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Market Discipline Report



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Market Discipline Report

Statement pursuant to part VIII of EU Regulation number 575/2013 please find herein the transcription of the

2019 Market Discipline Report

BANCO COMERCIAL PORTUGUÊS, S.A.

Public Company

Head Office: Praça D. João I, 28, 4000-295 Porto – Share Capital of 4.725.000.000 euros
Registered at Porto Commercial Registry, under the single registration and tax identification number 501 525 882

Statement of responsibility of the Board of Directors

I. This statement of responsibility issued by the Board of Directors of Banco Comercial Português, S.A., concerns the “2019 Market Discipline Report”, in compliance with the provisions of the CRD IV/CRR.

II. The 2019 Market Discipline Report was prepared within the scope of Pillar III, in accordance with the regulations and legislation in force and in line with the practices of the main international banks.

III. The Regulation (EU) No. 575/2013 and Directive 2013/36 / EU, both dated June 26, (Capital Requirements Regulation / Capital Requirements Directive), the latter transposed into the internal legal order by Decree-Law no. 157/2014 of 24 October, establish the requirements and criteria for the disclosure of information and own funds and for eligibility, namely those provided for in articles 431 to 455 and 492 of the CRR under the requirements of the Pillar III.

IV. The capital accord is based upon three different and complementary pillars:

- Pillar I - consists in rules for the determination of minimum own funds requirements for hedging credit, market and operational risks;
- Pillar II - comprises the main principles of the supervision and risk management process, including the capital adequacy self-assessment process;
- Pillar III - complements the previous pillars with the demand for the provision of information on the financial standing and the solvency of credit institutions, establishing public disclosure requirements for capital and risk management processes and systems, aiming at enhancing market discipline.

V. The relevant events occurred between the end of the 2019 exercise and the approval date of this report are described in chapter 3.4 – Events with a material impact on own funds and capital requirements in 2020.

VI. Since the legal and regulatory requirements do not foresee it, this report was not audited by the Bank’s External Auditor. However, the same includes information included in the audited consolidated financial statements, in the 2019 Annual Report that was discussed, and subject approved in the General Meeting of Shareholders that took place on 20 of May 2020.

VII. The report has the following chapters:

1. Scope of application
2. Risk management in the Group
3. Capital adequacy
4. Credit risk
5. Counterparty credit risk
6. Credit risk mitigation techniques
7. Equity exposures in the Banking Book
8. Securitisation operations
9. Market risk
10. Operational risk
11. Interest rate risk in the Banking Book
12. Liquidity risk

VIII. The 2019 Annual Report includes information about the Bank’s remuneration policy of the Executive Board of Directors under the information reported in Part I of the Corporate Governance Report.

IX. Concerning the information presented in the “2019 Market Discipline Report”, the Board of Directors:

- Certifies that all procedures deemed necessary were carried out and that, to the best of its knowledge, all the information disclosed is trustworthy and true;
- Assures the quality of all the information disclosed, including the one referring to or with origin in entities comprised within the economic group of which the institution is part;
- Informs that no information related to number 2 of article 432 of the CRR was omitted; and

- Commits to timely disclose any significant alterations that may occur in the course of the financial year subsequent to the one this reports relates to.

Lisbon, 20th of May 2020

The Board of Directors of Banco Comercial Português, S.A., by delegation

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List of the acronyms and technical terms frequently used throughout the document

AC: Audit Committee

AML/CTF: Anti Money Laundering and Counter-terrorism financing

BoD: Board of Directors

bps: Basis points (1 basis point = 0,01%)

CALCO: Capital Assets and Liabilities Committee

CCF: Credit Conversion Factors

CCP: Central Counterparty

CET1: Common Equity Tier 1

CRD IV: Directive 2013/36/EU of June, 26 regarding access to credit institutions’ activity and prudential supervision of credit institutions and investment companies, which alters Directive 2002/87/CE and revokes Directives 2006/48/CE and 2006/49/CE

CRR: Regulation 575/2013/EU of June, 26, related to prudential requirements for credit institutions and for investment companies, which changes Regulation (EU) no. 648/2012

