 3 months	7,110	10,001
3 months to 1 year	64,119	37,632
From 1 to 5 years	1,568,394	1,554,861
Over 5 years	794,305	652,852
	<b>2,433,928</b>	<b>2,255,346</b>

The detail of the portfolio of loans not represented by securities (retail and guarantees and sureties provided) year of production, is as follows:

31-12-2018	Current Account Credit			Mortgages			Other		
	Number of transactions	Amount	Impairment set up	Number of transactions	Amount	Impairment set up	Number of transactions	Amount	Impairment set up
2006 and previous	46	2,557,911	-	14	454,487	68	2	44,200	6
2007	16	545,460	-	4	191,888	29	1	50,844	8
2008	16	142,855	-	9	439,504	67	1	20,052	3
2009	15	826,098	-	4	393,729	61	-	-	-
2010	12	173,575	-	3	251,410	39	-	-	-
2011	16	1,176,515	-	10	563,973	87	2	15,675	2
2012	10	775,326	-	1	56,278	9	2	2,812	66
2013	13	988,579	-	2	74,178	12	11	18,583	11,151
2014	26	828,934	66	5	286,217	43	24	221,657	4,576
2015	12	4,009,324	-	4	514,525	80	41	240,978	1,362
2016	13	1,376,888	-	8	451,832	84	94	13,039,946	2,402
2017	18	1,694,146	-	8	823,252	122	144	2,578,284	2,664
2018	38	1,209,050	-	10	892,436	140	1,745	1,599,332	9,204
	<b>251</b>	<b>16,304,661</b>	<b>66</b>	<b>82</b>	<b>5,393,709</b>	<b>841</b>	<b>2,067</b>	<b>17,832,363</b>	<b>31,444</b>

01-01-2018	Current Account Credit			Mortgages			Other		
	Number of transactions	Amount	Impairment set up	Number of transactions	Amount	Impairment set up	Number of transactions	Amount	Impairment set up
2005 and previous	42	2,671,553	-	14	507,880	77	2	51,923	8
2006	10	142,775	-	-	-	-	-	-	-
2007	20	460,680	-	5	299,996	47	2	75,387	12
2008	12	82,548	-	13	681,501	106	1	22,725	3
2009	19	696,890	-	5	436,575	68	-	-	-
2010	15	295,264	-	3	267,077	42	3	127,017	125,900
2011	17	1,444,736	-	10	588,523	92	2	16,347	3
2012	11	803,079	-	2	134,263	21	5	25,265	66
2013	15	511,347	-	6	442,143	69	16	180,290	11,130
2014	31	852,209	-	8	452,174	68	33	298,387	4,258
2015	15	3,065,382	-	6	803,661	126	49	588,548	1,625
2016	12	400,299	-	9	516,130	262	98	13,492,649	3,380
2017	23	1,150,639	-	9	961,227	151	1,853	7,002,751	3,001
	<b>242</b>	<b>12,577,401</b>	<b>-</b>	<b>90</b>	<b>6,091,150</b>	<b>1,129</b>	<b>2,064</b>	<b>21,881,289</b>	<b>149,386</b>

31-12-2017	Current Account Credit			Mortgages			Other		
	Number of transactions	Amount	Impairment set up	Number of transactions	Amount	Impairment set up	Number of transactions	Amount	Impairment set up
2005 and previous	42	2,671,553	3,366	14	507,880	3,921	2	51,923	53
2006	10	142,775	180	-	-	-	-	-	-
2007	20	460,680	582	5	299,996	2,316	2	75,387	77
2008	12	82,548	104	13	681,500	5,261	1	22,725	23
2009	19	696,890	878	5	436,575	3,370	-	-	-
2010	15	295,264	373	3	267,077	2,062	3	127,017	125,904
2011	17	1,444,736	1,824	10	588,523	4,543	2	16,347	17
2012	11	803,079	1,015	2	134,263	1,037	5	25,265	148
2013	15	511,347	646	6	442,143	3,413	16	180,290	12,554
2014	31	852,209	1,302	8	452,174	3,491	33	298,387	6,315
2015	16	3,065,382	3,876	6	803,661	6,204	46	295,548	2,746
2016	12	400,299	506	9	516,130	3,984	96	13,477,649	22,945
2017	23	1,150,639	1,455	9	961,228	7,420	1,844	6,821,282	14,371
	<b>243</b>	<b>12,577,401</b>	<b>16,107</b>	<b>90</b>	<b>6,091,150</b>	<b>47,022</b>	<b>2,050</b>	<b>21,391,820</b>	<b>185,153</b>

On 31 December 2018 and 2017, impairment was broken down as follows:

2018												
	Stage 1			Stage 2			Stage 3			TOTAL		
	Exposição bruta	Imparidade	Exposição Líquida	Exposição bruta	Imparidade	Exposição Líquida	Exposição bruta	Imparidade	Exposição Líquida	Exposição bruta	Imparidade	Exposição Líquida
Crédito concedido												
Empresas	6.257.825	(1.720)	6.256.105	5.495	(60)	5.435	-	-	-	6.263.320	(1.780)	6.261.540
Particulares	32.883.255	(2.848)	32.880.407	120.744	-	120.744	27.762	(27.723)	39	33.031.761	(30.571)	33.001.190
Garantias e avales prestados												
Empresas	44.350	-	44.350	-	-	-	-	-	-	44.350	-	44.350
Particulares	191.302	-	191.302	-	-	-	-	-	-	191.302	-	191.302
<b>Total</b>	<b>39.376.732</b>	<b>(4.568)</b>	<b>39.372.164</b>	<b>126.239</b>	<b>(60)</b>	<b>126.179</b>	<b>27.762</b>	<b>(27.723)</b>	<b>39</b>	<b>39.530.733</b>	<b>(32.351)</b>	<b>39.498.382</b>

2017								
	Impairment calculated on an individual basis		Calculation of impairment based on portfolio		Total			
	Credit amount	Impairment	Credit amount	Impairment	Credit amount	Impairment	Credit net of impairment	
Loans to:								
Companies	126,410	126,410	274,870,224	7,862	274,996,634	134,272	274,862,362	
Private individuals	22,030	21,915	34,323,156	92,095	34,345,186	114,010	34,231,176	
<b>Total</b>	<b>148,440</b>	<b>148,325</b>	<b>309,193,380</b>	<b>99,957</b>	<b>309,341,820</b>	<b>248,282</b>	<b>309,093,538</b>	

## NOTE 22

### FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES – BANKS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Loans and advances - Banks in Portugal		
Deposits	2,834,646	3,304,015
Loans	68,558	108,715
Loans and advances - Central Banks		
Very short-term applications	1,161,238	-
	<b>4,064,442</b>	<b>3,412,730</b>

The residual periods of Loans and advances – Banks was structured as follows:

	2018	2017
Up to 3 months	2,156,082	3,304,016
3 months to 1 year	1,839,825	11,755
From 1 to 5 years	68,535	96,959
	<b>4,064,442</b>	<b>3,412,730</b>

On 31 December 2018 and 2017 there is no impairment allocated to Loans and advances – Banks, seeing that these loans are redeemable at any time, and the Group, in accordance with its credit risk management policies, controls and assesses the credit quality of the respective counterparties (banks) daily.



## NOTE 23 DERIVATIVES – HEDGE ACCOUNTING

On 31 December 2018 and 2017 this caption was broken down as follows:

2018							
Derivative product	Associated financial asset/liability	Hedge instrument			Hedge instrument		
		Notional	Fair value (1)	Variation in fair value in the year	Fair value component of the element covered	Variation in fair value in the year	Balance Sheet value
Interest Rate Swap	Debt instruments	494,000,000	(18,197,101)	(18,197,101)	(11,516,251)	(15,740,951)	713,074,570
Futures	Debt instruments	640,335,641	-	(17,944,223)	(17,411,734)	165,661	1,519,100,739
		<b>1,134,335,641</b>	<b>(18,197,101)</b>	<b>(36,141,324)</b>	<b>(28,927,985)</b>	<b>(15,575,290)</b>	<b>2,242,175,309</b>

(1) Inclui juro corrido

2017							
Derivative product	Associated financial asset/liability	Derivative			Associated asset / liability		
		Notional	Fair value (1)	Variation in fair value in the year	Fair value component of the element covered	Variation in fair value in the year	Balance Sheet value
Interest Rate Swap	Debt instruments	-	-	-	-	-	-
Futures	Debt instruments	-	-	-	-	-	-
		-	-	-	-	-	-

(1) includes accrued interest

The variations in fair value associated to the assets described above and the respective hedge derivatives are entered in the income statement of the year in the caption of Profit/loss on assets and liabilities at fair value through the income statement (Note 7). With regard to the fair value of futures, this is reflected in the caption of Deposits in other banks.

## NOTE 24 TANGIBLE ASSETS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
<b>Buildings</b>		
Improvements to buildings	4,188,807	4,073,822
For own use	15,888,882	15,887,937
	<b>20,077,689</b>	<b>19,961,759</b>
<b>Equipment</b>		
Computer equipment	5,497,154	5,559,111
Furniture and material	1,457,989	1,308,559
Installations and interiors	2,406,506	2,089,246
Security equipment	244,705	244,712
Machines and tools	264,415	165,523
Other equipment	222,277	220,953
Transportation material	93,023	93,317
	<b>10,186,069</b>	<b>9,681,421</b>
<b>Tangible assets in progress</b>		
Improvements to buildings	1,454	-
Computer equipment	78,016	83,293
Furniture and material	3,541	-
Security equipment	17,957	-
	<b>100,968</b>	<b>83,293</b>
	<b>30,364,726</b>	<b>29,726,473</b>
<b>Impairment</b>	(301,115)	(301,115)
<b>Accumulated depreciation</b>	(14,610,700)	(14,048,690)
	<b>15,452,911</b>	<b>15,376,668</b>

The movement in this caption was the following:

	Buildings	Equipment	Tangible fixed assets in progress	Total
<b>Acquisition cost</b>				
Balance on 31 December 2016	19,881,020	9,568,659	119,221	29,568,900
Additions	72,707	91,742	2,282	166,731
Reversals	-	-	(46,185)	(46,185)
Currency exchange differences	8,032	21,020	7,975	37,027
Balance on 31 December 2017	19,961,759	9,681,421	83,293	29,726,473
Additions	116,362	662,717	17,957	797,036
Reversals	-	(156,830)	-	(156,830)
Currency exchange differences	(433)	(1,239)	(281)	(1,953)
Balance on 31 December 2018	20,077,688	10,186,069	100,969	30,364,726
<b>Depreciation</b>				
Balance on 31 December 2016	4,916,973	8,560,575	-	13,477,548
Amortization of the year	463,864	401,932	-	865,796
Currency exchange differences	535	5,926	-	6,461
Balance on 31 December 2017	5,381,372	8,968,433	-	14,349,805
Reversals	-	(156,830)	-	(156,830)
Amortization of the year	443,241	279,885	-	723,126
Currency exchange differences	(3,916)	(370)	-	(4,286)
Balance on 31 December 2018	5,820,697	9,091,118	-	14,911,815
<b>Net balance on 31 December 2018</b>	<b>14,256,991</b>	<b>1,094,951</b>	<b>100,969</b>	<b>15,452,911</b>
<b>Net balance on 31 December 2017</b>	<b>14,580,387</b>	<b>712,988</b>	<b>83,293</b>	<b>15,376,668</b>

## NOTE 25 INTANGIBLE ASSETS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Acquired from third parties		
Automatic data treatment system	11,678,472	10,814,250
Other financial investments	587,197	587,197
	12,265,219	11,401,447
Intangible assets in progress		
Automatic data treatment system	738,609	244,659
	738,609	244,659
	13,003,828	11,646,106
Accumulated amortization	(10,889,747)	(9,651,230)
	<b>2,114,081</b>	<b>1,994,876</b>

The movement in this caption was the following:

	Automatic data treatment system	Other financial investments	Tangible fixed assets in progress	Total
Acquisition cost				
Balance on 31 December 2016	10,180,993	587,197	204,504	10,972,694
Additions	630,948	-	38,933	669,881
Transfers	-	-	-	-
Currency exchange differences	2,309	-	1,222	3,531
Balance on 31 December 2017	10,814,250	587,197	244,659	11,646,106
Additions	645,612	-	712,399	1,358,011
Transfers	218,319	-	(218,319)	-
Currency exchange differences	(159)	-	(130)	(289)
Balance on 31 December 2018	11,678,022	587,197	738,609	13,003,828
Amortization				
Balance on 31 December 2016	7,818,049	587,197	-	8,405,246
Amortization of the year	1,244,069	-	-	1,244,069
Currency exchange differences	1,915	-	-	1,915
Balance on 31 December 2017	9,064,033	587,197	-	9,651,230
Amortization of the year	1,238,741	-	-	1,238,741
Currency exchange differences	(224)	-	-	(224)
Balance on 31 December 2018	10,302,550	587,197	-	10,889,747
<b>Net balance on 31 December 2018</b>	<b>1,375,472</b>	<b>-</b>	<b>738,609</b>	<b>2,114,081</b>
<b>Net balance on 31 December 2017</b>	<b>1,750,217</b>	<b>-</b>	<b>244,659</b>	<b>1,994,876</b>

## NOTE 26 CURRENT TAX ASSETS AND LIABILITIES

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Estimated tax for the year	(8,145,259)	(20,522,306)
Payments on account	11,687,104	11,898,254
Withholding tax	877,145	653,000
Corrections to tax relating to previous years	3,338,056	-
Estimated tax on retained earnings	9,952,213	-
<b>Current tax assets / (liabilities)</b>	<b>17,709,259</b>	<b>(7,971,052)</b>

On 31 December 2018 the caption of Estimate of tax of the year includes 1,200,000 Euros relating to the contribution of the banking sector (31 December 2017: 1,000,000 Euros).

## NOTE 27 OTHER ASSETS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Debtors and other applications		
Debtors on futures trading	-	628,154
Margin applications	43,274,132	1,677,935
Public sector	50,136	36,727
Other debtors	556,668	460,518
Debtors and other applications	144,080	158,223
Other assets	133,899	133,899
	<b>44,158,915</b>	<b>3,095,456</b>
Impairment losses on other assets	(53,549)	(55,265)
	<b>44,105,366</b>	<b>3,040,191</b>
Expenses with deferred costs	915,294	1,167,502
Income receivable	841,948	1,053,064
Other accruals and deferrals		
Other pending transactions	2,373,391	1,995,341
	<b>2,373,391</b>	<b>1,995,341</b>
	<b>48,235,999</b>	<b>7,256,098</b>

The caption Margin Applications refers to collateral maintained with counterparties for trading in derivative instruments. The variation refers essentially to interest rate swaps (IRS) of hedging contracted during 2018.

The caption Other pending transactions essentially relates to transactions that were still to be settled on 31 December.

On 31 December 2018 the caption Expenses with deferred costs includes an amount of 377,131 Euros (31 December 2017: 864,329 Euros) relating to the recognition of the difference between the interest rate of the loans granted to employees for mortgages, personal loans and the acquisition of securities and the market interest rate.

The movements in impairment losses for other assets are presented as follows:

	2018	2017
<b>Opening balance</b>	<b>55,265</b>	<b>66,210</b>
Additions	25,847	10,219
Reversals	(27,293)	(21,164)
IFRS 9	(270)	-
<b>Closing balance</b>	<b>53,549</b>	<b>55,265</b>

## NOTE 28

### FINANCIAL LIABILITIES HELD AT AMORTISED COST – FUNDING FROM OTHER BANKS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Domestic		
Deposits	133,043,092	112,444,518
	<b>133,043,092</b>	<b>112,444,518</b>
Abroad		
Deposits	9,597,593	5,129,005
Loans	411,693,199	292,687,111
	<b>421,290,792</b>	<b>297,816,116</b>
	<b>554,333,884</b>	<b>410,260,634</b>

The captions of Deposits essentially comprise deposits made by banks in BiG. The amounts relating a Loans relate to loans obtained, with collateral of securities, contracted with international institutions.

The average interest rate during the year ended on 31 December 2018 was 0.59% (31 December 2017: 0.13%).

The residual period of the Funding from other banks may be analysed as follows:

	2018	2017
Up to 3 months	499,155,986	398,835,147
3 months to 1 year	55,177,898	11,425,487
	<b>554,333,884</b>	<b>410,260,634</b>

## NOTE 29

### FINANCIAL LIABILITIES MEASURED AT AMORTISED COST – FUNDING FROM CLIENTS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Demand deposits	626,908,585	488,408,314
Term deposits	661,937,827	508,366,207
Other	23,364,459	39,019,454
	<b>1,312,210,871</b>	<b>1,035,793,975</b>

The caption Other essentially relates to indexed deposits and complex financial products. The respective embedded derivative was bifurcated, being classified as an asset/liability at fair value through results.

The residual periods of Funding from clients were structured as follows:

	2018	2017
Up to 3 months	1,110,441,752	894,936,957
3 months to 1 year	188,750,443	122,363,592
From 1 to 5 years	13,018,676	18,493,426
	<b>1,312,210,871</b>	<b>1,035,793,975</b>

## NOTE 30 PROVISIONS

On 31 December 2018 and 2017, this caption was broken down as follows:

	Other provisions
<b>Balance on 31 December 2016</b>	<b>6,788,288</b>
Additions	1,498,410
Reversals	(3,500,000)
Used	(45,910)
<b>Balance on 31 December 2017</b>	<b>4,740,788</b>
Additions	50,000
Reversals	(1,452,500)
Used	-
<b>Balance on 31 December 2018</b>	<b>3,338,288</b>

This caption includes provisions set up to cover other specific risks, legal proceedings and other losses arising from the Group's activity.

## NOTE 31 SHARE CAPITAL REIMBURSABLE AT SIGHT

The General Meetings of the BiG held on 08 May 2014 and on 21 April 2016, authorised the Board of Directors to make a capital increase through the issue of redeemable preference shares intended for workers and members of the Corporate Offices of the Bank. Following these deliberations, in July 2016, the Board of Directors of the Bank made a capital increase by the issue of 12,000,000 (twelve million) non-voting redeemable preference shares.

The non-voting redeemable preference shares have characteristics that grant this instrument a hybrid nature as they share clear characteristics of debt instruments. It is for this reason that, under International Accounting Standards, they are classified as a financial liability, in the caption Instruments representing capital with the nature of liabilities, and the respective income paid is entered as interest.

The preference shares issued by BiG are, in accordance with the deliberation for their issue and the current wording of BiG's by-laws, subject to redemption in the period of 38 months from the date of their issue, or rather, the shares are issued for a fixed period and both the issuer and their holders have an unconditional right to redemption, with reimbursement of the capital holding and to the redemption premium, in accordance with the following formula:

Redemption premium per share:  $\text{Max} [0; 1.5 \times (\text{VCPAn} - \text{VCPAi}) / \text{VCPAi}] \times \text{VN}$

VN – Nominal value

VCPAi – Book value per share at the time i (last balance sheet annual prior to the issue date)

VCPAn – Book value per share at the time n (last balance sheet annual prior to the redemption date)

1.5 – multiple of book value

For the purposes of the calculation of the book value per share the total number of ordinary shares is considered.

Redemption Period / Date: 38 months

In December 2017 there were two capital increases, decided by the Board of Directors of the Bank on 15 November 2017 and 14 December 2017, with the issue of 15,947,388 new ordinary shares which led to a direct reduction in the book value per share. Before these capital increases the book value per share was € 2.1384, and it became € 2.0328, and so an adjustment should be made to the formula to calculate the redemption premium of the redeemable preference shares in order to ensure the neutrality of these events.

The need to adjust the calculation of the redemption premium was established in the justificatory report on the proposal to suppress the preference right in the capital increase with the issue of redeemable preference shares, approved by BiG's Shareholders in the General Meeting of 21 April 2016, in the following terms: In the event of the occurrence of an exceptional corporate situation that affects the book value of the shares, the redemption premium may be adjusted so that the holder is not affected positively or negatively by this event, in the terms set out in the Regulations on the Attribution of Redeemable Preference Shares in force in the Bank.

In this regard, the term sheet of the capital increase approved by the Board of Directors of the Bank on 15 May 2016 also allows for the application of this adjustment mechanism to guarantee the entirety of the redemption premium contemplated in the event of exceptional corporate situations, implemented by BiG, which might artificially prejudice the contemplated redemption premium.

Likewise, the Regulations for the subscription of redeemable preference shares and of subscription options or the acquisition of shares for employees, workers, and members of the corporate offices of the Banco de Investimento Global, SA, May 2016, approved by BiG and accepted by the subscribers of the redeemable preference shares, establishes that: If Banco de Investimento Global, S.A. performs any act that might affect the rights of the holders of the redeemable preference shares, namely with regard to the calculation of the redemption premium, the Bank will make the necessary adjustments so that these rights of the holders of the redeemable preference shares are identical to those that would exist if the act had not been performed.

Consequently, to compensate the impact of the capital increases performed in December 2017, the book value per share based on the last annual balance sheet prior to the redemption date should be multiplied by the correction factor of 1.051937907 (corresponding to the result of € 2.1384 / € 2.0328), as in the formula below:

$$PR = \text{MAX} [0; 1,5 \times (VCPA_n \times F - VCPA_i) / VCPA_i] \times VN$$

Wherein:

PR – Redemption premium

VN – Nominal value

VCPAi – Book value per share based on the last annual balance sheet prior to the Issue Date

VCPAn – Book value per share based on the last annual balance sheet prior to the Redemption Date

F – correction factor of corporate events, corresponding to 1.051937907

1.5 – multiple of book value

For the purposes of the calculation of the book value per share, the total number of ordinary shares will be considered.

The accounting policy inherent to the accounting of this type of instrument is described in Note 2.7..

In 2018, under the formula for the calculation of the redemption premium the amount entered in the Balance Sheet was 3,441,508 relating to the accrual of this premium (2017: 3,805,716).

In 2017 an interim dividend was paid, amounting to 0.07 Euros per share, stated as interest. In 2018 there was no interim dividend payment.

The Board of Directors expects to propose to shareholders a distribution of a dividend of 0.075 Euros per share, based on this intention an amount relating to 2018 was accrued.

	2018	2017
Instruments representing capital	16,341,508	16,765,717

Of the total of 12,000,000 redeemable preference shares issued, 8,000,000 were subscribed by the members of the Board of Directors and 4,000,000 by relevant employees.

## NOTE 32 CONTINGENT LIABILITIES – RESOLUTION FUND

The Resolution Fund is a legal entity under public law with administrative and financial autonomy, created by Decree Law no. 31-A/2012, of 10 February, which is governed by the General Regime of Credit Institutions and Financial Companies ("RGICSF") and by its regulations and whose mission is to provide financial support to the resolution measures applied by the Bank of Portugal, in the capacity of the national resolution authority, and to perform all the other functions granted by the law related with the execution of these measures.

The Bank, like most of the financial institutions operating in Portugal, is one of the participants in the Resolution Fund, making contributions that result from the application of a rate defined annually by the Bank of Portugal which is essentially based on the amount of its liabilities. In 2017, the Bank's periodical contribution amounted to 224 882 Euros, based on a contribution rate of 0.023% calculated pursuant to Instruction 6/2013 of the Bank of Portugal

As part of its responsibility as the authority of supervision and resolution of the Portuguese financial sector, on 3 August 2014, the Bank of Portugal decided to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), pursuant to article 145<sup>o</sup>-G(5) of the RGICSF, which consisted in the transfer of the majority of its activity to a transition bank, called Novo Banco, S.A. (Novo Banco), created especially for this purpose.

To make up the share capital of the Novo Banco, the Resolution Fund provided 4,900 million Euros, of which, 377 million Euros corresponded to its own financial resources. A loan of 700 million Euros was also granted by a bank syndicate to the Resolution Fund, the participation of each credit institution being weighted according to diverse factors, including the respective size. The remaining amount (3,823 million Euros) was from a refundable loan granted by the Portuguese State.

In December 2015, the national authorities decided to sell the majority of assets and liabilities associated to the activity of Banif – Banco Internacional do Funchal, S.A. ("Banif") to Banco Santander Totta, S.A. ("Santander Totta"), for 150 million Euros, also in the context of the application of a resolution measure. This operation involved an estimated amount of 2,255 million Euros in public funds which aimed to cover future contingencies, of which 489 million Euros was financed by the Resolution Fund and 1,766 million Euros directly by the Portuguese State. In the context of this resolution measure, Banif's assets identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A., with the Resolution Fund being the sole holder of its share capital, through the emission of bonds representative of the debt of this vehicle, amounting to 746 million Euros, with the guarantee of the Resolution Fund and counter-guarantee of the Portuguese State.

The resolution measures applied in 2014 to the BES (a process that gave rise to the creation of Novo Banco) and in 2015 to Banif created uncertainties related with the risk of litigation involving the Resolution Fund, which is significant, and also with the risk of the possible shortage of funds to cover the liabilities, in particular the short term reimbursement of the financing taken out.

It was in this context that in the second semester of 2016 that the Portuguese Government reached an agreement with the European Commission, in order to alter the conditions of the financing granted by the Portuguese State and by the banks participating in the Resolution Fund in order to preserve financial stability, by means of fostering conditions that would grant predictability and stability to the contributive effort towards the Resolution Fund. For the purpose, a supplement to the loan contracts to the Resolution Fund was formalised, which introduced a series of alterations to the reimbursement plans, to the rates of remuneration and other terms and conditions associated to these loans in order to adjust them to the capacity of the Resolution Fund to fully meet its obligations based on its normal revenue, or rather, without the need to charge special contributions or any other type of extraordinary contribution from the banks participating in the Resolution Fund.

According to the statement of the Resolution Fund of 31 March 2017, the review of the conditions of the financing granted by the Portuguese State and by the participating banks aimed to ensure the sustainability and financial equilibrium of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that the full payment of the responsibilities of the Resolution Fund is ensured, and also the respective remuneration, without the need for the banking sector to resort to special contributions or any other type of extraordinary contributions.

Also on 31 March 2017, the Bank of Portugal notified that it had selected the Lone Star Fund for the purchase of Novo Banco, which was concluded on 17 October 2017 through the injection, by the new shareholder, of 750 million Euros, which will be followed by a new entry of capital of 250 million Euros, to be made in a period of up to three years. The Lone Star Fund became the owner of 75% of the share capital of Novo Banco and the Resolution Fund the remaining 25%. Furthermore, the conditions approved include a contingent funding mechanism, pursuant to which the Resolution Fund, as a shareholder, may be called on to make injections of capital if certain cumulative conditions come about, related with: (i) the performance of a restricted number of assets of Novo Banco and (ii) the evolution of the bank's capitalization levels, namely the contemplated issue in the market of 400 million Euros of Tier 2 capital instruments. The possible capital injections to be made pursuant to this contingent mechanism are subject to an absolute maximum limit of 3,890 million Euros during a period of 8 years.

Given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by the bank syndicate, in which the Bank is not included, and the public statements made by the Resolution Fund and by the Office of the Minister for Finance



which mention that this possibility will not be used, although this possibility is contemplated in the applicable legislation on the payment of special contributions, these financial statements do not reflect any eventual future requirement for the Bank to make special contributions or any extraordinary contributions to finance the resolution measures applied to BES and to Banif, and also the contingent funding mechanism mentioned in the previous paragraph.

Given the relevance and materiality of the topic, BiG has closely accompanied all the events that implied alterations regarding the operation of the Resolution Fund, having recognised, immediately in 2014, in the caption of provisions for general banking risks, a provision to address contingencies arising from this event, based on the Bank's prudent interpretation of paragraph 14 of IAS 37.

In this context of uncertainty, and in spite of the background presented, in order to address the guidelines given by the Bank of Portugal in this matter, in 2017 BiG reversed the remaining amount of 3,500,000 Euros of the provision relating to the Resolution Fund set out in the caption of Provisions for general banking risks; this provision was constituted in 2014, presenting a balance of 8,000,000 Euros at the close of that year; the balance of this provision was reinforced in 2015 to 9,000,000 Euros, and partially reversed in 2016 to 3,500,000 Euros.

### NOTE 33

#### TAX

The Bank and its subsidiaries determined the amount of its current tax on income for the years 2018 and 2017 based on a nominal tax rate of 21%, plus a municipal surtax rate of 1.5%. An additional rate of 3% relating to the State Tax is also applied, for the years 2018 and 2017 to the taxable income of over 1.5 million Euros to 7.5 million Euros. A rate of 5% is applied to the taxable income between 7.5 million Euros and 35 million Euros, and with a rate of 9% being applied to taxable income over 35 million Euros (2017: 7%).

The Group calculated the amount of its deferred tax for the years 2018 and 2017 based on a nominal rate of 21%, plus a rate of 1.5% relating to the municipal surtax. An additional rate of 3% relating to State Tax is also applied for the years 2018 and 2017 on taxable income over 1.5 million Euros to 7.5 million Euros. A rate of 5% is applied to the taxable income between 7.5 million Euros and 35 million Euros, and a rate of 9% is applied to taxable income over 35 million Euros (2017: 7%).

The Portuguese Tax Authorities are empowered to review the Bank's calculation of its annual taxable earnings for a period of 4 years, except if there are reportable tax losses, where the period of expiry is the year of this right. In this way, possible corrections may be made to the tax base, resulting mainly from differences in interpretation of fiscal legislation. However, the Board of Directors considers that there are no material differences in respect of taxation of profits recorded in the financial statements.

The deferred tax assets and liabilities recognised in the Balance Sheet in 2018 and 2017 may be analysed as follows:

	2018	2017
Financial assets at fair value through other comprehensive income	15,275,805	
Financial assets available for sale		28,622,338
Other	(404,398)	95,455
<b>Net deferred tax assets / (liabilities)</b>	<b>14,871,407</b>	<b>28,717,793</b>
<b>Tax movement in the year</b>	<b>(13,846,386)</b>	<b>(7,487,463)</b>

The movement in deferred tax in 2018 and 2017 is explained as follows:

	2018			2017		
	Recognised in results	Recognised in reserves	Total	Recognised in results	Recognised in reserves	Total
Financial assets at fair value through other comprehensive income	-	(13,346,533)	(13,346,533)			
Financial assets available for sale				(83,845)	(7,181,089)	(7,264,934)
Other	(526,438)	26,585	(499,853)	(226,708)	4,179	(222,529)
	<b>(526,438)</b>	<b>(13,319,948)</b>	<b>(13,846,386)</b>	<b>(310,553)</b>	<b>(7,176,910)</b>	<b>(7,487,463)</b>

The income tax reported in results and reserves, is explained as follows:

	2018	2017
Recognised in reserves		
Current tax		
From previous years	9,952,213	-
	<b>9,952,213</b>	-
Deferred tax		
Of the year	(13,346,533)	(7,176,910)
From previous years	26,585	-
	<b>(3,367,735)</b>	<b>(7,176,910)</b>
Recognised in results		
Current tax		
Of the year	(7,250,240)	(19,510,969)
From previous years	3,419,858	990,560
	<b>(3,830,382)</b>	<b>(18,520,409)</b>
Deferred tax	(526,438)	(310,553)
	<b>(4,356,820)</b>	<b>(18,830,962)</b>
	<b>(7,724,555)</b>	<b>(26,007,872)</b>

The reconciliation of the tax rate for 2018 and 2017 may be analysed as follows:

	2018		2017	
	Tax rate	Amount	Tax rate	Amount
Pre-tax profit		27,502,424		71,177,579
Estimated tax charge	27.5%	7,563,166	27.5%	19,573,834
Corrections due to tax credits	-	-	-0.01%	(7,378)
Non-deductible costs for tax purposes	1.74%	479,480	0.66%	472,113
Tax benefits	-0.31%	(85,745)	-0.09%	(60,662)
Tax loss	-0.06%	(17,073)	0.32%	226,707
Autonomous taxation and double taxation	0.04%	9,861	0.01%	7,424
Contributions on the banking sector	1.20%	330,000	0.41%	292,898
Other	-14.26%	(3,922,869)	-2.35%	(1,673,975)
	<b>15.85%</b>	<b>4,356,820</b>	<b>26.46%</b>	<b>18,830,961</b>

## NOTE 34 OTHER LIABILITIES

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Creditors and other dues		
Diverse funds	4,402,000	-
Public sector	1,225,736	3,630,497
Other creditors	163,196	161,056
	<b>5,790,932</b>	<b>3,791,553</b>
Costs payable		
Staff charges	7,452,887	8,110,229
Other charges payable	1,985,156	2,801,892
	<b>9,438,043</b>	<b>10,912,121</b>
Revenue from deferred income	38,141	35,210
Minority interests	5,089,388	-
Other accruals and deferrals		
Other pending transactions	5,880,606	20,874,403
	<b>5,880,606</b>	<b>20,874,403</b>
	<b>26,237,110</b>	<b>35,613,287</b>

The caption Other pending transactions essentially relates to operations that were still unsettled by 31 December 2018 and 2017.

## NOTE 35 CAPITAL, ISSUE PREMIUMS, TREASURY STOCK AND RESERVES

### Capital

On 31 December 2018 and 2017 the Bank's capital was represented by 171,947,388 ordinary shares, with the nominal value of 1 Euro each, fully subscribed and paid up.

In December 2017 two share capital increases were made, respectively of 15,000,000 and 947,388 ordinary shares – thus going from 156,000,000 Euros for 171,947,388 Euros – with the issue of fifteen million nine hundred and forty seven thousand three hundred and eighty eight new shares, with the nominal value of 1 Euro each, within the terms approved by the General Meeting of the Bank.

On 31 December 2018 and 2017, the Bank's shareholder structure was the following:

	2018	2017
	<b>Ordinary shares</b>	<b>Ordinary shares</b>
António da Silva Rodrigues	12.18%	11.63%
Carlos Adolfo Coelho Figueiredo Rodrigues	11.31%	11.31%
Adger – SGPS, S.A.	10.43%	10.43%
WWC World Wide Capital - SPGS, S.A.	9.30%	9.30%
Nicholas Leo Racich	5.67%	5.67%
JRI – SGPS, S.A.	4.81%	4.69%
Bâloise Vie Luxembourg S.A.	4.66%	4.51%
Oceangest - Gestão e Empreendimentos Imobiliários, S.A.	4.34%	4.29%
LNKM Hospitality Capital - Fundo Capital de Risco	2.14%	2.14%
Other	35.16%	36.03%
	<b>100.00%</b>	<b>100.00%</b>

The Bank also issued 12,000,000 (twelve million) non-voting redeemable preference shares, which have the nature of liabilities (note 31).

Thus, even though strictly for statutory purposes the Bank's share capital is considered to be 183,947,388 Euros, given the accounting treatment and characteristics of the redeemable non-voting preference shares, the caption Share capital is represented by 171,947,388 ordinary shares with the nominal value of 1 Euro each.

**Issue premiums**

On 31 December 2018 and 2017, the issue premiums amounting to 1,362,281 Euros refer to the premiums paid by the shareholders in the capital increases made.

**Treasury stock**

During 2018 and 2017, there were no movements in the Treasury stock caption.

**Other accumulated comprehensive income**

The caption Other accumulated comprehensive income represents potential capital gains and losses relating to the portfolio of financial assets available for sale less impairment recognised in the income statement. The value of this item is presented net of deferred taxation and current taxation.

The caption Other accumulated comprehensive income for the years ended on 31 December 2018 and 2017, is analysed as follows:

	2018	2017
Cost of financial assets at fair value through other comprehensive income	1,619,048,725	
Market value of financial assets at fair value through other comprehensive income	1,570,404,852	
Cost of financial assets available for sale (Note 19) (1)		1,391,223,751
Market value of financial assets available for sale (Note 19)		1,300,718,258
Fair value reserve of financial assets at fair value through other comprehensive income	(27,753,840)	
Fair value reserve of financial assets available for sale		(90,505,493)
Fair value reserve associated to macro-hedging for interest rate risk	(21,978,636)	-
Impairment of financial assets at fair value through other comprehensive income	1,088,603	
Impairment of financial assets available for sale		(437,130)
Exchange differences	(843,268)	(1,687,401)
Deferred tax	15,275,805	28,626,516
Current tax	176,019	176,019
Other	19,629	-
	<b>(34,015,688)</b>	<b>(63,827,489)</b>

(1) amortised cost for debt securities and acquisition cost with regard to shares and other.

The movement of the fair value reserve, net of taxation, for 2018 and 2017 is analysed as follows:

	2018	2017
<b>Balance on 1 January</b>	<b>(63,827,489)</b>	<b>(87,095,288)</b>
Impact of the transition to IFRS 9	52,270,550	
Variation of fair value	(33,989,600)	30,347,370
Current tax recognised in the year in reserves	-	(275,407)
Deferred tax recognised in the year in reserves	10,686,718	(7,186,345)
Exchange differences	844,133	382,181
	<b>29,811,801</b>	<b>23,267,799</b>
<b>Balance on 31 December</b>	<b>(34,015,688)</b>	<b>(63,827,489)</b>

**Legal reserve**

Pursuant to article 97 of the General Regime of Credit Institutions and Financial Companies approved by Law no. 298/91, of 31 December and altered by Law no. 201/2002, of 25 September, the companies of the Group should set aside a portion of not less than 10% of net profits in each year for the creation of a legal reserve, up to a limit equal to the value of the share capital or to the sum of the free reserves set up and of the retained earnings, if greater.

### Interim dividends

The Board of Directors made the payment of partial, interim dividends of 0.07 Euros per share, in November of 2017, amounting to 10,919,818 Euros, based on the certified results of the period from 1 January 2017 to 30 September 2017.

## NOTE 36 OFF-BALANCE SHEET ACCOUNTS

On 31 December 2018 and 2017, this caption was broken down as follows:

	2018	2017
Guarantees provided and other liabilities		
Assets given as guarantee	1,368,917,425	1,114,761,155
Guarantees and sureties	235,652	264,469
	<b>1,369,153,077</b>	<b>1,115,025,624</b>
Guarantees received		
Personal guarantees		
Guarantees and sureties	3,803,736	4,867,378
Other	11,705	11,705
Real guarantees		
Securities	86,595,549	79,044,292
Loans	6,294,019	6,285,703
Real Estate	7,904,824	8,317,133
	<b>104,609,833</b>	<b>98,526,211</b>
Commitments before third parties		
Irrevocable commitments		
Potential liability to the Investor Compensation System	674,614	674,614
Revocable commitments		
Bank overdraft facilities	59,880,973	75,349,395
	<b>60,555,587</b>	<b>76,024,009</b>
Liabilities for services provided		
Asset custody and deposit	1,492,776,117	1,550,532,882
For asset administration	308,024,594	441,757,475
For collection of amounts	535,527	365,583
	<b>1,801,336,238</b>	<b>1,992,655,940</b>

On 31 December 2018 and 2017, the balance of the caption Assets Given as Guarantee includes:

- ▲ securities provided as a guarantee to the Investor Compensation System amounting to 667,926 Euros (31 December 2017: 662,622 Euros);
- ▲ securities provided as a guarantee to the European System of Central Banks amounting to 343,917,331 Euros (31 December 2017: 126,538,513 Euros). Assets provided as a guarantee correspond to a pool of securities, which on 31 December 2018 were not to be used as collateral in liquidity operations;
- ▲ other securities provided as a guarantee 1,024,332,168 Euros (31 December 2017: 987,560,020 Euros). Assets given as guarantee correspond to a pool of securities, of which a significant part was not being used as collateral in liquidity operations.

## NOTE 37 RELATED PARTY TRANSACTIONS

The Group's policy on transactions with related parties establishes the rules to be observed and procedures to be followed, whenever there are transactions with related parties. Within the terms contemplated in IAS 24, and based on this policy, the following are considered related parties of the BiG, namely:

- (i) shareholders whose shareholding exceeds, directly or indirectly, in the terms of articles 13-A and 13-B of the General Regime of Credit Institutions and Financial Companies (RGICSF), 10% of the share capital or of the voting rights of BiG. (The shareholder structure of the Group may be consulted in Note 35);
- (ii) the members of the corporate and supervision offices of the Bank;
- (iii) the spouse, domestic partner, close members of the family of the people mentioned in line (ii) above;
- (iv) members of the key management personnel of companies of the BiG Group, who correspond to people with a category or functions, with authority and responsibility for the planning, management and control of activities of the BiG Group;
- (v) any fund or benefit plan, such as pensions, other retirement benefits, life insurance and medical care insurance, for the benefit of the employees of BiG;
- (vi) other entities in which any related party of BiG is: (i) partner; (ii) director, namely as a member of the corporate or supervision offices (iii) holder, individually or jointly, directly or indirectly of, at least, half of the respective share capital or voting rights;
- (vii) entities controlled, directly or indirectly, by BiG or where this exercises significant influence, in accordance with the definition of International Accounting Standard IAS – 24 Disclosures of Related parties.