CVA: Credit Valuation Adjustment

EAD: Exposure at Default

EBA: European Banking Authority

EC: Executive Committee of the BoD

ECAI: External Credit Assessment Institutions

ECB: European Central Bank

EMIR: European Market Infrastructure Regulation

IAS: International Accounting Standards

ICAAP: Internal Capital Adequacy Assessment Process

IFRS 9: International Financial Reporting Standard 9 – Financial Instruments

ILAAP: Internal Liquidity Adequacy Assessment Process

IRB: Internal Ratings Based

KNF (*Komisja Nadzoru Finansowego*): Polish financial supervisory authority

KRI: Key Risk Indicators

LGD: Loss Given Default

O-SII: Other Systemically Important Institution

OTC: Over-the-Counter derivatives

PD: Probability of Default

RAC: Risk Assessment Committee

RAF: Risk Appetite Framework, defined as the set of principles, policies, rules, limits and reports that support the Bank's risk management function

RAS: Risk Appetite Statement, declaration including a set of indicators of risk acceptance limits by the Bank

RC: Risk Commission

REPOS (*Repurchase agreements*): Financial instruments subject to repurchase agreements

RSA: Risks Self-Assessment

SIC 12: Standing Interpretations Committee (before March 2002); Interpretation that defines the criteria for SPE consolidation according to IAS 27

SFT: Securities Financing Transaction

SREP: Supervisory Review and Evaluation Process

SSM: Single Supervisory Mechanism

SPE: Special Purpose Entity

SVaR: Stressed Value at risk

VaR: Value at Risk

Introduction

The “2019 Market Discipline Report” is comprised within the requisites for the provision of information foreseen in Pillar III of the Capital Accord, complementing the 2019 Annual Report of Banco Comercial Português, S.A. (hereinafter referred to as “Bank” or “Millennium bcp”) concerning the information on risk management and capital adequacy on a consolidated basis, namely in what concerns the provision of detailed information on the capital, solvency, risks assumed and respective control and management processes.

This report includes the disclosure requirements foreseen in Part VII of the Capital Requirements Directive IV/Capital Requirements Regulation (CRD IV/CRR), whose objective is to give market participants precise and complete information about the risk profile of institutions.

The standard formats and guidelines of the EBA, transposed into the national law through Instruction no. 5/2018, from Banco de Portugal, were included as well as additional information deemed relevant for the evaluation of the Bank’s risk profile and capital adequacy on a consolidated basis. The Group’s report is structured as follows:

1	Scope of application
2	Risk management in the Group
3	Capital adequacy
4	Credit risk
5	Counterparty credit risk
6	Credit risk mitigation techniques
7	Equity exposures in the Banking Book
8	Securitisation operations
9	Market risk
10	Operational risk
11	Interest rate risk in the Banking Book
12	Liquidity risk

The aforementioned chapters are preceded by framing information elements, in the following sections:

- Regulatory calculation methodologies
- Concise statement of risk appetite

Additionally, and given the fact that the Bank was considered as another systemically important institution (O-SII), the Group informs that it will comply with the terms of article 14-A, no. 3 of the Instruction no. 1/2018 of Banco de Portugal.

Regulatory calculation methodologies

Following the request submitted by Millennium bcp in the first six months of 2009, the Bank received authorisation from Banco de Portugal to use the advanced approach (internal model) for the generic market risk and to use the standard approach for operational risk.

Banco de Portugal authorised, with effects as of 31 December 2010, the adoption of methodologies based on the Internal Ratings Based models (IRB) for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of the risks of the activity in Portugal.

Subsequently, within the scope of the gradual adoption of the IRB approach in the calculation of capital requirements for credit and counterparty risks, Banco de Portugal authorised the extension of this methodology to the subclasses “Renewable Retail Positions” and “Other Retail Positions” in Portugal, effective as of 31 December 2011.

With reference to 31 December 2012, Banco de Portugal authorised the use of own estimates of Credit Conversion Factors (CCF) for the “Corporate” risk class in Portugal and the adoption of IRB models for “Loans secured by residential real estate” and for “Renewable Positions” in the retail portfolio of Bank Millennium, the Group’s subsidiary in Poland.