On 31 December 2018 and 2017, the balances reflected in the captions of Assets relating to related parties are represented as follows:

2018	Crédito	Outros Ativos
Shareholders with holdings over 10%	-	1,138
Governing Body		
Members of the Board of Directors	8,617,817	159,354
Closely related persons	761,006	11,813
Senior management of Group companies	-	3,859
	<b>9,378,823</b>	<b>176,164</b>

2017	Credit	Other Assets
Shareholders with holdings over 10%	-	1,162
Governing Body		
Members of the Board of Directors	10,661,676	418,550
Closely related persons	1,028,826	42,459
Pension Fund	11	-
Senior management of Group companies	68,339	7,509
	<b>11,758,852</b>	<b>469,680</b>

On 31 December 2018 and 2017, the balances reflected in the captions of Liabilities relating to related parties are represented as follows:

<b>2018</b>	<b>Funding from Clients</b>	<b>Other Liabilities</b>
Shareholders with holdings over 10%	6,796,323	-
Governing Body		
Members of the Board of Directors	3,949,217	40
Closely related persons	369,979	-
Members of the Supervisory Board		
Members of the Board of Auditors	249,331	-
Closely related persons	274,985	-
Pension Fund	-	-
Senior management of Group companies	53,856	-
	<b>11,693,691</b>	<b>40</b>

<b>2017</b>	<b>Funding from Clients</b>	<b>Other Liabilities</b>
Shareholders with holdings over 10%	7,338,404	-
Governing Body		
Members of the Board of Directors	2,382,263	-
Closely related persons	422,443	-
Members of the Supervisory Board		
Members of the Board of Auditors	604,293	372
Closely related persons	170,797	-
Pension Fund	566	-
Other Companies	229,846	-
	<b>11,148,612</b>	<b>372</b>

## NOTE 38

### FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

On 31 December 2018 and 2017, the fair value of the financial assets and liabilities is presented as follows:

	Amortised cost	Listed market values (level 1)	Evaluation models with parameters / prices observable in the market (level 2)	Evaluation models with no observable parameters in the market (level 3)	Total Balance Sheet value	Fair value
<b>31 December 2018</b>						
Cash, cash balances in central banks and other demand deposits						
Money in cash and Cash balances in central banks	71,318,698	-	-	-	71,318,698	71,318,698
Other demand deposits	85,451,838	-	-	-	85,451,838	85,451,838
Financial assets held for trading						
Securities						
Bonds and other fixed return securities						
From public issuers	-	15,985,198	-	-	15,985,198	15,985,198
From other issuers	-	45,924,638	7,619,589	-	53,544,227	53,544,227
Shares	-	441,162	-	1,818,278	2,259,440	2,259,440
Participation units foreign issuers	-	621,666	-	-	621,666	621,666
Derivatives						
Contracts on shares/indices	-	-	297,520	35,350	332,870	332,870
Term transactions	-	-	49,994	-	49,994	49,994
Other	-	-	1,633	-	1,633	1,633
Credit and other amounts receivable	-	-	-	381,008	381,008	381,008
Other equity instruments	-	-	-	69,975	69,975	69,975
Financial assets at fair value through other comprehensive income						
Bonds and other fixed return securities						
From public issuers	-	700,758,424	61,491,868	-	762,250,292	762,250,292
From other issuers	-	424,690,311	383,433,771	-	808,124,082	808,124,082
Shares	-	-	-	30,478	30,478	30,478
Financial assets available for sale						
Financial assets at amortised cost						
Debt securities	336,293,487	-	-	-	336,293,487	285,741,932
Loans and advances - Clients	38,826,818	-	-	-	38,826,818	38,826,818
Loans and advances - Banks	2,901,612	-	-	-	4,064,442	4,064,442
<b>Financial assets</b>	<b>534,792,453</b>	<b>1,188,421,399</b>	<b>452,894,375</b>	<b>2,335,089</b>	<b>2,179,606,146</b>	<b>2,129,054,591</b>
Financial liabilities held for trading						
Derivatives						
Contracts on shares/indices	-	-	132,965	-	132,965	132,965
Term transactions	-	-	48,857	-	48,857	48,857
Other	-	-	1,622	-	1,622	1,622
Financial liabilities measured at amortised cost						
Funding from other Banks	554,333,884	-	-	-	554,333,884	554,333,884
Funding from clients	1,312,210,871	-	-	-	1,312,210,871	1,312,210,871
Share capital reimbursable at sight	-	-	-	16,341,508	16,341,508	16,341,508
	<b>1,866,544,755</b>	-	<b>183,444</b>	<b>16,341,508</b>	<b>1,883,069,707</b>	<b>1,883,069,707</b>
<b>31 December 2017</b>						
Cash, cash balances in central banks and other demand deposits						
Money in cash and Cash balances in central banks	84,408,539	-	-	-	84,408,539	84,408,539
Other demand deposits	69,913,214	-	-	-	69,913,214	69,913,214
Financial assets held for trading						
Securities						
Bonds and other fixed return securities						
From public issuers	-	5,191,168	-	-	5,191,168	5,191,168
From other issuers	-	7,094,136	-	-	7,094,136	7,094,136
Shares	-	13,895,453	-	-	13,895,453	13,895,453
Other	-	3,382,112	-	-	3,382,112	3,382,112
Derivatives						
Contracts on exchange rates	-	-	16,204	-	16,204	16,204
Contracts on shares/indices	-	-	79,814	546,158	625,972	625,972
Term transactions	-	-	125,313	-	125,313	125,313
Financial assets at fair value through other comprehensive income						
Financial assets available for sale						
Bonds and other fixed return securities						
From public issuers	-	1,158,236,032	-	338,422	1,158,574,454	1,158,574,454
From other issuers	-	137,487,759	-	2,116,381	139,604,140	139,604,140
Shares	-	-	-	428,647	428,647	428,647
Other	-	1,465,350	-	645,667	2,111,017	2,111,017
Financial assets at amortised cost						
Debt securities						
Loans and advances - Clients a)	309,093,538	-	-	-	309,093,538	312,065,119
Loans and advances - Banks	3,412,730	-	-	-	3,412,730	3,412,730
<b>Financial assets</b>	<b>466,828,021</b>	<b>1,326,752,010</b>	<b>221,331</b>	<b>4,075,275</b>	<b>1,797,876,637</b>	<b>1,800,848,218</b>
Financial liabilities held for trading						
Derivatives						
Contracts on exchange rates	-	-	16,908	-	16,908	16,908
Contracts on shares/indices	-	-	380,618	112,552	493,170	493,170
Term transactions	-	-	693	-	693	693
Other	-	-	32,619	-	32,619	32,619
Financial liabilities measured at amortised cost						
Funding from other Banks	410,260,634	-	-	-	410,260,634	410,260,634
Funding from clients	1,035,793,975	-	-	-	1,035,793,975	1,035,793,975
Instruments representing capital	-	-	-	16,765,717	16,765,717	16,765,717
	<b>1,446,054,609</b>	-	<b>430,838</b>	<b>16,878,269</b>	<b>1,463,363,716</b>	<b>1,463,363,716</b>

<sup>a)</sup> The prices mentioned may not reflect normal market conditions as mentioned in note 21, as the amounts are not supported by effective transactions on the market, due to the fact that this is inactive.



The BiG Group's fair value assets and liabilities are valued, pursuant to IFRS 7 and IFRS 13, in accordance with the following hierarchy:

Level 1 – Financial instruments registered at fair value based on the listed prices available in official markets and as disclosed by entities which usually provide prices of transactions for these assets/liabilities traded on liquid markets.

Level 2 – Financial instruments registered at fair value through the use of internal evaluation models, specifically discounted cash flow models and option evaluation models, which imply the use of estimates and require judgements which vary according to the complexity of the products being assessed. However, the Group uses variables provided by the market as inputs in its models, such as interest rate curves, credit spreads, volatility and indices on quotations. It also includes instruments the valuation of which is obtained through quotations divulged by independent entities but in markets which have much less liquidity.

Level 3 – This level includes financial instruments that are measured based on evaluation models with parameters that are not observable in the market. This group includes valuations determined by the use of internal evaluation models or quotations provided by third parties but where the parameters used are not observable in the market.

Presented below are the main methods and assumptions used in the estimate of the fair value of the financial assets and liabilities recorded in the balance sheet at amortised cost:

*Cash and deposits in central banks, Deposits in other banks and Applications in banks*

Considering the short terms associated to these financial instruments, the Balance Sheet value is a reasonable estimate of the respective fair value.

*Loans and advances to clients*

Considering that the Bank's portfolio is composed essentially of short term and recent loans, the Balance Sheet value is considered as a reasonable estimate of the fair value of the loans and advances to clients.

*Funding from other banks*

Considering the short terms associated to these financial instruments, the Balance Sheet value is a reasonable estimate of the respective fair value.

*Funding from clients*

Considering that the interest rates applicable are variable in nature and the period of maturity of the deposits is substantially less than one year, there are no materially relevant differences in their fair value.

*Financial assets at amortised cost – Debt securities*

For the calculation of the fair value of financial instruments-debt securities recorded at amortised cost, the valuation methods used consisted of valuation techniques, specifically through the update of future cash flow.

The interest rate curves of the main currencies for the years 2018 and 2017 may be analysed as follows:

(amounts expressed as a percentage)

	2018		2017	
	EUR	USD	EUR	USD
Overnight	-0.430	2.400	-0.4225	1.3100
1 month	-0.363	2.503	-0.3680	1.5643
3 months	-0.309	2.808	-0.3290	1.6943
6 months	-0.237	2.876	-0.2710	1.8371
9 months	-0.194	--	-0.2170	--
1 year	-0.117	3.005	-0.1860	2.1070
3 years	-0.077	2.590	0.0110	2.1690
5 years	0.198	2.570	0.3130	2.2437
7 years	0.469	2.624	0.5610	2.3106
10 years	0.811	2.705	0.8865	2.3980
15 years	1.170	2.801	1.2445	2.4897
20 years	1.327	2.836	1.4135	2.5345
25 years	1.373	2.839	1.4740	2.5439
30 years	1.377	2.838	1.4950	2.5423

The 90 day volatility of interest rate instruments, calculated on the price of public debt instruments for the most liquid terms (bond futures), in the years 2018 and 2017 may be analysed as follows:

(amounts expressed as a percentage)

	2018		2017	
	EUR	USD	EUR	USD
3 years	0.857	1.021	0.742	1.013
5 years	1.757	2.175	1.586	1.892
7 years	2.638	3.317	2.464	2.937
10 years	3.749	3.265	3.675	3.226

The evolution of the exchange rates of the main currencies for the years 2018 and 2017, and respective historic volatilities used in the evaluation of currency exchange derivatives may be analysed as follows:

	2018	2017	Volatilities 2018 (as %)		
			3 months	6 months	1 year
EUR/USD	1.145	1.199	6.626	7.118	7.228
EUR/GBP	0.895	0.887	6.941	6.238	6.029
EUR/JPY	125.850	135.010	7.382	7.706	7.875
EUR/CHF	1.127	1.170	4.733	5.047	5.047
EUR/MZN	70.240	70.570	10.345	11.188	11.758

The evolution of the main share indices for the years 2016 and 2015, and respective volatilities used in the evaluation of derivatives on shares and share indices may be analysed as follows:

	List price			Historic volatility (as %)		Implicit volatility (as %)	
	2018	2017	Variation %	1 month	3 months	Call	Put
PSI20	4,731.47	5,388.33	(12.19)	16.511	13.28	19.25	19.25
Eurostoxx	3,001.42	3,503.96	(14.34)	18.515	14.74	20.82	20.82
DAX	10,588.96	12,917.64	(18.03)	20.355	16.185	21.8	21.8
S&P	2,506.85	2,673.61	(6.24)	27.313	20.646	22.03	22.03
Nasdaq 100	6,329.96	6,396.422	(1.04)	35.085	28.59	28.9	28.9
Dow Jones Ind.	23,327.46	24,719.22	(5.63)	28.163	20.782	23.31	23.31

## NOTE 39 RISK MANAGEMENT

### Background

The Bank seeks to manage the risks inherent to the banking business on a daily basis, specifically market, liquidity, credit, operational, technological, compliance and reputational risks. Additional information on this topic is available in the Board of Directors Report.

Due to the fact that these risks are normally related, the Group structured a system of internal control which, through procedures, policies and other instruments of control, seeks to manage all of the risks in a comprehensive and integrated manner. These procedures and policies are generically conceived to ensure effective processing, to ensure robust systems, an appropriate assumption of risk, independent reporting and responsible behaviour, as well as respect for adhering to regulatory, legal and prudential guidelines.

In the management of its exposure to risk, the Group is guided by the following basic principles:

- ▲ Regular review of policies and procedures by the Administration;
- ▲ Formal establishment of responsibilities for Risk Management in the Group;
- ▲ Independent process of surveillance of business units;
- ▲ Policies and procedures intended to ensure an appropriate diversification of risk categories;
- ▲ Maintenance of an appropriate system of internal reporting;
- ▲ Evaluation and disciplined measurement of risks, including statistical and qualitative measures;
- ▲ Training in the identification of risks in the diverse business units.

### Risk measurement

The Group uses a series of different methodologies to measure and control the different types of risk exposure, which are analysed together with information on the specific counterparty or country risk, specifically:

- ▲ Value at Risk (VaR);
- ▲ Limits per counterparty, family, class of assets or portfolio;
- ▲ Limits of concentration;
- ▲ Basis Point Values;
- ▲ Non-statistical indicators, such as stress tests (Economic Value and Earnings at Risk) and sensitivity analyses of the risk parameters of derivative products (greeks);
- ▲ Back testing.

Risk management is an evolving process and is one of the daily centres of attention of the Administration, especially because any isolated methodology is habitually insufficient to provide a complete vision of our exposure. As a policy, we seek to quantify the potential losses associated with all the aspects of our business in order for us to have a reasonable prior estimate of the potential damage upon the occurrence of unexpected events. These can range from those which are possible based on recent historic data, to those which we consider highly improbable, but which nevertheless can be estimated based on the assumption of certain extreme scenarios.

An assessment of market risk involves a daily review of all the measures mentioned above. The credit risk generally concentrates its focus on nominal and fractionated exposures, concentrations by lender or group, sector or geography and stress testing. The risk management of liquidity, interest and exchange rate combine a number of methodologies, which include basis point values and scenario analyses. The exposure to derivatives is measured with sensitivity analyses of exposures measured in basis points. An evaluation of the more subjective risks to which the bank may be exposed, such as the reputational risk and the correlation risk, depend on scenario analyses in order to arrive at quantitative estimates.

### Market Risk

Market Risk represents the possible loss in value of financial instruments as a result of changes in market conditions.

In terms of financial markets, the key risks to be managed are related with:

- ▲ Liquidity risk: resulting from treasury management and the different maturities of assets and liabilities;
- ▲ Interest rate risk: resulting from changes in the level, slope and curvature of interest rate curves, interest rate volatility and the duration of the credit margins;
- ▲ Price risk of securities and raw materials: resulting from exposure to changes in the price of the underlying assets and volatility;
- ▲ Exchange rate risk: resulting from exposure to changes in the spot price, at a future point in time, and volatility;
- ▲ Risk hedging: resulting from the management of exposure to changes in the price of the underlying assets used to hedge Clients' positions and products.

### VaR

In terms of the product lines and portfolios of private clients, statistical measures, such as VaR, are combined with non-statistical measures, including stress tests, back testing and measures of earnings-at-risk advisories, to ensure that there are adequate controls over the expected results by risk type in any market conditions. The Group calculates VaR using a time horizon of one month (22 working days) and a confidence interval of 99%. This means that the Group can expect to incur losses greater than the estimated VaR only once every 100 working days, or approximately 2.5 times per year. As the VaR is a theoretical approach based on historic data, the model has limitations and cannot always produce exact forecasts on the future market risk. Changes in VaR between reporting periods, for example, are generically due to changes in levels of exposure, volatility and the correlation between securities.

The VaR for the years ended on 31 December 2018 and 2017 is presented as follows:

	2018				2017			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	5,217	137,727	708,515	212	24,504	45,121	218,480	2,878
Interest rate risk	173,360	736,505	4,317,670	44,294	81,794	345,796	1,778,772	15,332
Shares	-	208,103	807,059	-	411,277	344,265	536,501	37,461
Options	19,439	73,393	353,064	13,368	166,894	149,194	246,558	54,526
Effect of diversification	16%	28%	-	-	47%	41%	-	-
<b>Total VaR</b>	<b>167,094</b>	<b>835,467</b>	<b>4,256,929</b>	<b>44,410</b>	<b>363,883</b>	<b>519,292</b>	<b>1,908,212</b>	<b>94,738</b>

The VaR exposure allocated to stock portfolios and structured products in 2018 reduced, in average terms, compared to 2017. With regard to the VaR of the exposures allocated to FX and the Interest rate risk, the opposite was the case, with, on average, an increase in the values of the VaR in 2018.

### Sensitivity analyses

With regard to sensitivity to stock market indices in the portfolio, or of stock market indices for which we have shares of the respective index in portfolio, the variation in prices of these indices is presented below in relation to the years ended on 31 December 2018 and 2017:

	List price			Historic volatility 2018	
	2018	2017	Variation %	1 month	3 months
DAX	10,558.96	12,917.64	(18.26)	20.36	16.19
IBEX 35	8,539.90	10,043.90	(14.97)	18.62	14.72
CAC 40	4,730.69	5,312.56	(10.95)	20.36	16.19
AEX	487.88	544.58	(10.41)	19.28	15.00
FTSE MIB	18,324.03	21,853.34	(16.15)	23.05	19.95
PSI20	4,731.47	5,388.33	(12.19)	16.51	13.28
Eurostoxx	3,001.42	3,503.96	(14.34)	18.52	14.74
S&P	2,506.85	2,673.61	(6.24)	27.31	20.65
ESTX Banks €	87.04	130.48	(33.29)	27.90	22.17
ESTX Retail € Pr	271.02	304.80	(11.08)	17.81	16.24
FTSE China A50	10,387.55	13,195.72	(21.28)	17.65	25.59
Swiss Market	8,429.30	9,381.87	(10.15)	22.01	15.93
BEL20	3,243.63	3,977.88	(18.46)	21.04	16.20

In order to analyse the impact that a decline to stock market prices has on the shares of the trading portfolio, a sensitivity analyses was performed on them. Within this analysis a sudden change of +/- 10% was applied in all the indices, and for each share the magnitude of the decline was weighted by the Beta of the share with the respective reference index.

A sensitivity analysis resulting from a +/- 10% blow to the stock market indices for the years ended on 31 December 2018 and 2017 is presented as follows:

Impact resulting from a sudden drop in stock indices	2018		2017	
	+10%	-10%	+10%	-10%
DAX	3,143	(3,143)	54,513	(54,513)
IBEX 35	(75)	75	299,460	(299,460)
CAC 40	-	-	79,398	(79,398)
AEX	-	-	11,716	(11,716)
FTSE MIB	349	(349)	(1,252)	1,252
PSI20	10,590	(10,590)	879,184	(879,184)
Eurostoxx	36,815	(36,815)	(75,172)	75,172
S&P	12,733	(12,733)	(838,888)	838,888
ESTX Banks €	-	-	40,083	(40,083)
ESTX Retail € Pr	-	-	(77,353)	77,353
FTSE China A50	-	-	(249,224)	249,224
Swiss Market	-	-	(100,409)	100,409
BEL20	-	-	883	(883)
<b>Total impact</b>	<b>63,555</b>	<b>(63,555)</b>	<b>22,940</b>	<b>(22,940)</b>

**Stress Testing**

These tests are complementary to VaR limits and are an essential tool for managing the market risk. By using economic stress testing, the Group tries to estimate the potential losses associated with a given instrument or portfolio, in different scenarios. Stress tests of income at risk provide Management with an estimate of the potential variation in the value of a given position, whether current or contemplated, as a result of various scenarios used to take decisions relating to the assumption, increase or reduction of positions. We undertake tests on the portfolios held by the Group on a daily basis assuming certain historic market events or other scenarios to simulate our exposure and, in certain cases, the exposure of our Clients to potential losses. When no historic data is available, underlying assets of classes of identical assets with a high level of correlation may be used.

Currently, the Group uses 16 different scenarios to carry out more than 96 daily stress tests on the various trading and investment positions. The potential impact on the Group's portfolios is also estimated daily when we allow for worst case scenarios in the credit market, *Stress Test Debt*. These stress tests are presented and discussed in the Report of the Board of Directors.

**Liquidity risk**

One of the assumptions in the Group's strategy is that of a reduced exposure to the liquidity risk. The basic principles of this strategy are (i) to obtain availability of liquidity prior to the acquisition/constitution of any asset, (ii) to ensure that a major part of the Group's Balance Sheet can be converted into liquidity in the short term and (iii) to be fully independent of the interbanking market in terms of financing.

The management of the Group's immediate resources is carried out so as to minimise the risk of an increase in lending activities which might imply a decrease in liquidity, or rather, a rate of growth in loans which is greater than that of resources.

The exposure by maturity of the Group's Balance Sheet assets and liabilities are distributed in the following way for the years ended on 31 December 2018 and 2017:

<b>2018</b>							
	<b>Spot</b>	<b>Up to 3 months</b>	<b>From 3 months to 1 year</b>	<b>Between 1 to 5 years</b>	<b>Over 5 years</b>	<b>Undefined</b>	<b>Total</b>
<b>Assets</b>							
Cash, cash balances in central banks and other demand deposits							
Money in cash and Cash balances in central banks	71,318,698	-	-	-	-	-	71,318,698
Other demand deposits	85,451,838	-	-	-	-	-	85,451,838
Financial assets held for trading	-	376,199	1,909,516	43,833,817	23,794,390	3,332,089	73,246,011
Financial assets at fair value through other comprehensive income	-	52,202	148,561	205,514,058	1,364,659,553	30,478	1,570,404,852
Financial assets available for sale							
Financial assets at amortised cost							
Debt securities	-	-	-	-	336,293,487	-	336,293,487
Loans and advances - Clients	-	16,456,604	12,047,065	2,966,289	7,361,739	27,472	38,859,169
Loans and advances - Banks	-	2,156,082	1,839,825	68,535	-	-	4,064,442
	<b>156,770,536</b>	<b>19,041,087</b>	<b>15,944,967</b>	<b>252,382,699</b>	<b>1,732,109,169</b>	<b>3,390,039</b>	<b>2,179,638,497</b>
<b>Liabilities</b>							
Financial liabilities held for trading							
Financial liabilities measured at amortised cost	-	166,778	4,794	11,872	-	-	183,444
Funding from other Banks	-	499,155,986	55,177,898	-	-	-	554,333,884
Funding from clients	-	1,110,441,752	188,750,443	13,018,676	-	-	1,312,210,871
Derivatives - Hedge accounting	-	-	-	-	18,197,101	-	18,197,101
	<b>-</b>	<b>1,609,764,516</b>	<b>243,933,135</b>	<b>13,030,548</b>	<b>18,197,101</b>	<b>-</b>	<b>1,884,925,300</b>

## 2017

	Spot	Up to 3 months	From 3 months to 1 year	Between 1 to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>							
Cash and deposits in central banks	84,408,539	-	-	-	-	-	84,408,539
Deposits in other Banks	69,913,214	-	-	-	-	-	69,913,214
Financial assets held for trading	-	125,313	384,573	5,130,232	7,412,675	17,277,565	30,330,358
Financial assets at fair value through other comprehensive income							
Financial assets available for sale	-	53,751	284,672	52,636,134	1,245,204,037	2,539,664	1,300,718,258
Financial assets at amortised cost							
Debt securities							
Loans and advances - Clients	-	12,680,682	41,530	18,496,117	277,975,051	148,440	309,341,820
Loans and advances - Banks	-	3,304,016	11,755	96,959	-	-	3,412,730
	<b>154,321,753</b>	<b>16,163,762</b>	<b>722,530</b>	<b>76,359,442</b>	<b>1,530,591,763</b>	<b>19,965,669</b>	<b>1,798,124,919</b>
<b>Liabilities</b>							
Financial liabilities held for trading	-	693	-	542,697	-	-	543,390
Financial liabilities measured at amortised cost							
Funding from other Banks	-	398,835,147	11,425,487	-	-	-	410,260,634
Funding from clients	-	894,936,957	122,363,592	18,493,426	-	-	1,035,793,975
Derivatives - Hedge accounting	-	-	-	-	-	-	-
	-	<b>1,293,772,797</b>	<b>133,789,079</b>	<b>19,036,123</b>	-	-	<b>1,446,597,999</b>

**Interest rate risk**

The interest rate risk measures the probability of the occurrence of negative impacts on the Group's income or capital caused by movements in the absolute levels of interest rates, in spreads between two rates, or in the configuration of the interest rate curve, among other factors.

The exposure of the assets and liabilities to the interest rate risk is presented in the table below, by maturity, for the years ended on 31 December 2018 and 2017:

## 2018

Time frame	Portfolio (1)		Off-Balance Sheet (2)	
	Assets	Liabilities	Assets	Liabilities
spot - 1 month	468,199,575	500,720,596	335,565,531	-
1 - 3 months	258,200,814	469,963,890	39,972,128	-
3 - 6 months	62,903,040	235,397,279	117,947,625	-
6 - 12 months	15,865,620	98,707,922	-	-
1 - 2 years	1,088,449	87,346,261	-	-
2 - 3 years	293,925	455,018,328	-	-
3 - 4 years	104,655,665	372,810	-	-
4 - 5 years	69,086,635	961,578	-	-
5 - 7 years	174,514,522	1,000	-	130,572,385
7 - 10 years	397,316,314	-	-	-
10 - 15 years	327,811,851	-	-	833,768,465
15 - 20 years	270,804,281	-	-	185,513,353
> 20 years	248,629	-	-	10,114,720
<b>Total</b>	<b>2,150,989,320</b>	<b>1,848,489,664</b>	<b>493,485,284</b>	<b>1,159,968,923</b>

(1) Banking portfolio and retail portfolio

(2) Interest rate hedging instruments

**2017**

Time frame	Portfolio (1)		Off-Balance Sheet (2)	
	Assets	Liabilities	Assets	Liabilities
spot - 1 month	382,237,236	998,480,466	-	-
1 - 3 months	188,960,953	294,218,698	-	-
3 - 6 months	17,542,953	83,313,147	-	-
6 - 12 months	20,014,779	50,000,495	-	-
1 - 2 years	35,333	15,947,524	-	-
2 - 3 years	15,812,373	1,439,225	-	-
3 - 4 years	2,029,479	662,612	-	-
4 - 5 years	16,528,452	444,065	-	-
5 - 7 years	80,108,031	-	-	-
7 - 10 years	50,523,084	-	-	-
10 - 15 years	445,521,046	-	-	484,161,600
15 - 20 years	281,865,733	-	-	-
> 20 years	268,239,845	-	-	486,008,760
<b>Total</b>	<b>1,769,419,297</b>	<b>1,444,506,232</b>	<b>-</b>	<b>970,170,360</b>

(1) Assets available for sale, retail portfolio and RMBS

(2) Interest rate hedging instruments

**Sensitivity analysis**

Included in the non-statistical Basis Point Value indicators, the sensitivity to the interest rate risk for the years ended on 31 December 2018 and 2017 is presented as follows:

	2018				2017			
	Parallel increase of 100 pb	Parallel reduction of 100 pb	Increase after 1 year of 50pb	Reduction after 1 year of 50pb	Parallel increase of 100 pb	Parallel reduction of 100 pb	Increase after 1 year of 50pb	Reduction after 1 year of 50pb
On 31 December	10,996,773	(10,996,773)	5,121,886	(5,121,886)	(14,113,863)	14,113,863	(7,278,536)	7,278,536
On 30 June	(12,190,087)	12,190,087	(6,010,410)	6,010,410	(21,779,520)	21,779,520	(10,709,311)	10,709,311

**Asset and liability re-pricing risk**

Included in the non-statistical earnings at risk indicators, the re-pricing bands for the years ended on 31 December 2018 and 2017 are presented as follows:

2018						
	Balance Sheet value	Not sensitive	Up to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years
Cash, cash balances in central banks and other demand deposits						
Money in cash and Cash balances in central banks	71,318,698	71,318,698	-	-	-	-
Other demand deposits	85,451,838	85,451,838	-	-	-	-
Financial assets held for trading	73,246,011	3,028,748	376,199	1,909,516	44,137,158	23,794,390
Financial assets at fair value through other comprehensive income	1,570,404,852	30,478	52,202	148,561	205,514,058	1,364,659,553
Financial assets available for sale						
Financial assets at amortised cost						
Debt securities	336,293,487	-	-	-	-	336,293,487
Loans and advances - Clients	38,859,169	27,472	16,456,604	12,047,065	2,966,289	7,361,739
Loans and advances - Banks	4,064,442	-	2,156,083	1,839,824	68,535	-
<b>Total</b>	<b>2,179,638,497</b>	<b>159,857,234</b>	<b>19,041,088</b>	<b>15,944,966</b>	<b>252,686,040</b>	<b>1,732,109,169</b>
Financial liabilities held for trading	183,444	-	166,778	4,794	11,872	-
Financial liabilities measured at amortised cost						
Funding from other Banks	554,333,884	-	499,155,986	55,177,898	-	-
Funding from clients	1,312,210,871	-	1,110,441,752	188,750,443	13,018,676	-
Derivatives - Hedge accounting	18,197,101	-	-	-	-	18,197,101
<b>Total</b>	<b>1,884,925,300</b>	<b>-</b>	<b>1,609,764,516</b>	<b>243,933,135</b>	<b>13,030,548</b>	<b>18,197,101</b>
<b>GAP (Assets - Liabilities)</b>	<b>294,713,197</b>	<b>159,857,234</b>	<b>(1,590,723,428)</b>	<b>(227,988,169)</b>	<b>239,655,492</b>	<b>1,713,912,068</b>

2017						
	Valor de balanço	Não sensíveis	Até 3 meses	De 3 meses a 1 ano	De 1 a 5 anos	Mais de 5 anos
Cash and deposits in central banks	84,408,539	84,408,539	-	-	-	-
Deposits in other Banks	69,913,214	69,913,214	-	-	-	-
Financial assets held for trading	30,330,358	17,277,565	125,313	384,573	5,130,232	7,412,675
Financial assets at fair value through other comprehensive income						
Financial assets available for sale	1,300,718,258	2,539,664	53,751	284,672	52,636,134	1,245,204,037
Financial assets at amortised cost						
Debt securities						
Loans and advances - Clients	309,341,820	148,440	12,680,682	41,530	18,496,117	277,975,051
Loans and advances - Banks	3,412,730	-	3,304,016	11,755	96,959	-
<b>Total</b>	<b>1,798,124,919</b>	<b>174,287,422</b>	<b>16,163,762</b>	<b>722,530</b>	<b>76,359,442</b>	<b>1,530,591,763</b>
Financial liabilities held for trading	543,390	-	693	-	542,697	-
Financial liabilities measured at amortised cost						
Funding from other Banks	410,260,634	-	398,835,147	11,425,487	-	-
Funding from clients	1,035,793,975	-	894,936,957	122,363,592	18,493,426	-
Derivatives - Hedge accounting	-	-	-	-	-	-
<b>Total</b>	<b>1,446,597,999</b>	<b>-</b>	<b>1,293,772,797</b>	<b>133,789,079</b>	<b>19,036,123</b>	<b>-</b>
<b>GAP (Assets - Liabilities)</b>	<b>351,526,920</b>	<b>174,287,422</b>	<b>(1,277,609,035)</b>	<b>(133,066,549)</b>	<b>57,323,319</b>	<b>1,530,591,763</b>



**Currency exchange risk**

In the currency exchange markets the levels of volatility for the main currency pairs, namely Euro-Dollar, Euro-Pound and Euro-Yen were maintained. In relation to the Euro-Pound, there was a reduction in the volatility levels. For the Euro-Swiss Franc the volatility levels at the end of 2018 are similar to the volatility levels experienced at the end of 2017, although there were relevant fluctuations during 2018.

The reference interest rate of the Euro was at 0%, the same as since the first quarter of 2016, a historic minimum level. In relation to the exchange rates of the Euro against the main currencies we should point out the devaluation of the Euro against the Dollar throughout 2018, especially after the first quarter of 2018. In relation to the Euro against the Pound, the exchange value on 31 December represents a slight increase compared with the start of the year. There was also a devaluation of the Euro against other currencies, specifically the Swiss Franc and Yen.

The exchange rate of the Euro against the Metical on 31 December 2018 remained practically unchanged compared with 31 December 2017, with the Euro only registering a small devaluation, however, during the last two years there were some variations in this exchange rate which led to some volatility. In this way, historical volatility of the Euro Metical recorded throughout 2018 remained at consistently lower levels than in 2017, having also recorded higher values at the start of 2017 and decreasing since this time. The lowest values for historical volatility for 3 and 6 months were also recorded during December 2018.

The distribution of the Balance Sheet by currency for the years ended on 31 December 2018 and 2017 is presented as follows:

	2018				
	Euros	North American Dollars	Pound Sterling	Other Foreign Currencies	Total
<b>Assets by currency</b>					
Cash, cash balances in central banks and other demand deposits					
Money in cash and Cash balances in central banks	69,513,872	547,260	28,958	1,228,608	71,318,698
Other demand deposits	65,474,171	15,643,925	1,420,462	2,913,280	85,451,838
Financial assets held for trading	71,961,517	1,284,494	-	-	73,246,011
Financial assets at fair value through other comprehensive income	1,339,426,944	217,209,588	-	13,768,320	1,570,404,852
Financial assets available for sale					
Financial assets at amortised cost	-	-	-	-	-
Debt securities	336,293,487	-	-	-	336,293,487
Loans and advances - Clients	38,826,698	41	79	-	38,826,818
Loans and advances - Banks	1,393,699	-	-	2,670,743	4,064,442
Tangible assets	14,534,778	-	-	918,133	15,452,911
Intangible assets	2,114,081	-	-	-	2,114,081
Current tax assets	17,365,129	-	-	344,130	17,709,259
Deferred tax assets	14,846,944	-	-	24,463	14,871,407
Other assets	46,787,786	1,094,796	14,265	339,152	48,235,999
<b>Total assets</b>	<b>2,018,539,106</b>	<b>235,780,104</b>	<b>1,463,764</b>	<b>22,206,829</b>	<b>2,277,989,803</b>
<b>Liabilities by currency</b>					
Financial liabilities held for trading	68,011	115,433	-	-	183,444
Financial liabilities measured at amortised cost					
Funding from other Banks	377,417,501	176,915,564	-	819	554,333,884
Funding from clients	1,239,692,191	61,649,800	1,403,461	9,465,419	1,312,210,871
Derivatives - Hedge accounting	18,197,101	-	-	-	18,197,101
Provisions	3,338,288	-	-	-	3,338,288
Current tax liabilities	-	-	-	-	-
Instruments representing capital	16,341,508	-	-	-	16,341,508
Other liabilities	24,044,912	1,503,260	12,212	676,726	26,237,110
<b>Total liabilities</b>	<b>1,679,099,512</b>	<b>240,184,057</b>	<b>1,415,673</b>	<b>10,142,964</b>	<b>1,930,842,206</b>
<b>Net assets - liabilities by currency</b>	<b>339,439,594</b>	<b>(4,403,953)</b>	<b>48,091</b>	<b>12,063,865</b>	<b>347,147,597</b>

2017					
	Euros	Dólares Norte Americanos	Libras Esterlinas	Outras Moedas Estrangeiras	Valor Total
<b>Assets by currency</b>					
Cash and deposits in central banks	83,091,677	424,872	36,092	855,898	84,408,539
Deposits in other Banks	48,929,260	17,511,767	1,105,881	2,366,306	69,913,214
Financial assets held for trading	27,992,402	2,329,402	-	8,554	30,330,358
Financial assets at fair value through other comprehensive income					
Financial assets available for sale	1,211,988,991	78,877,173	-	9,852,094	1,300,718,258
Financial assets at amortised cost					
Debt securities					
Loans and advances - Clients	309,093,460	78	-	-	309,093,538
Loans and advances - Banks	809,060	-	-	2,603,670	3,412,730
Tangible assets	14,932,942	-	-	443,726	15,376,668
Intangible assets	1,975,455	-	-	19,421	1,994,876
Current tax assets	-	-	-	-	-
Deferred tax assets	28,717,793	-	-	-	28,717,793
Other assets	5,442,461	1,296,974	21,873	494,790	7,256,098
<b>Total assets</b>	<b>1,732,973,501</b>	<b>100,440,266</b>	<b>1,163,846</b>	<b>16,644,459</b>	<b>1,851,222,072</b>
<b>Liabilities by currency</b>					
Financial liabilities held for trading	447,249	96,141	-	-	543,390
Financial liabilities measured at amortised cost					
Funding from other Banks	403,374,990	6,398,367	-	487,277	410,260,634
Funding from clients	962,973,424	65,223,098	1,291,760	6,305,693	1,035,793,975
Derivatives - Hedge accounting	-	-	-	-	-
Provisions	4,740,788	-	-	-	4,740,788
Current tax liabilities	7,638,338	-	-	332,714	7,971,052
Instruments representing capital	16,765,717	-	-	-	16,765,717
Other liabilities	17,097,398	16,587,206	52,415	1,876,268	35,613,287
<b>Total liabilities</b>	<b>1,413,037,904</b>	<b>88,304,812</b>	<b>1,344,175</b>	<b>9,001,952</b>	<b>1,511,688,843</b>
<b>Net assets - liabilities by currency</b>	<b>319,935,597</b>	<b>12,135,454</b>	<b>(180,329)</b>	<b>7,642,507</b>	<b>339,533,229</b>

### Sensitivity analysis

The Group does not speculate on currency markets (FX) and the use of VaR limits reflects its strategy of limiting exposure to foreign currency fundamentally to its Clients' business and associated fluxes. During 2018 BiG also opted to have some assets in the Balance Sheet in Dollars (corporate debt and some exposure to emerging markets), and in this way the exposure to Eurodollar futures contracts and foreign exchange forwards was intended to hedge the exchange risk for these assets. Albeit residual, during 2018 the Group also had exposure to some debt securities in other currencies.

In order to analyse the impact of a blow to exchange rates on the exposures held in the FX trading portfolio, an alteration of +/- 15% was applied to all exchange rates.