On 31 December 2013, Banco de Portugal authorised the extension of the IRB method to the real estate promotion segment, as well as the adoption of own estimations of LGD (Loss Given Default) for the “Corporate” exposures in Portugal.

Without prejudice to the provision of more detailed information in the next chapters, it is shown in Table 1 a summary of the calculation methodologies of the capital requirements used in the regulatory reporting as well as of the respective geographic application scope.

TABLE 1 – CALCULATION METHODS AND SCOPE OF APPLICATION

	31 Dec. 19	31 Dec. 18
CREDIT RISK AND COUNTERPARTY CREDIT RISK		
PORTUGAL		
Retail	IRB Advanced	IRB Advanced
Corporates	IRB Advanced ⁽¹⁾	IRB Advanced ⁽¹⁾
POLAND		
Retail		
- Loans secured by residential real estate	IRB Advanced	IRB Advanced
- Renewable positions	IRB Advanced	IRB Advanced
OTHER EXPOSURES (ALL ENTITIES OF THE GROUP)	Standardised	Standardised
MARKET RISKS ⁽²⁾		
Generic market risk in debt and equity instruments	Internal Models	Internal Models
Foreign exchange risk	Internal Models	Internal Models
Commodities risk and market risk in debt and equity instruments	Standardised	Standardised
OPERATIONAL RISK ⁽³⁾	Standard	Standard

⁽¹⁾ Excluding exposures derived from the SOE rating systems and the simplified rating system, which were weighted by the standardised approach.

⁽²⁾ For exposures in the perimeter centrally managed from Portugal; for all other exposures the only approach applied is the standardised method.

⁽³⁾ The adoption of the standard method of operational risk was authorised in 2009 for application on a consolidated basis.

Concise risk appetite statement

I. Framework

BCP Group carries out its business activities in a sustained, controlled and prudent way, based at all times on the adequacy and compatibility between the objectives set for the business and the levels of risk tolerance that are defined in accordance to the long-term sustainability and profitability of the business.

These risk tolerance levels are embodied in the Group's "Risk Appetite Framework" (RAF) which incorporates the following elements.

- The "Risk Appetite Statement" (RAS);
- The "Risk Strategy", defined for all risks assessed as 'material' in the scope of the risks' identification process performed by the Bank at least on an annually basis. In this context, lines of action are identified for each material risk, in order to mitigate (or even eliminate) the risks in question, along the identification of the structure units and/or bodies responsible for implementing those lines of action;
- The "Risk management System" is composed by the internal Governance on the control and management of risks and Compliance, either in terms of bodies and structural units or in what concerns the applicable internal regulations, i.e., the comprehensive set of regulations for risk monitoring and control, that establish the daily risk management policies and the limits' framework stemming from the RAS;
- The "Information and Communication System", through which the several risk indicators and the risk levels - *vis-à-vis* the respective limits - are systematically monitored and reported to the Bank's bodies and different management levels.

The Group's RAS is an active constraint in what concerns the levels of risk arising from the Bank's plan and budget and is subject to regular reviews considering the various developments in the internal and external environment and of the way in which these have an influence on the perspective evolution of the Bank's material risks.

The Group's RAS is articulated and complemented by the RAS of the various subsidiaries, creating a coherent framework that ensures consistency between the risk tolerance levels of the various entities / geographies and the Group on a consolidated basis.

The Group's RAS currently consists of a set of around 26 indicators, defined according on the materiality assessed for the risks they measure and to their importance in relation to the business objectives that are defined in the BCP Group's strategic plan.

The RAS for Portugal includes 39 indicators in question reflect limits associated with different analytical views on the Group's business that are considered imperative for its continuity and sustainability - Solvency / Liquidity and funding / Profitability and business mix / Reputation and brand – and are directly or indirectly linked to the different objectives' types of the strategic plan for 2021, namely: Business growth / Value creation / Asset quality.