The sensitivity analysis resulting from a blow of +/- 15% on the exchange rates for the years ended on 31 December 2018 and 2017 is presented as follows:

2018				
Currency	Base scenario		Impact resulting from a rise / drop of:	
	Original currency	Equivalent	+15%	-15%
Australian Dollar	(7,679,850)	(4,734,803)	617,583	(835,553)
Argentine Peso	(20,086)	(466)	61	(82)
Brazilian Real	(9)	(2)	0	(0)
Canadian Dollar	(24,071,814)	(15,425,706)	2,012,049	(2,722,183)
Swiss Franc	(4,794,738)	(4,254,803)	554,974	(750,848)
Danish Krone	257,293	34,456	(4,494)	6,080
Pound Sterling	(4,062,625)	(4,541,631)	592,387	(801,464)
Yen	299,397	2,379	(310)	420
Norwegian Krone	(17,788)	(1,788)	233	(316)
Swedish Krone	376,710	36,735	(4,792)	6,483
American Dollar	34,155,353	29,830,003	(3,890,870)	5,264,118
Hong Kong Dollar	52,872	5,896	(769)	1,040
Mexican Peso	180	8	(1)	1
Turkish Lire	(1,757)	(290)	38	(51)
Metical	(15,245,455)	(216,524)	28,242	(38,210)
South African Rand	4,707	286	(37)	50
<b>Total impact</b>			<b>(95,706)</b>	<b>129,485</b>

2017				
Currency	Base scenario		Impact resulting from a rise / drop of:	
	Original currency	Equivalent	+15%	-15%
Australian Dollar	121,726	79,321	(10,346)	13,998
Brazilian Real	67,782	17,061	(2,225)	3,011
Canadian Dollar	146,110	97,154	(12,672)	17,145
Swiss Franc	39,710	33,934	(4,426)	5,988
Danish Krone	39,183	5,263	(686)	929
Pound Sterling	(29,542)	(33,297)	4,343	(5,876)
Russian Rouble	2,200,612	31,713	(4,136)	5,596
Yen	1,010,820	7,487	(977)	1,321
Norwegian Krone	(1,431,518)	(145,475)	18,975	(25,672)
Swedish Krone	1,390,624	141,269	(18,426)	24,930
American Dollar	4,055,455	3,381,518	(441,068)	596,739
New Zealand Dollar	(3,700,000)	(2,195,846)	286,414	(387,502)
Hong Kong Dollar	52,464	5,598	(730)	988
Mexican Peso	(14,883)	(629)	82	(111)
New Turkish Lire	(92,951)	(20,445)	2,667	(3,608)
Won	1,660,635,631	1,297,767	(169,274)	229,018
Metical	(19,819,599)	(281,622)	36,733	(49,698)
Indian Rupee	71,000	927	(121)	164
Rand	4,708	318	(41)	56
<b>Total impact</b>			<b>(315,914)</b>	<b>427,416</b>

## Hedging risk

The quantification of the risk of the Group's book of derivative products depends on a number of variables related with the market, including the price of underlying assets, volatility, interest rates and time to maturity. The Group quantifies its exposure to these variables carrying out sensitivity analyses known as "greeks" which are mathematical terms defined below.

In general the levels of sensitivity to volatility (Vega) recorded values were lower than the values recorded in 2017. This oscillation is justified by the Group's lower exposure to derivatives products in 2018.

The Delta values were, in general, lower than those recorded in 2017. In fixed rate products, the Bank opted for a long strategy in bonds. Exposure to the interest rate risk was lower during 2018, and this reduction reflected both the exposure to fixed rate assets and also the higher levels of the hedging of the interest rate risk.

2018				
	<i>Rho</i>	<i>Vega</i>	<i>Delta</i>	<i>Theta</i>
Minimum	(768,866)	(3,408)	(168,041)	(11,645)
Maximum	72,087	75,774	182,292	(98)
Average	(123,207)	11,817	(36,351)	(1,758)
Standard Deviation	133,027	16,075	29,319	2,195

2017				
	<i>Rho</i>	<i>Vega</i>	<i>Delta</i>	<i>Theta</i>
Minimum	(374,613)	17,207	(273,907)	(28,046)
Maximum	140,386	116,463	392,218	1,433
Average	(102,444)	63,128	(23,899)	(6,028)
Standard Deviation	97,570	23,667	146,728	3,683

<i>Rho</i>	Sensitivity to interest rates
<i>Vega</i>	Sensitivity to volatility
<i>Delta</i>	Sensitivity to underlyings
<i>Theta</i>	Sensitivity to time

## Limits and Reporting

Limits on trading activity are essential to the process, with there being limits approved by class of product, content and by market operator and which may be calculated by means of a combination of non-statistical measures, including BPV's (Basis Point Value), and statistical measures, such as VaR (Value at Risk), analysed beforehand. A daily report is prepared for the Senior Administration with all of the relevant indicators and positions, based on the statistical and non-statistical measures established.

## Credit risk

Credit Risk is the risk of loss as a result of a default by a borrower or counterparty.

### A. Credit Risk Management

The Group is exposed to credit risks in a number of its activities. These necessarily include direct exposure to clients who have contracted loans, direct exposure to credit risks associated with securities issued by third parties and held as investment or trading assets of the Group, and market or settlement risk associated with trading activities by clients.

Credit risk arising from dealings with professional counterparties as well as issuers of quoted securities, is assessed in combination with procedures for managing market risks discussed above in Market Risk.

The Credit Risk Management process begins with the Board of Directors, which approves general policies and guidelines for credit risks. The Board then delegates in the Chief Credit Officer and to other members of the Credit Risk Committee and support personnel the day to day implementation of these policies and responsibilities, which include:

- ▲ Analysis and control of counterparty risks;
- ▲ Definition of quantitative and qualitative guidelines for credit reviews;
- ▲ Control and monitoring of client, family and "house limit" risks;
- ▲ Documentation, control and form completion systems;

- ▲ Management and control of risk monitoring policies and systems;
- ▲ Maintenance of a credit scoring and approval matrix;
- ▲ Integrity of the credit approval process;
- ▲ Strict adherence to regulatory standards and principles;
- ▲ Application of prices appropriate to the risks assumed.

In its process of analysis and approval, the Group assesses its exposure both in terms of individual transactions, in terms of the maximum exposure per client and, separately, in terms of the respective portfolios, to ensure there is adequate control over risk concentrations in each sector or industry. As a matter of policy, all exposures are assessed and processed for approval, whether on or off-balance sheet in nature. In the course of the Group's day to day activity, integrated systems to monitor exposures are an essential element in the process of credit risk management.

Correct risk management is fundamental for BIG to create value for shareholders. In general terms, the Group is exposed to risk as a direct result of the assumption of positions with respect to particular markets or combinations of markets, products or Clients.

In the management of its exposure to risks, the Group is guided by the following basic principles:

- ▲ Frequent review of policies and procedures by the Board of Directors;
- ▲ Formal definition of responsibility for risk management in the Group;
- ▲ Existence of policies and procedures that permit independent supervision;
- ▲ Appropriate policy of risk diversification;
- ▲ Independent reporting systems;
- ▲ Overlapping of systems to measure and control the risk;
- ▲ Training to support the identification of risks in the various areas.

Credit Risk Management in the Group is an integrated process both in terms of transactions and in terms of portfolios.

- ▲ In terms of transactions: It means that all transactions need the approval of at least two officers with credit authority, granted by the Board of Directors and by the senior members of the Credit Risk Management Committee. In the case of portfolios of securities, the limits are approved by the Administration.
- ▲ In terms of portfolios: It means that the exposure will be managed – whether of loans, securities, derivatives, currency exchange, etc. – so as to minimise excessive concentrations of risk relating to clients, industries, products or geographic location. Problematic loans, rates of cover by provisions, write-offs and recoveries are also analysed. There are various credit reporting procedures in force and available internally for the information of the Bank's Board of Directors.

The credit risk is managed in order to make the organization's performance sustainable within acceptable parameters of risk versus return. This aim is achieved through a combination of policies, systems and controls, always backed by pondered and cautious commercial decisions, due to a variety of reasons, such as:

- ▲ Non-strategic nature of the credit business, typical of commercial banking;
- ▲ Focus on other investment banking business and Wealth Management;
- ▲ Lack of scale/dimension of the Group.

Strategically BiG, in relation to its risk appetite, seeks to limit exposure to the credit risk, and essentially to:

- ▲ Exposure to Investment Grade and Sovereign companies with rating or banks with good credit quality, supported by internal analyses and/or by research by Moody's (or other provider of independent research);
- ▲ FX or exposure to settlement associated to companies, institutional investors and private investors. In this last group, without the benefit of adequate assessment or appropriate control over risk exposure, limits are frequently approved on a case-by-case basis;
- ▲ Exposure to occasional credit risk analysed in detail by internal analysts;
- ▲ Collateralised credit, connected to the business of Wealth Management.

In the taking of decisions and risk management of the Group, the Administration applies its strategy and business model in combination with a set of quantitative tools and systems used to monitor and measure exposure. These aspects include:

- ▲ Non-statistical measurements, such as scenario analyses, stress and sensitivity tests;
- ▲ Limits per counterparty, family, class of assets and portfolio;
- ▲ Limits of concentration;
- ▲ Qualitative analysis and control procedures.

The quantification of risk is an evolving process that requires regular self-assessment, updates to techniques and changes in assumptions, besides adherence to regulatory and accounting standards. As a result, the process is a focus daily of the Administration,

especially because any autonomous methodology of risk measurement alone is generally insufficient to provide a complete perspective of all the exposures.

As a policy, we seek to quantify the potential losses associated with all the aspects of our business, in order to make a reasonable estimate of the potential damage in the event of the occurrence of unexpected events. These events include those that are observed, based on historic data and those that we consider to be highly improbable, but which, even so, may be estimated based on the assumption of certain extreme scenarios.

BiG's exposure to the credit risk can include the concession of loans to clients, investments in corporate bonds, interbank total value and replacement value risks, the risk of liquidation of certain securities, amounts receivable under derivatives and foreign currency contracts, sovereign bonds and commitments assumed under guarantees or commercial paper programmes.

The credit risk generally concentrates its focus on nominal and fractionated exposures, concentrations by borrower or group, sector or geography, in an analysis that is based on stress tests.

The retail credit portfolio is segmented into 5 sub-portfolios, into which operations with similar characteristics are grouped:

- ▲ Mortgages;
- ▲ Loans at sight;
- ▲ Car purchase loans;
- ▲ Credit for Employees to buy BiG's shares;
- ▲ Other (overdrafts, personal loans, etc.).

#### B. Calculation of impairment

During 2018 the Group continued to calibrate the models that it developed to comply with the new requisites of the IFRS 9 and to monitor possible orientations of national and international regulators with regard to the application of this standard.

IFRS 9 contemplates the classification of financial assets according to three criteria:

- ▲ The business model under which the financial assets are managed;
- ▲ The type of financial instrument, or rather (i) derivative financial instruments, (ii) equity instruments or (iii) financial debt instruments; and
- ▲ The characteristics of the contractual cash flows of the financial debt instruments (which represent only payments of capital and interest).

In this context, the main categories of financial assets contemplated in the IFRS 9 are summarised as follows:

- ▲ A financial debt instrument that (i) is managed under a business model whose objective involves keeping the financial assets in the portfolio and receiving all their contractual cash flows and (ii) may have contractual cash flows in specific dates that correspond exclusively to the payment of capital and interest on the outstanding capital, should be measured at amortised cost, unless it is designated at fair value through profit and loss under the fair value option – Hold to Collect;
- ▲ A financial debt instrument that (i) is managed under a business model whose objective is achieved either through the receipt of the contractual cash flows or through the sale of the financial assets and (ii) contemplate contract clauses that give rise to cash flows that correspond exclusively to the payment of capital and interest on the outstanding capital, should be measured at fair value as a counter-entry against equity (FVTOCI), unless it is designated at fair value through profit and loss under the fair value option – Hold to Collect & Sell;
- ▲ All other financial debt instruments should be measured at fair value through profit and loss (FVTPL).

The Group assessed its business models based on a broad set of indicators, some of the main ones being its Business Plan, and also its current risk management policies. For the Hold to Collect business model, in order to assess the frequency and materiality of sales, quantitative thresholds were defined based on past experience. The sales contemplated for the financial assets classified in this business model do not exceed the thresholds defined by the Group.

With regard to other financial instruments, specifically equity instruments and derivatives, these are, by definition, classified at fair value through results.

For equity instruments, there is the irrevocable option of designating for all fair value variations to be recognised in other comprehensive income, and in this case, only the dividends are recognised in results, as gains and losses are not reclassified for results even at the time of their non-recognition/sale.

IFRS 9 establishes that the concept of impairment based on expected losses is applied to all financial assets, except to financial assets measured at fair value through results and equity instruments measured at fair value through equity.

Also covered by the concept of expected losses of the IFRS 9 are financial assets at amortised cost, debt instruments measured at fair value through equity, off-balance sheet exposures, financial leasing, other amounts receivable, financial guarantees and loan commitments not valued at fair value.

Financial assets subject to impairment are classified in different stages according to the evolution of their credit risk from the date of initial recognition and do not depend on the credit risk at the reporting date:

- ▲ Stage 1: financial assets are classified in stage 1 whenever there is no significant increase in the credit risk since the date of their initial recognition. For these assets the expected credit impairment loss resulting from events of non-compliance that occur during the 12 months after the reporting date should be recognised in the income statement of the year;
- ▲ Stage 2: incorporates the financial assets in which a significant increase in the credit risk has been verified since the date of their initial recognition, even though this situation may not have materialised in concrete losses and are only indications. For these financial assets expected credit impairment losses are recognised throughout of the life of the assets (lifetime). However, interest will continue to be calculated on the gross amount of the asset;
- ▲ Stage 3: the assets classified in this stage demonstrate objective evidence of impairment on the reporting date, as a result of one or more events that have already occurred which result in a loss. In this case, the expected credit impairment loss during the expected remaining lifetime of the financial assets will be recognised in the income statement of the year. Interest is calculated on the net book value of the assets.

On each reporting date, BiG assesses if there is a significant increase in the credit risk, in order to determine the stage into which each exposure should be classified.

Financial assets go from stage 1 to stage 2 when the credit risk increases significantly when compared with the credit risk on the date of their initial recognition. The transition of financial assets from stage 2 to stage 3 occurs when these are in default. The significant increase in the credit risk should be determined through the analysis of internal quantitative and/or qualitative indicators used by the Group in the normal management of credit risk, thus requiring greater articulation of the accounting requisites with the management policies on credit risk established by the Group.

In the identification and assessment of the significant increase in the credit risk, the Group uses the information that is fed into the credit risk models implemented, supporting its decisions based on a broad set of triggers and alerts, as described below in *H. Description of triggers and alerts for a significant increase in the credit risk*.

The Group uses a number of tools, where it considers the following factors, among others:

- ▲ the evolution of the rating of the issuer and of the prices of the securities in the portfolio (when applicable);
- ▲ the aggregate exposure to the client and the existence of overdue loans;
- ▲ the existence of other triggers (even though indirect) that could lead the Group to suspect impairment (evidences/indications);
- ▲ the economic-financial viability of the client's business or professional activity and its capacity to generate sufficient means to service the debt in the future;
- ▲ the existence, nature and estimated value of the collateral associated to each credit;
- ▲ if there are privileged creditors;
- ▲ the client's level of indebtedness in the financial sector;
- ▲ the analysis carried out weekly in relation to **PARI – Plan of Action for the Risk of Non-compliance**
- ▲ the amount and timing of estimated recovery.

If a significant increase in the credit risk is identified, the amount of the ECL to be recognised corresponds to the difference between the book value of the exposure and the current value of the estimated future cash flow (considering the recovery period) discounted at the original effective interest rate of the contract.

For a credit with a variable interest rate, the discount rate to be used to determine the respective ECL is the original effective interest rate contracted, determined based on the clauses of each contract.

The measurement of expected losses is the result of the product between (i) the probability of default (PD) of the financial instrument, (ii) the LGD (Loss Given Default) and (iii) the exposure on the date of the non-compliance (EAD – Exposure at Default), discounted at the initial effective interest rate of the contract. This measurement, and also the assessment of the significant increase in the credit risk, should consider not only information on past events, but also the current conditions and reasonable forecasts substantiated on events and future economic conditions (i.e. forward-looking information).

These parameters are obtained through statistical models, of market data, historic data or external benchmark data, if internal or historic sources is not available, their calculation being validated by independent bodies and their values regularly updated.

The EAD represents the expected exposure, in the case of non-compliance by the client and/or of the exposure. The Group obtains the values of the EAD through the current exposure of the counterparty and foreseeable alterations to the respective current value, depending on the contract conditions, including amortisation and advance payments. For guarantees and sureties

provided, the value of the EAD considers the total value guaranteed by the Group, on the assumption that the amount may be used in full.

The PD are estimated considering a determined historic period, or through external benchmark indicators, if historic data is not available. The Group regularly gathers indicators of performance and default of its credit risk exposures, with analyses by type of exposure/client. For segments where there is no information available, but it is possible to determine the debtor's external rating, BiG uses external information published by the rating agencies or market data, such as CDS spreads and bond yields to gauge the PD.

The LGD represents the value of the loss that the Group expects in the event of a non-compliance. The Group estimates the parameters using external benchmark data (e.g. Moody's) or internal data, when available, through the recovery rates. For example, in the case of mortgages, the LTV (Loan-To-Value) ratio has a relevant weight in determining the LGD of this product.

As mentioned previously, the main difference between impairment losses measured for financial assets classified in stages 1 and 2 is the respective time horizon in the calculation of the PD. The expected losses for financial assets in stage 1 will be calculated using a PD of 12 months while the expected losses in stage 2 use a lifetime PD. The calculation of the expected loss for the financial assets always considers point-in-time and forward-looking and through-the-cycle information.

The estimates take macroeconomic factors into consideration that can influence them. The following estimates were used in the models to calculate the ECL:

	2017	2018e	2019e	2020e
GDP	2.6%	2.3%	1.8%	1.7%
Unemployment Rate	8.9%	7.8%	6.7%	6.1%

The different business generating areas involved in this process do not perform the calculation, revision and approval of impairment losses, therefore retaining the independence that is absolutely necessary in this type of analysis.

#### C. Policy relating to the degrees of internal risk

BiG does not use internal credit ratings in the treatment of irregular credit.

The internal treatment of a client classified as in default should contemplate taking all the operational measures that appear necessary, namely the inhibition of (i) movements in accounts and means of moving accounts, (ii) transfers of amounts outside of the Group, (iii) attempts to reduce or remove collateral and (iv) increases in exposure by the borrower.

As necessary, still in relation to this internal analysis, the legal mechanisms that ensure the execution of guarantees or the filing of enforcement proceedings will be triggered. This action will be coordinated by the Compliance Department, together with the firm of lawyers that assists the Group in legal matters.

The actions described above should also take into consideration (i) knowledge of the client, (ii) awareness of the product, (iii) the necessary understanding of standards, regulations, procedures, timings of reporting to the supervisory bodies and (iv) the need to adjust the Group's internal accounts and reports.

#### D. Calculation of the current value of the future cash flow in the calculation of impairment losses assessed individually and collectively

On an individual basis, and for the retail credit portfolio, the method of calculation adopted by the Group for the determination of credit impairment is the discounted cash flow (DCF) method or rather, to calculate the PV (Present Value) of the cash-flows becoming due for the time of the analysis, discounted at a determined interest rate. This PV is then compared with the exposure value and, if the difference is negative, there will then be impairment for an amount which should be duly accounted.

In the calculation of the ECL, the Group determines the net amount of each exposure (credit amount – collateral amount). This collateral amount is adjusted by haircuts, in accordance with the rules defined in the point Valuation of collateral. For the purpose of the analysis of impairment, only in operations with financial guarantees (Margin Account) or real guarantees (Mortgage or Car loans) is the respective collateral evaluated, while in other operations a collateral equal to zero is assumed, even in the case of the automobile leases where the item belongs to the Group.

In the case of the DCF method, the interest rate used in the calculation of impairment is determined in accordance with the following rules:

- ▲ fixed rate contracts: initial fixed rate
- ▲ variable rate contracts: current interest rate, resulting from the contract clauses (e.g. indexed to the Euribor)



When the exposures are guaranteed by collateral, the Group takes into consideration the expected value of the collateral as well as the expectations of recovery, and the recovery and sale costs.

#### E. Conversion of debt into capital of the debtor

The Group does not normally use this type of solution and has no exposure to any economic group that has undergone this form of credit restructuring.

#### F. Emergent period used for the different segments and justification of its suitability

BiG does not consider an emergent period in its model. In all the segments, the rule defined by the IFRS9 is used, with expected losses at 12 months, in the case of exposures classified in stage 1, and lifetime expected losses for exposures in stage 2 and stage 3.

#### G. Triggers and alerts for significant increases in the credit risk

##### Staging Criterion – Transfer to stage 2

	Securities portfolio	Credit portfolio
<i>TRIGGERS (automatic)</i>	<ul style="list-style-type: none"> <li>i. Delay in the payment of capital and/or interest of between 31 and 90 days;</li> <li>ii. Debt of the issuer restructured due to financial difficulties</li> <li>iii. Inability to measure the credit risk at the time of its origination and/or acquisition;</li> </ul>	<ul style="list-style-type: none"> <li>i. Delay in the payment of capital and/or interest of between 31 and 90 days;</li> </ul>
<i>OTHER ALERTS (subject to revision and analysis in the Credit Risk Committee)</i>	<ul style="list-style-type: none"> <li>i. Negative evolution of the rating compared to the acquisition date (as per ratings matrix);</li> <li>ii. Negative evolution of price compared to amortised cost and comparison with the Threshold permitted in the price matrix;</li> </ul>	<ul style="list-style-type: none"> <li>i. Indications of risk in the CRC-Credit Liabilities Centre of the Bank of Portugal;</li> <li>ii. Indications of risk in the Clients' accounts;</li> <li>iii. Liens or bank blocks recorded in the Clients' accounts;</li> <li>iv. Inclusion in the List of Cheque Defaulters;</li> <li>i. Inclusion in the internal blacklist;</li> <li>vi. Significant restructuring of a credit operation due to financial difficulties of the debtor;</li> </ul>

##### Staging Criterion – Transfer to stage 3

	Securities portfolio	Credit portfolio
<i>TRIGGERS (automatic)</i>	<ul style="list-style-type: none"> <li>i. Delay in the payment of capital and/or interest equal to or longer than 91 days;</li> <li>ii. Debt of the issuer restructured due to financial difficulties</li> <li>iii. Inability to measure the credit risk at the time of its origination and/or acquisition;</li> </ul>	<ul style="list-style-type: none"> <li>i. Delay in the payment of capital and/or interest equal to or longer than 91 days;</li> </ul>
<i>OTHER ALERTS (subject to revision and analysis in the Credit Risk Committee)</i>	<ul style="list-style-type: none"> <li>i. Negative evolution of the rating (2 more notches than that recorded for stage 2) compared to the acquisition date.</li> <li>ii. Decline in the fair value of the financial asset on a continuous basis during 12 months or decline of the fair value of the financial asset significantly (over 30%);</li> <li>iv. Securities with rating equal to or less than CCC+ (not POC);</li> <li>v. Loss of attribution of rating, with BiG being unable to infer the risk associated to the asset;</li> <li>vi. Disappearance of active market for the bond under analysis due to financial difficulties;</li> <li>vii. Bankruptcy/insolvency of the issuer;</li> </ul>	<ul style="list-style-type: none"> <li>i. Client in insolvency proceedings, PER - Special Recovery Plan, or any other equivalent situation of protection;</li> <li>ii. Classification of the operation as "unproductive" (without interest);</li> <li>iii. Termination of the contract due to non-compliance and consequent filing of legal case for recovery;</li> <li>iv. Sale, by BiG, of credit operation with significant financial loss (&gt;20% of the outstanding nominal value on the date of the sale) due to reasons exclusively connected to the quality of the credit risk of the debtor;</li> </ul>

The distribution by sector of activity for the years ended on 31 December 2018 and 2017, is presented as follows:

2018						
	Financial assets at amortised cost			Financial assets held for trading	Financial assets at fair value through other comprehensive income	Guarantees and sureties provided
	Loans and advances Clients		Debt securities			
	Gross value	Impairment	Gross value	Gross value	Gross value	
Agriculture, silviculture and fisheries	10,170	38	-	-	-	-
Mining industries	-	-	-	416,498	76,025,110	-
Manufacturing industries	78	1	-	8,934,096	84,536,445	-
Electricity, gas, steam, hot and cold water and cold air	-	-	-	-	33,637,610	-
Construction	55,234	1	-	2,059,274	2,257,704	-
Bulk and retail trade; repair of motor vehicles and motorcycles	21,281	2	-	1,547	-	-
Transports and storage	451	-	-	1,892,005	13,749,700	-
Financial activity and insurance	3,950,613	628	-	34,618,901	600,328,337 (1)	-
Real estate	714,945	1	-	-	-	-
Scientific, technical consultancy and similar	863,097	29	-	485,701	30,478	15,000
Public administration and defence; Obligatory social security	-	-	336,293,487	16,012,491	750,715,640 (2)	-
Human health and social support	151,711	6	-	51,663	9,123,828	-
Mortgages	5,832,660	1,249	-	-	-	-
Loans to private individuals	26,859,087	29,406	-	258,971	-	191,302
Other	399,842	990	-	8,514,864	-	29,350
	<b>38,859,169</b>	<b>32,351</b>	<b>336,293,487</b>	<b>73,246,011</b>	<b>1,570,404,852</b>	<b>235,652</b>

(1) includes 301,260,606 Euros referring to asset backed securities (ABS)

(2) sovereign bonds

2017					
	Loans and advances to clients		Financial assets held for trading	Financial assets available for sale	Guarantees and sureties provided
	Gross value	Impairment			
	Gross value	Impairment	Gross value	Gross value	
Agriculture, silviculture and fisheries	13,890	45	-	-	-
Mining industries	-	-	399,891	45,135,626	-
Manufacturing industries	72	-	6,353,385	44,909,554	-
Electricity, gas, steam, hot and cold water and cold air	-	-	10,207,804	-	-
Construction	193,389	126,118	-	-	-
Bulk and retail trade; repair of motor vehicles and motorcycles	2,846	9	384,573	53,751	-
Transports and storage	441	408	397,600	-	-
Financial activity and insurance	273,055,236	3,754	5,084,838	34,199,567	-
Real estate	903,988	1,388	-	-	-
Scientific, technical consultancy and similar	476,350	1,690	255,652	582,814	-
Public administration and defence; Obligatory social security	-	-	5,191,168	1,158,236,032	-
Human health and social support	160,046	570	596,153	9,184,788	-
Mortgages	6,379,513	51,938	-	-	-
Loans to private individuals	27,952,540	61,984	226,055	-	255,119
Other	203,509	378	1,233,239	8,416,126	9,350
	<b>309,341,820</b>	<b>248,282</b>	<b>30,330,358</b>	<b>1,300,718,258</b>	<b>264,469</b>

**Exposure to public debt**

On 31 December 2018 and 2017 the Group's exposure to public debt is as follows:

	2018			
	Financial assets held for trading	Financial assets at fair value through other comprehensive income	Financial assets available for sale	Financial assets at amortised cost
Portugal	6,910,085	179,091,229		-
Spain	-	159,738,064		-
Italy	-	229,591,039		336,293,487
Greece	38,992	-		-
Other	-	174,208,168		-
	<b>6,949,077</b>	<b>742,628,500</b>		<b>336,293,487</b>

	2017			
	Financial assets held for trading	Financial assets at fair value through other comprehensive income	Financial assets available for sale	Financial assets at amortised cost
Portugal	5,153,710		48,839,444	
Spain	-		499,776,802	
Italy	-		582,147,240	
Greece	37,458		-	
Other			39,516,681	
	5,191,168		1,130,763,486	

The breakdown of the exposure to securities in the portfolio of Financial assets at fair value through other comprehensive income, Financial assets available for sale, Financial assets held for trading and Financial assets at amortised cost is as follows:

	2018				
	Nominal value	List value	Accumulated interest	Balance Sheet value <sup>(1)</sup>	Fair value reserve <sup>(2)</sup>
Financial assets held for trading					
Portugal					
Maturity under 1 year	6,572,722	6,842,362	49,353	6,891,715	-
Maturity over 1 year	17,503	17,913	458	18,370	-
Greece					
Maturity over 1 year	76,082	37,837	1,155	38,992	-
Financial assets at fair value through other comprehensive income					
Portugal					
Maturity over 1 year	182,713,000	176,656,910	2,434,319	179,091,229	5,481,098
Spain					
Maturity over 1 year	123,838,000	155,571,664	4,166,400	159,738,064	9,819,053
Italy					
Maturity over 1 year	234,000,000	228,648,892	942,147	229,591,039	5,851,467
Other					
Maturity over 1 year	173,637,436	170,404,432	3,803,735	174,208,168	6,438,910
Financial assets available for sale					
Financial assets at amortised cost					
	325,000,000	283,997,850	1,744,082	336,293,487	-
	<b>540,644,585</b>	<b>560,933,216</b>	<b>7,544,479</b>	<b>568,477,694</b>	<b>21,151,618</b>

(1) the Balance Sheet value of Financial assets at amortised cost - Debt securities, includes the component of hedge impairment.

(2) the fair value reserve presented includes the component of hedge impairment

2017					
	Nominal value	List value	Accumulated interest	Balance Sheet value <sup>(1)</sup>	Fair value reserve <sup>(2)</sup>
Financial assets held for trading					
Portugal					
Maturity over 1 year	4,669,535	5,091,874	61,836	5,153,710	-
Greece					
Maturity over 1 year	67,721	36,412	1,046	37,458	-
Financial assets at fair value through other comprehensive income					
Financial assets available for sale					
Portugal					
Maturity over 1 year	53,693,000	48,356,885	482,559	48,839,444	258,954
Spain					
Maturity over 1 year	461,838,000	493,084,130	6,692,672	499,776,802	(28,223,297)
Italy					
Maturity over 1 year	574,000,000	577,656,557	4,490,683	582,147,240	(62,697,963)
Other					
Maturity over 1 year	35,725,436	31,244,785	618,567	31,863,351	227,493
Financial assets at amortised cost					
	<b>1,129,993,692</b>	<b>1,155,470,643</b>	<b>12,347,363</b>	<b>1,167,818,005</b>	<b>(90,434,813)</b>

(1) the Balance Sheet value of Financial assets at amortised cost - Debt securities, includes the component of hedge impairment.

(2) the fair value reserve presented includes the component of hedge impairment

### Debt exposure by rating

The Group does not use internal rating, and so the ratings of external entities (Moody's, S&P and Fitch) are considered.

If the rating notations differ between external entities, the Group uses the following criteria:

- ▲ When there are three rating notations different, the best of the two worst ratings is used;
- ▲ When there are two rating notations different, the worst of the two ratings is used;
- ▲ When there is only one rating, this rating is used;

On 31 December 2018 and 1 January 2018 the Group's debt exposure by rating is as follows:

	EXPOSIÇÃO 31-12-2018				EXPOSIÇÃO BRUTA	ECL	EXPOSIÇÃO LÍQUIDA
	Rating AAA - AA	Rating A - BBB	Rating BB - B	Unrated			
<b>Crédito Titulado</b>							
<b>Hold to Collect</b>							
Stage 1	-	336,728,483	-	-	336,728,483	434,996	336,293,487
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
<b>Hold to Collect and Sell</b>							
Stage 1	125,109,378	1,191,245,699	103,679,416	150,410,171	1,570,435,330	1,088,603	1,569,346,727
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
	<b>125,109,378</b>	<b>1,527,974,182</b>	<b>103,679,416</b>	<b>150,410,171</b>	<b>1,907,163,813</b>	<b>1,523,599</b>	<b>1,905,640,214</b>

	EXPOSIÇÃO 01-01-2018				EXPOSIÇÃO BRUTA	ECL	EXPOSIÇÃO LÍQUIDA
	Rating AAA - AA	Rating A - BBB	Rating BB - B	Unrated			
<b>Crédito Titulado</b>							
<b>Hold to Collect</b>							
Stage 1	-	307,181,641	-	-	307,181,641	-	307,181,641
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
<b>Hold to Collect and Sell</b>							
Stage 1	16,479,335	849,801,332	78,920,747	71,863,590	1,017,592,450	780,878	1,016,811,572
Stage 2	-	-	12,165,413	-	12,165,413	1,556,508	10,608,905
Stage 3	-	-	-	-	-	-	-
	<b>16,479,335</b>	<b>1,156,982,973</b>	<b>91,086,160</b>	<b>71,863,590</b>	<b>1,336,939,504</b>	<b>2,337,386</b>	<b>1,334,602,118</b>

**Exposure by type and staging**

As a matter of presentation, the Group decided to group together the segments of Loans not represented by securities into only 3 segments: Loans at sight, Mortgages and Other Credits.

Considering the portfolios indicated in line H. above, the exposures were grouped as follows:

- ▲ Loans at sight,
- ▲ Mortgages
- ▲ Other (car loans, credit for employees to buy BiG's shares and other credits, which include overdrafts and personal loans)

On 31 December 2018 and 2017 the Group's exposure by type and staging is as follows:

a.1)

	Gross exposure 31-12-2018			
	Stage 1	Stage 2	Stage 3	TOTAL
Loans not represented by securities				
Current Account Credit	16,232,319	72,276	66	16,304,661
Mortgages	5,393,709	-	-	5,393,709
Other	17,515,052	53,963	27,696	17,596,711
Loans represented by securities				
Hold to Collect	336,728,483	-	-	336,728,483
Hold to Collect and Sell	1,570,435,330	-	-	1,570,435,330
Guarantees and sureties provided	235,652	-	-	235,652
<b>TOTAL</b>	<b>1,946,540,545</b>	<b>126,239</b>	<b>27,762</b>	<b>1,946,694,546</b>

	Impairment 31-12-2018			
	Stage 1	Stage 2	Stage 3	TOTAL
Loans not represented by securities				
Current Account Credit	-	-	66	66
Mortgages	841	-	-	841
Other	3,727	60	27,657	31,444
Loans represented by securities				
Hold to Collect	434,996	-	-	434,996
Hold to Collect and Sell	1,088,603	-	-	1,088,603
Guarantees and sureties provided	-	-	-	-
<b>TOTAL</b>	<b>1,528,167</b>	<b>60</b>	<b>27,723</b>	<b>1,555,950</b>

	Net exposure 31-12-2018			
	Stage 1	Stage 2	Stage 3	TOTAL
Loans not represented by securities				
Current Account Credit	16,232,319	72,276	-	16,304,595
Mortgages	5,392,868	-	-	5,392,868
Other	17,511,325	53,903	39	17,565,267
Loans represented by securities				
Hold to Collect	336,293,487	-	-	336,293,487
Hold to Collect and Sell	1,569,346,727	-	-	1,569,346,727
Guarantees and sureties provided	235,652	-	-	235,652
<b>TOTAL</b>	<b>1,945,012,378</b>	<b>126,179</b>	<b>39</b>	<b>1,945,138,596</b>

	Gross exposure 01-01-2018			
	Stage 1	Stage 2	Stage 3	TOTAL
Loans not represented by securities				
Current Account Credit	9,763,651	2,813,522	228	12,577,401
Mortgages	6,049,656	41,494	-	6,091,150
Other	21,209,589	243,375	163,856	21,616,820
Loans represented by securities				
Hold to Collect	307,181,641	-	-	307,181,641
Hold to Collect and Sell	1,017,592,450	12,165,413	-	1,029,757,863
Guarantees and sureties provided	264,469	-	-	264,469
<b>TOTAL</b>	<b>1,362,061,456</b>	<b>15,263,804</b>	<b>164,084</b>	<b>1,377,489,344</b>

	Impairment 01-01-2018			
	Stage 1	Stage 2	Stage 3	TOTAL
Loans not represented by securities				
Current Account Credit	-	-	-	-
Mortgages	962	167	-	1,129
Other	658	201	148,528	149,387
Loans represented by securities				
Hold to Collect	-	-	-	-
Hold to Collect and Sell	780,878	1,556,508	-	2,337,386
Guarantees and sureties provided	-	-	-	-
<b>TOTAL</b>	<b>782,498</b>	<b>1,556,876</b>	<b>148,528</b>	<b>2,487,902</b>

	Net exposure 01-01-2018			
	Stage 1	Stage 2	Stage 3	TOTAL
Loans not represented by securities				
Current Account Credit	9,763,651	2,813,522	228	12,577,401
Mortgages	6,048,694	41,327	-	6,090,021
Other	21,208,931	243,174	15,328	21,467,433
Loans represented by securities				
Hold to Collect	307,181,641	-	-	307,181,641
Hold to Collect and Sell	1,016,811,572	10,608,905	-	1,027,420,477
Guarantees and sureties provided	264,469	-	-	264,469
<b>TOTAL</b>	<b>1,361,278,958</b>	<b>13,706,928</b>	<b>15,556</b>	<b>1,375,001,442</b>

Segment	Gross exposure 2017				
	Total Exposure	Performing Loans	Of which: recovered	Of which: restructured	Non-performing Loans
Current Account Credit	12,577,401	12,577,173	-	-	228
Mortgages	6,091,150	6,091,150	-	-	-
Other	21,391,820	21,243,609	-	4,743	148,211
	<b>40,060,371</b>	<b>39,911,932</b>	-	<b>4,743</b>	<b>148,439</b>

Segment	Impairment 2017		
	Impairment Total	Performing Loans	Non-performing Loans
Current Account Credit	16,107	15,879	228
Mortgages	47,022	47,022	-
Other	185,153	37,056	148,097
	<b>248,282</b>	<b>99,957</b>	<b>148,325</b>

Segment	Net exposure 31-12-2017		
	Impairment Total	Performing Loans	Non-performing Loans
Current Account Credit	12,561,294	12,561,294	-
Mortgages	6,044,128	6,044,128	-
Other	21,206,667	21,206,553	114
	<b>39,812,089</b>	<b>39,811,975</b>	<b>114</b>

Note: In 2017 the portfolios were not grouped by stages, which only applies from 2018.

a.2)

GROSS EXPOSURE 31-12-2018	Stage 1	Stage 1				Stage 2			TOTAL
		Paid on time	Days late <= 30	Days late > 30 dias	Total	Days late <= 90	Days late > 90	Total	
Loans not represented by securities									
Current Account Credit	16,232,319	72,276	-	-	72,276	-	66	66	16,304,661
Mortgages	5,393,709	-	-	-	-	-	-	-	5,393,709
Other	17,515,052	48,468	5,495	-	53,963	290	27,406	27,696	17,596,711
Loans represented by securities									
Hold to Collect	336,728,483	-	-	-	-	-	-	-	336,728,483
Hold to Collect and Sell	1,570,435,330	-	-	-	-	-	-	-	1,570,435,330
Guarantees and sureties provided	235,652	-	-	-	-	-	-	-	235,652
	<b>1,946,540,545</b>	<b>120,744</b>	<b>5,495</b>	-	<b>126,239</b>	<b>290</b>	<b>27,472</b>	<b>27,762</b>	<b>1,946,694,546</b>

IMPAIRMENT 31-12-2018	Stage 1	Stage 1				Stage 2			TOTAL
		Paid on time	Days late <= 30	Days late > 30 dias	Total	Days late <= 90	Days late > 90	Total	
Loans not represented by securities									
Current Account Credit	-	-	-	-	-	-	66	66	66
Mortgages	841	-	-	-	-	-	-	-	841
Other	3,727	-	60	-	60	251	27,406	27,657	31,444
Loans represented by securities									
Hold to Collect	434,996	-	-	-	-	-	-	-	434,996
Hold to Collect and Sell	1,088,603	-	-	-	-	-	-	-	1,088,603
Guarantees and sureties provided	-	-	-	-	-	-	-	-	-
	<b>1,528,167</b>	-	<b>60</b>	-	<b>60</b>	<b>251</b>	<b>27,472</b>	<b>27,723</b>	<b>1,555,950</b>

NET EXPOSURE 31-12-2018		Stage 1				Stage 2			TOTAL
Segment	Stage 1	Paid on time	Days late <= 30	Days late > 30 dias	Total	Days late <= 90	Days late > 90	Total	
Loans not represented by securities									
Current Account Credit	16,232,319	72,276	-	-	72,276	-	-	-	16,304,595
Mortgages	5,392,868	-	-	-	-	-	-	-	5,392,868
Other	17,511,325	48,468	5,435	-	53,903	39	-	39	17,565,267
Loans represented by securities									
Hold to Collect	336,293,487	-	-	-	-	-	-	-	336,293,487
Hold to Collect and Sell	1,569,346,727	-	-	-	-	-	-	-	1,569,346,727
Guarantees and sureties provided	235,652	-	-	-	-	-	-	-	235,652
	<b>1,945,012,378</b>	<b>120,744</b>	<b>5,435</b>	<b>-</b>	<b>126,179</b>	<b>39</b>	<b>-</b>	<b>39</b>	<b>1,945,138,596</b>

GROSS EXPOSURE 01-01-2018		Stage 1				Stage 2			TOTAL
Segment	Stage 1	Paid on time	Days late <= 30	Days late > 30 dias	Total	Days late <= 90	Days late > 90	Total	
Loans not represented by securities									
Current Account Credit	9,763,651	2,813,522	-	-	2,813,522	-	228	228	12,577,401
Mortgages	6,049,656	41,494	-	-	41,494	-	-	-	6,091,150
Other	21,209,589	243,341	34	-	243,375	15,680	148,176	163,856	21,616,820
Loans represented by securities									
Hold to Collect	307,181,641	-	-	-	-	-	-	-	307,181,641
Hold to Collect and Sell	1,017,592,450	12,165,413	-	-	12,165,413	-	-	-	1,029,757,863
Guarantees and sureties provided	264,469	-	-	-	-	-	-	-	264,469
	<b>1,362,061,456</b>	<b>15,263,770</b>	<b>34</b>	<b>-</b>	<b>15,263,804</b>	<b>15,680</b>	<b>148,404</b>	<b>164,084</b>	<b>1,377,489,344</b>

IMPAIRMENT 01-01-2018		Stage 1				Stage 2			TOTAL
Segment	Stage 1	Paid on time	Days late <= 30	Days late > 30 dias	Total	Days late <= 90	Days late > 90	Total	
Loans not represented by securities									
Current Account Credit	-	-	-	-	-	-	-	-	-
Mortgages	962	167	-	-	167	-	-	-	1,129
Other	658	201	-	-	201	352	148,176	148,528	149,387
Loans represented by securities									
Hold to Collect	-	-	-	-	-	-	-	-	-
Hold to Collect and Sell	780,878	1,556,508	-	-	1,556,508	-	-	-	2,337,386
Guarantees and sureties provided	-	-	-	-	-	-	-	-	-
	<b>782,498</b>	<b>1,556,876</b>	<b>-</b>	<b>-</b>	<b>1,556,876</b>	<b>352</b>	<b>148,176</b>	<b>148,528</b>	<b>2,487,902</b>

NET EXPOSURE 01-01-2018		Stage 1				Stage 2			TOTAL
Segment	Stage 1	Paid on time	Days late <= 30	Days late > 30 dias	Total	Days late <= 90	Days late > 90	Total	
Loans not represented by securities									
Current Account Credit	9,763,651	2,813,522	-	-	2,813,522	-	228	228	12,577,401
Mortgages	6,048,694	41,327	-	-	41,327	-	-	-	6,090,021
Other	21,208,931	243,140	34	-	243,174	15,328	-	15,328	21,467,433
Loans represented by securities									
Hold to Collect	307,181,641	-	-	-	-	-	-	-	307,181,641
Hold to Collect and Sell	1,016,811,572	10,608,905	-	-	10,608,905	-	-	-	1,027,420,477
Guarantees and sureties provided	264,469	-	-	-	-	-	-	-	264,469
	<b>1,361,278,958</b>	<b>13,706,894</b>	<b>34</b>	<b>-</b>	<b>13,706,928</b>	<b>15,328</b>	<b>228</b>	<b>15,556</b>	<b>1,375,001,442</b>



GROSS EXPOSURE 31-12-2017	Performing Loans			Non-performing Loans		TOTAL
	Days late <30		Days late between 30 and 90	Days late <= 90*	Days late > 90	
	Without evidence	With evidence				
Current Account Credit	9,763,651	2,813,522	-	-	228	12,577,401
Mortgages	6,049,656	41,494	-	-	-	6,091,150
Other	21,045,909	269,252	-	34	148,177	21,463,372
	<b>36,859,216</b>	<b>3,124,268</b>	-	<b>34</b>	<b>148,405</b>	<b>40,131,923</b>

\* Loan with payment of capital or interest overdue by more than 90 days, but about which there is evidence that justifies its classification as credit in risk of default

IMPAIRMENT 31-12-2017	Performing Loans			Non-performing Loans		TOTAL
	Days late <30		Days late between 30 and 90	Days late <= 90*	Days late > 90	
	Without evidence	With evidence				
Current Account Credit	15,879	-	-	-	228	16,107
Mortgages	47,022	-	-	-	-	47,022
Other	37,056	-	-	-	148,097	185,153
	<b>99,957</b>	-	-	-	<b>148,325</b>	<b>248,282</b>

\* Loan with payment of capital or interest overdue by more than 90 days, but about which there is evidence that justifies its classification as credit in risk of default

NET EXPOSURE 31-12-2017	Performing Loans			Non-performing Loans		TOTAL
	Days late <30		Days late between 30 and 90	Days late <= 90*	Days late > 90	
	Without evidence	With evidence				
Current Account Credit	9,747,772	2,813,522	-	-	-	12,561,294
Mortgages	6,002,634	41,494	-	-	-	6,044,128
Other	21,008,853	269,252	-	34	80	21,278,219
	<b>36,759,259</b>	<b>3,124,268</b>	-	<b>34</b>	<b>80</b>	<b>39,883,641</b>

\* Loan with payment of capital or interest overdue by more than 90 days, but about which there is evidence that justifies its classification as credit in risk of default

### Reconciliation of exposures

On 31 December 2018 the movements in the Group's exposures subject to calculation of expected impairment losses is as follows:

	Stage 1	Stage 2	Stage 3	Total
Exposure Loans not represented by securities and Guarantees and sureties provided				
Opening balance on 01-01-2018	37,287,365	3,098,391	164,084	40,549,840
Increases due to origination or acquisition	5,540,614	5,495	7,432	5,553,541
Reductions due to derecognition	-	-	(125,900)	(125,900)
Net variations due to alterations in the credit risk	2,652,037	(2,652,070)	33	-
Net variations due to modifications without derecognition	(6,103,284)	(325,577)	(16,514)	(6,445,375)
Alterations due to updates to methodologies used	-	-	-	-
Reductions due to write-offs	-	-	(1,373)	(1,373)
Other adjustments	-	-	-	-
Closing balance on 31-12-2018	39,376,732	126,239	27,762	39,530,733
Exposure Loans represented by securities				
Opening balance on 01-01-2018	1,324,774,091	12,165,413	-	1,336,939,504
Increases due to origination or acquisition	710,334,613	-	-	710,334,613
Reductions due to derecognition	(324,504,823)	-	-	(324,504,823)
Net variations due to alterations in the credit risk	12,165,413	(12,165,413)	-	-
Net variations due to modifications without derecognition	184,394,519	-	-	184,394,519
Alterations due to updates to methodologies used	-	-	-	-
Reductions due to write-offs	-	-	-	-
Other adjustments	-	-	-	-
Closing balance on 31-12-2018	1,907,163,813	-	-	1,907,163,813
<b>Total Exposure on 31-12-2018</b>	<b>1,946,540,545</b>	<b>126,239</b>	<b>27,762</b>	<b>1,946,694,546</b>

**Reconciliation of expected impairment losses**

On 31 December 2018 the movements in expected impairment losses is as follows:

	Stage 1	Stage 2	Stage 3	Total
<b>ECL Loans not represented by securities and Guarantees and sureties provided</b>				
Opening balance on 01-01-2018	1,620	368	148,528	150,516
Increases due to origination or acquisition	3,307	60	7,557	10,924
Reductions due to derecognition	-	-	(125,900)	(125,900)
Net variations due to alterations in the credit risk	177	(177)	-	-
Net variations due to modifications without derecognition	(536)	(191)	(1,089)	(1,816)
Alterations due to updates to methodologies used	-	-	-	-
Reductions due to write-offs	-	-	(1,373)	(1,373)
Other adjustments	-	-	-	-
Closing balance on 31-12-2018	4,568	60	27,723	32,351
<b>ECL Loans represented by securities</b>				
Opening balance on 01-01-2018	780,878	1,556,508	-	2,337,386
Increases due to origination or acquisition	1,714,504	-	-	1,714,504
Reductions due to derecognition	(417,018)	(1,556,508)	-	(1,973,526)
Net variations due to alterations in the credit risk	(554,765)	-	-	(554,765)
Net variations due to modifications without derecognition	-	-	-	-
Alterations due to updates to methodologies used	-	-	-	-
Reductions due to write-offs	-	-	-	-
Other adjustments	-	-	-	-
Closing balance on 31-12-2018	1,523,599	-	-	1,523,599
<b>ECL Total on 31-12-2018</b>	<b>1,528,167</b>	<b>60</b>	<b>27,723</b>	<b>1,555,950</b>

**Details on collateral**

For the purpose of quantitative analysis, the following valuation criteria are used.

i) Financial: performed automatically by the systems depending on the market prices and weightings that are periodically revised by the Board of Directors:

- ▲ Every month the financial assets used as collateral are analysed with regard to their Liquidity, Volatility and stock market capitalisation (if applicable);
- ▲ Every week automatically, taking only the 30 day volatility of securities traded on regulated markets into account, a weighting (calculated by the system) is automatically attributed to all the assets held as collateral over which the client can leverage the credit (80%, 70%, 60% and 50%).

ii) Buildings: the value of the last formal valuation of the building, performed by an independent entity, is used. Furthermore, a correction factor is applied to this value, according to the scale below:

- ▲ Up to 12 months: 0%;
- ▲ From 12 to 24 months: 15%;
- ▲ From 24 to 36 months: 25%;
- ▲ More than 36 months: 50%.

The determination of the recoverable amount is based on the evaluation (with or without the correction factor) plus a time discount factor.

When a credit operation collateralised by buildings shows sufficiently strong indications that so justify it, the collateral is reassessed by an external assessor.

iii) Other collateral: are analysed on a case by case basis.

Weightings and other corrective factors are periodically revised, at least once a year, taking history, economic prospects and the published indicators of the competitors into account, according to the type of product.

On 31 December 2017 and 2018 the collateral of the exposures of the portfolio of loans not represented by securities (retail and guarantees and sureties provided) is as follows:

a) Breakdown of the fair value of the collateral underlying the credit portfolio by segments:

31-12-2018	Current Account Credit		Mortgages				Other			
	Other Real Collateral*		Buildings		Other Real Collateral*		Buildings		Other Real Collateral*	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	239	18,638,482	74	11,582,943	1	30,000	11	2,023,467	77	4,638,285
>= 0,5 M€ and < 1 M€	4	3,088,323	5	3,357,000	-	-	-	-	3	2,631,000
>= 1 M€ and < 5 M€	6	10,304,422	1	2,200,000	-	-	2	4,814,500	3	6,125,000
>= 5 M€	1	15,796,696	-	-	-	-	-	-	-	-
	<b>250</b>	<b>47,827,923</b>	<b>80</b>	<b>17,139,943</b>	<b>1</b>	<b>30,000</b>	<b>13</b>	<b>6,837,967</b>	<b>83</b>	<b>13,394,285</b>

\* Examples: Shares, bonds and deposits (at market prices)

01-01-2018	Current Account Credit		Mortgages				Other			
	Other Real Collateral*		Buildings		Other Real Collateral*		Buildings		Other Real Collateral*	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	228	16,046,654	83	12,751,929	3	30,000	15	2,368,325	337	6,282,224
>= 0,5 M€ and < 1 M€	6	4,850,426	2	1,312,000	-	-	-	-	6	5,037,607
>= 1 M€ and < 5 M€	4	5,828,085	2	2,696,000	-	-	2	5,386,500	3	6,125,000
>= 5 M€	1	10,475,173	-	-	-	-	-	-	-	-
	<b>239</b>	<b>37,200,338</b>	<b>87</b>	<b>16,759,929</b>	<b>3</b>	<b>30,000</b>	<b>17</b>	<b>7,754,825</b>	<b>346</b>	<b>17,444,831</b>

\* Examples: Shares, bonds and deposits (at market prices)

01-01-2018	Current Account Credit		Mortgages				Other			
	Other Real Collateral*		Buildings		Other Real Collateral*		Buildings		Other Real Collateral*	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	228	16,046,654	83	12,751,929	3	30,000	15	2,368,325	328	6,109,642
>= 0,5 M€ and < 1 M€	6	4,850,426	2	1,312,000	-	-	-	-	6	5,037,607
>= 1 M€ and < 5 M€	4	5,828,085	2	2,696,000	-	-	2	5,386,500	3	6,125,000
>= 5 M€	1	10,475,173	-	-	-	-	-	-	-	-
	<b>239</b>	<b>37,200,338</b>	<b>87</b>	<b>16,759,929</b>	<b>3</b>	<b>30,000</b>	<b>17</b>	<b>7,754,825</b>	<b>337</b>	<b>17,272,249</b>

\* Examples: Shares, bonds and deposits (at market prices)

b) LTV ratio of the Housing and Other segments:

Segment / Ratio	31/12/2018						
	Number of buildings	Credit Stage 1	Credit Stage 2	Credit Stage 3	Total Credit	Impairment	Net exposure
Mortgages							
No associated collateral	-	-	-	-	-	-	-
< 60%	50	3,436,751	-	-	3,436,751	524	3,436,227
>= 60% and < 80%	24	1,712,031	-	-	1,712,031	267	1,711,764
>= 80% and < 100%	6	236,973	-	-	236,973	37	236,936
>= 100%	-	-	-	-	-	-	-
Other collateral	-	7,954	-	-	7,954	14	7,940
Other							
No associated collateral	-	227,340	5,495	27,696	260,531	29,318	231,213
< 60%	9	1,299,253	-	-	1,299,253	1,165	1,298,088
>= 60% and < 80%	3	91,637	-	-	91,637	331	91,306
>= 80% and < 100%	1	11,756	-	-	11,756	2	11,754
>= 100%	-	-	-	-	-	-	-
Other collateral	-	16,120,718	48,468	-	16,169,186	629	16,168,557
	<b>93</b>	<b>23,144,413</b>	<b>53,963</b>	<b>27,696</b>	<b>23,226,072</b>	<b>32,287</b>	<b>23,193,785</b>

Segment / Ratio	01/01/2018						
	Number of buildings	Credit Stage 1	Credit Stage 2	Credit Stage 3	Total Credit	Impairment	Net exposure
Mortgages							
No associated collateral	-	-	-	-	-	-	-
< 60%	44	2,871,060	-	-	2,871,060	439	2,870,621
>= 60% and < 80%	25	2,364,246	41,494	-	2,405,740	538	2,405,202
>= 80% and < 100%	17	688,339	-	63,586	751,925	118	751,807
>= 100%	-	-	-	-	-	-	-
Other collateral	-	62,424	-	-	62,424	34	62,390
Other							
No associated collateral	-	245,780	13,435	155,445	414,660	148,704	265,956
< 60%	12	1,155,632	150,000	-	1,305,632	218	1,305,414
>= 60% and < 80%	5	270,907	-	125,900	396,807	42	396,765
>= 80% and < 100%	3	63,615	-	4,077	67,692	186	67,506
>= 100%	-	-	-	-	-	-	-
Other collateral	-	19,587,005	73,829	161,563	19,822,397	234	19,822,163
	<b>106</b>	<b>27,309,008</b>	<b>278,758</b>	<b>510,571</b>	<b>28,098,337</b>	<b>150,513</b>	<b>27,947,824</b>

Segment / Ratio	31/12/2017				
	Number of buildings	Performing Loans	Non-performing Loans	Impairment	Net exposure
Mortgages					
No associated collateral	-	-	-	-	-
< 60%	47	2,953,697	-	22,802	2,930,895
>= 60% and < 80%	26	2,501,075	-	19,308	2,481,767
>= 80% and < 100%	12	491,676	-	3,796	487,880
>= 100%	2	126,831	-	979	125,852
Other collateral	-	62,424	-	482	61,942
Other					
No associated collateral	-	41,170	-	42	41,128
< 60%	11	1,080,632	-	9,941	1,070,691
>= 60% and < 80%	6	293,352	125,900	842	418,410
>= 80% and < 100%	1	4,077	-	4	4,073
>= 100%	-	-	-	-	-
Other collateral	-	19,769,552	-	25,766	19,743,786
	<b>105</b>	<b>27,324,486</b>	<b>125,900</b>	<b>83,962</b>	<b>27,366,424</b>

#### Details on restructured credit

When, due to the financial difficulties of a given client, the Group agrees to change the contract conditions of existing credit operations (namely, extension of the repayment period, introduction of grace periods, capitalization of interest, reduction in interest rates, forgiving the interest or capital) or contracts new credit facilities for the settlement (total or partial) of existing debt, these credit operations should be identified and marked as restructured credit due to financial difficulties of the client, and impairment should be calculated on these loans. A client is in a situation of financial difficulty when s/he has not complied with some of their financial obligations with BiG or if it is foreseeable, in view of the information available, that this may occur, taking into consideration, among other things, the indications of impairment.

No new credit operations were restructured during 2018. The only restructured operation on the balance sheet (for which the restructuring measure was the contracting of a new operation to replace a debt) was fully reimbursed in 2018.

The movements of incomings and outgoings in the restructured credit portfolio are presented as follows:

	2018	2017
Opening balance of restructured loans portfolio (gross of impairment)	4,743	6,526
Payment of restructured loans (partial or total)	(4,743)	(1,783)
Closing balance of restructured loans portfolio (gross of impairment)	-	4,743

### Details on analysis of credit

For the purpose of the identification of individually significant exposures (which will obligatorily be analysed on an individual basis), the Group sets thresholds that should be considered. These are, among other things, exposures collateralised by non-liquid assets which represent a relevant percentage of the retail credit portfolio or of BIG's own funds. Nevertheless, even if a given exposure does not come within these criteria, and bearing in mind the Group's conservative position in relation to the credit risk, this may be subject to individual analysis for impairment.

On 31 December 2017 and 2018 the detail of the portfolio of loans not represented by securities (retail and guarantees and sureties provided) by individual and collective assessment model, is as follows:

31-12-2018	Current Account Credit		Mortgages		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation								
Individual	66	66	-	-	230,252	27,430	230,318	27,496
Collective	16,304,595	-	5,393,709	841	17,602,111	4,014	39,300,415	4,855
	<b>16,304,661</b>	<b>66</b>	<b>5,393,709</b>	<b>841</b>	<b>17,832,363</b>	<b>31,444</b>	<b>39,530,733</b>	<b>32,351</b>

01-01-2018	Current Account Credit		Mortgages		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation								
Individual	-	-	-	-	-	-	-	-
Collective	12,577,401	-	6,091,150	1,129	21,881,289	149,386	40,549,840	150,515
	<b>12,577,401</b>	<b>-</b>	<b>6,091,150</b>	<b>1,129</b>	<b>21,881,289</b>	<b>149,386</b>	<b>40,549,840</b>	<b>150,515</b>

31-12-2017	Current Account Credit		Mortgages		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation								
Individual	-	-	-	-	-	-	-	-
Collective	12,577,401	16,107	6,091,150	47,022	21,391,820	185,153	40,060,371	248,282
	<b>12,577,401</b>	<b>16,107</b>	<b>6,091,150</b>	<b>47,022</b>	<b>21,391,820</b>	<b>185,153</b>	<b>40,060,371</b>	<b>248,282</b>

### Operational Risk

Operating risk is part of the Group's day to day business and may arise as a result of inadequate procedures or systems, human risk or external events.

Given the nature of its business, the Group is exposed to potential losses or reputational risk as a result of human error, system breakdown, processing failures, unexpected interruptions in activity or stoppages or shortages in terms of third party supplies or provision of services.

To monitor the risks and the effective fulfilment of the procedures throughout the Group, there is a control structure which supervises the appropriateness of the procedures, systems and human resources in order to ensure the normal development of the activity in any circumstances.

The objective of this structure is to ensure that the Group adheres to the established procedures and limits, so that the cost inherent to operational errors can be kept within controlled levels, vis-à-vis the Group's capital and its strategy. Alongside this structure, a culture of risk detection and mitigation is nurtured in the Group, which encourages the proactive resolution of problems based on their early identification.

**Capital and solvency ratio management**

Equity funds for the years ended on 31 December 2018 and 2017 are presented as follows:

		2018	2017
<b>A - Equity Funds</b>			
Ordinary paid-up capital, issue premiums and treasury stock		172,242,408	168,181,110
Results and reserves formed from retained earnings		160,944,394	152,470,303
Other temporary adjustments		-	12,864,342
Intangible assets		(2,114,081)	(2,393,851)
Adjustments due to prudential filters		(1,662,031)	(1,331,592)
<b>Common Equity Tier 1 Capital</b>	( A1 )	329,410,690	329,790,312
<b>Tier 1 Capital</b>	( A2 )	329,410,690	329,790,312
<b>Total Equity Funds</b>	( A3 )	329,410,690	329,790,312
<b>B - Risk weighted assets</b>	( B )	1,047,325,984	731,483,271
<b>C - Prudential Ratios</b>			
<b>Common Equity Tier 1 Capital ratio</b>	( A1 / B )	31.5%	45.1%
<b>Tier 1 Capital ratio</b>	( A2 / B )	31.5%	45.1%
<b>Total capital ratio</b>	( A3 / B )	31.5%	45.1%

The movement of equity funds for the years ended on 31 December 2018 and 2017 is presented as follows:

	2018	2017
<b>Opening Balance</b>	<b>329,790,312</b>	<b>290,951,338</b>
Ordinary paid-up capital, issue premiums, treasury stock and other	4,061,298	10,821,155
Results and reserves formed from retained earnings	8,474,091	50,459,018
Other temporary adjustments	(12,864,342)	(22,310,183)
Intangible assets	279,770	1,200,576
Adjustments due to prudential filters	(330,439)	(1,331,592)
<b>Closing Balance</b>	<b>329,410,690</b>	<b>329,790,312</b>

**Other Risks and their measurement:****Reputational Risk**

In terms of Reputation Risk, understood as the probability of the occurrence of a negative impact on results or on capital arising from a negative perception of the public image of the institution, founded or not, by the different stakeholders, the press or by public opinion in general, the Group conceived stress tests which allow for the existence of quite negative news relating to the Group, with consequences in terms of the partial or total withdrawal of deposits by clients on the same day or within the period of one week, taking into account the interest which might arise from these withdrawals.

**Correlation Risk**

The different types of risk, liquidity, reputation, credit, counterparty, market concentration, interest rate, market, etc., are correlated between each other. This correlation is evidently clearer in some pairs of risks while having no particular relevance in other risk pairs.

- ▲ **Liquidity risk versus Reputation risk:**  
The decline in the reputation of a financial institution can lead to a lack of trust of clients and of investors in general. Such a situation can lead to the liquidity risk for the institution with regard to its immediate liabilities.
- ▲ **Liquidity risk versus Reputation risk versus Market risk:**  
In the above case the reputation risk versus liquidity risk is analysed. We can nevertheless assume that there is an unusual variation in the different financial instruments in the market.
- ▲ **Liquidity risk versus Reputation risk versus Credit risk:**  
In this case, as in the previous point, the Group allows for scenarios where there is Reputation risk and Liquidity risk. In addition we can also consider a scenario of the probability of default of the assets, as well as the impact of downgrades in their rating.

**Liquidity risk versus Reputation risk versus Market risk:**

(% drop in the stock market, a 100 b.p. blow to the interest rate curve and a massive withdrawal of deposits as a consequence of reputational risk)

The results of the scenarios below (scenarios 1, 2 and 3) relate to 31 December 2018, the impact of which is described below.

*Scenario 1 – 33% of Demand Deposits are withdrawn by clients in the period of one week*

Liquidity available in the period of one week: 156,770,536 Euros.

Liabilities: 208,970,237 Euros.

In this scenario, it would be necessary to sell assets or look for additional financing for a total amount of 52,199,701 Euros. Based on the assumption that market conditions would also be simultaneously negative and based on stress assumptions (a drop of 30% in the stock market and a 100 b.p. blow to the interest rate curve), the Group would have a maximum loss of de 1,359,214 Euros.

*Scenario 2 – 50% of Demand Deposits are withdrawn by clients in the period of one week*

Liquidity available in the period of one week: 156,770,536 Euros.

Liabilities: 313,455,356 Euros.

In this scenario, it would be necessary to sell assets or look for additional financing for a total amount of 156,684,820 Euros. Based on the assumption that market conditions would also be simultaneously negative and based on stress assumptions (a drop of 30% in the stock market and a 100 b.p. blow to the interest rate curve), the Group would have a maximum loss of de 1,359,214 Euros.

*Scenario 3 – 50% of Demand Deposits and of Term Deposits are withdrawn by clients in the period of one month*

Liquidity available in the period of one month: 156,770,536 Euros.

Liabilities: 656,105,434 Euros.

In this scenario, it would be necessary to sell assets or look for additional financing for a total amount of 499,334,899 Euros. Based on the assumption that market conditions would also be simultaneously negative and based on stress assumptions (a drop of 30% in the stock market and a 100 b.p. blow to the interest rate curve), the Group would have a maximum loss of 1,359,214 Euros.

**Liquidity risk versus Reputation risk versus Credit risk:**

Scenario of *downgrades* of debt securities and massive withdrawal of deposits as a consequence of reputational risk)

- ▲ Aaa – Aa2: the rating is maintained
- ▲ Aa3 – A3: a drop of 2 notches in the rating
- ▲ Baa1 and lower ratings: a drop of 4 notches in the rating

The results of the scenarios below (scenarios 1, 2 and 3) relate to 31 December 2018, the impact of which is described below:

*Scenario 1 – 33% of Demand Deposits are withdrawn by clients in the period of one week*

Liquidity available in the period of one week: 156,770,536 Euros.

Liabilities: 208,970,237 Euros.

In this scenario, it would be necessary to sell assets or look for additional financing for a total amount of 52,199,701 Euros. Based on the assumption that market conditions would also be simultaneously negative and based on stress assumptions (downgrade of debt securities), the Group would have a maximum loss of 28,801,275 Euros.

*Scenario 2 – 50% of Demand Deposits are withdrawn by clients in the period of one week*

Liquidity available in the period of one week: 156,770,536 Euros.

Liabilities: 313,455,356 Euros.

In this scenario, it would be necessary to sell assets or look for additional financing for a total amount of 156,684,820 Euros. Based on the assumption that market conditions would also be simultaneously negative and based on stress assumptions (downgrade of debt securities), the Group estimates a potential loss of 28,801,275 Euros.

*Scenario 3 – 50% of Demand Deposits and of Term Deposits are withdrawn by clients in the period of one month*

Liquidity available in the period of one month: 156,770,536 Euros.

Liabilities: 656,105,435 Euros.

In this scenario, it would be necessary to sell assets or look for additional financing for a total amount of 499,334,899 Euros. Based on the assumption that market conditions would also be simultaneously negative and based on stress assumptions (downgrade of debt securities), the Group estimates a potential loss of 28,801,275 Euros.

## NOTE 40 CHARGING OF ASSETS

On 31 December 2018 and 2017 charges on assets may be analysed as follows:

2018	Book value of pledged assets	Fair value of pledged assets	Book value of unencumbered assets	Fair value of unencumbered assets
Securities				
Bonds and other fixed return securities	528,439,163	517,046,787	1,448,193,119	1,409,033,940
Shares	-	-	2,289,918	2,289,918
Other securities	-	-	621,666	621,666
Other assets	700,000	-	297,745,937	-
	<b>529,139,163</b>		<b>1,748,850,640</b>	
2017	Book value of pledged assets	Fair value of pledged assets	Book value of unencumbered assets	Fair value of unencumbered assets
Equity instruments	-	-	19,817,229	19,817,229
Debt securities	426,215,880	426,215,880	884,248,018	887,219,599
Other assets	700,000	-	520,240,945	-
	<b>426,915,880</b>		<b>1,424,306,192</b>	

On 31 December 2018 the amount of liabilities associated to charged assets was 405,598,411 Euros (31 December 2017: 286,118,306 Euros).

## NOTE 41 RECENTLY ISSUED STANDARDS

### 1. Impact of the adoption of new standards, alterations to the standards and interpretations that became effective on 1 January 2018:

**a) IFRS 15** (new), 'Revenue from contracts with clients'. This new standard applies only to contracts for the delivery of products or a service provision to clients, and requires that the entity recognise the revenue when the contractual obligation to deliver assets or provide services is satisfied and for the amount that reflects the consideration to which the entity is entitled, as contemplated in the Methodology of the 5 stages.

**b) IFRS 9** (new), 'Financial instruments'. IFRS 9 replaces the requisites of IAS 39, in relation: (i) to the classification and measurement of assets and financial liabilities; (ii) to the recognition of impairment on accounts receivable (through the expected loss model); and (iii) to the requisites for the recognition and classification of hedge accounting. The impacts arising from the introduction of this standard are described in note 3.

**c) Improvements to standards 2014 – 2016.** IFRS 1, 'First adoption of the IFRS'. This improvement eliminates the temporary exemptions contemplated for the IFRS 7, IFRS 10 and IAS 19, as they are no longer applicable.

IFRS 12, 'Disclosure of interests in other entities'. This improvement is intended to clarify that its scope includes investments classified under IFRS 5, and that the only exemption refers to the disclosure of the summary of the financial information of these entities.

IAS 28, 'Investments in associated companies and joint ventures'. This improvement clarifies that investments in associated companies or joint ventures held by a risk capital company may be measured at fair value in accordance with IFRS 9, on an individual basis. This improvement also clarifies that an entity that is not an investment entity, but holds investments in associated companies and joint ventures that are investment entities, can maintain the measurement at fair value of the participation of the associated company or of the joint venture in its own subsidiary companies.

**d) IFRIC 22** (new), 'Operations in foreign currency and advance consideration'. This is an interpretation of IAS 21 'The effects of alterations in exchange rates' and refers to the determination of the transaction date when an entity pays or receives, beforehand, the consideration of contracts called in a foreign currency. The transaction date determines the exchange rate to be used to convert the transactions in the foreign currency.



**2. Standards (new and alterations) and interpretations published, whose application is obligatory for annual periods that start on or after 1 January 2019, which the European Union has already endorsed:**

**a) IFRS 16** (new), 'Leasing (to be applied in years that start on or after 1 January 2019). This new standard replaces IAS 17, with a significant impact on the accounting of lessees who are now obliged to recognise a leasing liability reflecting future payments of the lease and a right-of-use asset for all leasing contracts, except certain short-term leasing and low-value assets. The definition of a leasing contract also was altered, being based on the "right to control the use of an identified asset. With regard to the transition regime, the new standard may be applied retrospectively or a modified retrospective approach may be followed.

Impacts: The Group is aligned with the model, calendar and objectives for the project to implement IFRS 16, and does not estimate that the impact of the implementation of this standard will be significant.

**b) IFRS 9** (amendment), 'Prepayment features with negative compensation' (to be applied in years that start on or after 1 January 2019). This amendment introduces the possibility of allowing financial assets with prepayment conditions with negative compensation to qualify for amortised cost, provided that specific conditions are met, instead of being classified at fair value through the income statement.

**c) IFRIC 23** (new), 'Uncertainty over the treatment of Income Tax' (to apply in years that start on or after 1 January 2019). This is an interpretation of IAS 12 – 'Income tax', referring to the requisites of measurement and recognition to be applied when there are uncertainties regarding the acceptance of a given fiscal treatment by the Tax Authorities in relation to Income Tax. In the event of uncertainty regarding the position of the Tax Authorities on a specific transaction, the entity should make its best estimate and enter the income tax assets or liabilities in the light of IAS 12, and not of IAS 37– 'Provisions, contingent liabilities and contingent assets', based on the expected value or the most probable value. Application of IFRIC 23 may be on a retrospective or modified retrospective basis.

**3. Standards (new and alterations) published, whose application is obligatory for annual periods that start on or after 1 January 2019, but which the European Union has not yet endorsed:**

**a) IAS 28** (amendment), 'Long-term investments in associated companies and joint ventures' (to be applied in years that start on or after 1 January 2019). This amendment is still subject to the process of endorsement by the European Union. This amendment clarifies that the long-term investments in associated companies and joint ventures (components of the investment of an entity in associated companies and joint ventures), which are not to be measured through the equity pick-up method, are accounted using IFRS 9. Long-term investments in associated companies and joint ventures are subject to the estimated impairment losses model, before being added for the purpose of testing impairment in the overall investment in an associated company or joint venture, when there are indicators of impairment.

**b) IFRS 3** (amendment), 'Definition of business' (to be applied in years that start on or after 1 January 2020). This amendment is still subject to the process of endorsement by the European Union. This amendment constitutes a revision to the definition of business for the purpose of accounting of concentrations of business activities. The new definition requires that an acquisition should include an input and a substantial process that together produce outputs. The outputs come to be defined as goods and services that are provided to clients, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits for the shareholders. It allows for 'concentration tests' to determine if a transaction refers to the acquisition of an asset or of a business.

**IAS 1 and IAS 8** (amendment), 'Definition of material' (to be applied in years that start on or after 1 January 2020). This amendment is still subject to the process of endorsement by the European Union. This amendment introduces a modification to the concept of material. It includes clarifications regarding the reference to unclear information, corresponding to situations in which their effect is similar to omitting or distorting this information, in the global context of the financial statements; and also clarifications regarding the term 'main users of the financial statements', these being defined as 'current and future investors, financiers and creditors' who depend on the financial statements to obtain a significant part of the information that they need.

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

IAS 23, 'Costs of loans obtained' (to be applied in years that start on or after 1 January 2019). This cycle of improvements is still subject to the process of endorsement by the European Union. This improvement clarifies that specific loans obtained that are still ongoing, after the qualifiable assets to which they relate are in a position of use or sale, should be added to the generic loans in order to calculate the average capitalization rate in the other qualifiable assets.

IAS 12, 'Income tax' (to be applied in years that start on or after 1 January 2019). This improvement clarifies that the fiscal impacts of dividends are recognised on the date on which the entity registers the liability for the payment of dividends, which are recognised in the result of the year, in other comprehensive income or in capital, according to the transaction or event that gave rise to the dividends.

IFRS 3, 'Concentrations of business activities' and IFRS 11, 'Joint agreements' (to be applied in years that start on or after 1 January 2019). These improvements clarify that: i) on obtaining of control over a business that is a joint operation, the interests previously held by the investor are restated at fair value; and ii) when an investor in a joint operation (does not exercise joint control) obtains joint control in a joint operation which is a business, the interest held previously at fair value is not remeasured.

**d) Conceptual structure.** 'Amendments in the reference to other IFRS' (to be applied in years that start on or after 1 January 2020). These amendments are still subject to the process of endorsement by the European Union. As a result of the publication of the new Conceptual Structure, the IASB introduced amendments in the text of various standards and interpretations, like: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of asset / liability and of expense / income, besides some of the characteristics of the financial information. These amendments are to be applied retrospectively, unless this is impracticable.

#### Summary table of new standards:

Description	Amendment	Date of effect
<b>1. New standards, amendments to the standards and interpretations effective on 1 January 2018</b>		
IFRS 15 – Revenue from contracts with customers	Recognition of revenue related with the delivery of assets and provision of services, by the application the 5 stage method.	1 January 2018
Amendments to IFRS 15 – Revenue from contracts with customers	Identification of performance obligations, upon recognition of revenue from SoC licences, review of indicators for the classification of the principal versus agent relationship, and new regimes for the simplification of the transition.	1 January 2018
IFRS 9 – Financial instruments	New standard for the accounting treatment of financial instruments	1 January 2018
IFRS 4 – Insurance contracts (application of IFRS 4 with IFRS 9)	Temporary exemption of the application of IFRS 9 for insurance companies for years that start before 1 January 2021. Specific regime for assets in the scope of IFRS 4 which qualify as financial assets at fair value through results in IFRS 9 and as financial assets at amortised cost in IAS 39, allowing classification of the measurement difference in Other comprehensive income	1 January 2018
IFRS 2 – Share-based payments	Measurement of cash-settled share-based payment plans, accounting of modifications, and classification of the share-based payment plans as settled in equity, when the employer has the obligation to withhold tax	1 January 2018
IAS 40 – Investment properties	Clarification that evidence of amendment of use is required to make transfers of assets to and from the category of investment properties	1 January 2018
Improvements to standards 2014 – 2016	Various clarifications: IFRS 1, IFRS 12 and IAS 28	1 January 2018
IFRIC 22 – Transactions in foreign currency and prepaid consideration	Exchange rate to be applied when the consideration is received or paid in advance	1 January 2018
<b>2. Standards (new and amendments) and interpretations that become effective, on or after 1 January 2019, already endorsed by the EU</b>		
IFRS 16 – Leasing	New definition of leasing. New accounting of leasing contracts for the lessees. There are no amendments to the accounting of leasing by lessors	1 January 2019
IFRS 9 – Financial instruments	Options of accounting treatment of financial assets with negative compensation	1 January 2019
IFRIC 23 – Uncertainties over the treatment of income tax	Clarification relating to the application of the principles of recognition and measurement of IAS 12 when there is uncertainty over the fiscal treatment of a transaction, by way of income tax	1 January 2019
<b>3. Standards (new and amendments) that become effective, on or after 1 January 2018, not yet endorsed by the EU</b>		
IAS 19 – Employee benefits	Requires the use of updated assumptions for the calculation of remaining liabilities, with an impact on the income statement, except regarding the reduction of any excess in the context of the asset ceiling	1 January 2019
IAS 28 – Investments in associated companies and joint ventures	Clarification regarding long-term investments in associated companies and joint ventures that are not measured through the equity pick-up method	1 January 2019
IFRS 3 – Concentrations of business activities	Amendment of the definition of business	1 January 2020
IAS 1 – Presentation of the financial statements; IAS 8 – Accounting policies, amendments to accounting estimates and errors	Update of the definition of material	1 January 2020
Improvements to the standards 2015 – 2017	Various clarifications: IAS 23, IAS 12, IFRS 3 and IFRS 11	1 January 2019
Conceptual structure – Amendments to the reference to other IFRS	Amendment to some IFRS in relation to cross references and clarifications on the application of the new definitions of assets / liabilities and expenses / income	1 January 2020
IFRS 17 – Insurance contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with characteristics of discretionary participation.	1 January 2021

## ▲ NOTE 42 SUBSEQUENT EVENTS

During 2019, BiG plans to start its banking business in Spain. At an early stage, the focus will be essentially on trading platforms, on attracting clients' funds, on asset management and on the provision of financial consultancy services.

During the first quarter of 2019, a capital increase operation was undertaken by BiG Moçambique, which included (i) the subscription of new shares through cash contributions amounting to 599,422,714 Meticaís, which were underwritten by BiG Portugal and by 3 new institutional shareholders, which are benchmark companies in the insurance sector in Mozambique (Empresa Moçambicana de Seguros, S.A., Hollard Moçambique – Companhia de Seguros, SARL and Global Alliance Seguros, S.A), and also (ii) the sale of a batch of shares by BiG Portugal to the 3 new shareholders for a global amount of 25,830,000 Meticaís. After this operation, BiG Portugal held 83.99% of the capital of BiG Moçambique, the remaining 16.01% being held by the 3 new shareholders.

# SUPERVISORY BOARDS

## **General Shareholders' Assembly**

### **President**

José António de Melo Pinto Ribeiro

### **Secretary**

João Manuel de Jesus Rufino

## **Board of Directors**

### **Chairman and Chief Executive Officer**

Carlos Adolfo Coelho Figueiredo Rodrigues

### **Vice Chairman and Chief Operating Officer**

Nicholas Leo Racich

### **Executive Directors**

Mário João Abreu Galhardo Bolota

Paulo José Caramelo de Figueiredo

Ricardo Dias Carneiro e Gomes de Pinho

## **Fiscal Board**

Pedro Rogério Barata de Ouro Lameira (President)

Jorge Alegria Garcia de Aguiar (Effective Member)

João Augusto Cantiga Esteves (Effective Member)

## **Effective Portuguese Statutory Auditor**

PricewaterhouseCoopers & Associados,  
Sociedade de Revisores de Contas, S.A., represented by  
Aurélio Adriano Rangel Amado or  
José Manuel Henriques Bernardo

Jorge Manuel Santos Costa  
(Chartered Accountant - Alternate)

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### Markets

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Derivatives

### Wealth Management (WM)

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Private WM

Institutional WM

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João Henrique  
Peter Rodrigues  
Paula Gil  
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### Brokerage

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### Corporate Finance

### Research

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Development

### Operations

### Accounting

### Compliance

### Internal Audit

### Human Resources

### Marketing

### Risk

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Carla Rosa  
Vitor Luís  
Paulo Campos  
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