II. The "Risk Appetite Statement" (RAS)

The indicators of the Group's and Portugal's RAS are approved by the Board of Directors of Banco Comercial Português, S.A., from a proposal of BCP's Risk Office – the structure unit that coordinates the implementation and maintenance of the mechanisms and denitions of the SGR – after an opinion from the BoD's Executive Committee and Risk Assessment Committees. The RAS of the other subsidiaries follows the same procedures as the BCP Group regarding the involvement of local government bodies, and the alignment of the risk limits of the subsidiaries with the Group's consolidated has been previously validated with the BCP Risk Office.

The RAS is reviewed at least once a year (or whenever the risk circumstances identified at any given moment so determine), both in terms of the list of indicators considered and their limits thresholds. For each indicator, the limits are fixed using a "RAG" approach (red, amber, green):

- Red = critical level, represented by an excess or insufficiency, that must be corrected in the shortest time possible;
- Amber = alert level, representing a negative evolution towards an excess or insufficiency, which should prompt immediate corrective and/or mitigation measures;
- Green = comfort level, within the defined risk tolerance.

For the main subsidiaries of the group - Bank Millennium (Poland), Banco Internacional de Moçambique (Mozambique) and Millennium Banque Privée (Switzerland) - local RAS are defined, with the same structure of risk areas as in the parent company, adapted to the specificities of the business in these geographies and calibrated in order to ensure consistency with the Group's RAS.

The Group has defined a set of indicators to be included in the RAS of all entities it consolidates - the so-called Corporate RAS - and which allows monitoring and comparing the Group's material risks at the consolidated and individual level of each subsidiary / geography, ensuring the comparability of the information between the various entities of the group. In addition to the set of corporate RAS indicators, the different geographies define other indicators to include in their RAS for monitoring material risks at the local level.

The implementation of a comprehensive and diversified structure of mechanisms necessary for the identification, measurement, monitoring, control, prevention and mitigation of the various risks incident on the Group's activities is based on criteria of economic and financial rationality (based, *inter alia*, on a cost/benefit analysis), in order to allow the sustained (and sustainable) development of all business activities, in a simultaneously profitable and prudent manner, adequate to the defined objectives.

1. SCOPE OF APPLICATION

1.1. IDENTIFICATION OF BANCO COMERCIAL PORTUGUÊS, S.A.

Banco Comercial Português, S.A. is a public traded company with share capital open to public investment (public company), with registered office at Praça D. João I, 28, in Porto, registered at the Porto Commercial Registry under the unique registry and tax number 501,525,882, registered at Banco de Portugal with code 33, at the Securities Market Commission as a Financial Intermediary under registration number 105 and at the Insurance Institute of Portugal as a Tied Insurance Intermediary, under number 207,074,605.

The share capital of the Bank, on 31 December 2019 was 4.725.000.000 euros, fully paid up and represented by 15,113,989,952 shares without nominal value. The ordinary, book-entry and nominal shares are registered in the centralised system managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.

The Bank is a public company, established in Portugal by public deed on 25 June 1985, parent company of a number of companies with which it has a controlling or group relationship, under the terms of article 21 of the Securities Code (henceforth designated as "Group" or "BCP Group"), and is subject to the European Central Bank supervision on both individual and consolidated basis, through the Single Supervisory Mechanism (SSM), in accordance with the provisions of Regulation (EU) no. 468/2014 of the European Central Bank (ECB/2014/17) (SSM Framework Regulation).

The Bank's Articles of Association and the individual and consolidated Annual Reports, as well as the Corporate Governance and Sustainability Reports, are at the public's disposal, for consultation, at the Bank's registered office and on its website, at www.millenniumbcp.pt.

1.2. BASIS AND PERIMETERS OF CONSOLIDATION FOR ACCOUNTING AND PRUDENTIAL PURPOSES

The information disclosed within the present document reflects the consolidation perimeter for prudential purposes, which differs from the consolidation perimeter of the Group accounts defined in accordance with the International Financial Reporting Standards (IFRS) as approved by the European Union (EU) within the scope of the provisions of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as transposed into the Portuguese legislation through the Decree-Law 35/2005 of 17 February and the Notice of Banco de Portugal no. 5/2005.

The main differences between the consolidation perimeter for prudential purposes and the consolidation perimeter of the Group accounts are related with the treatment of companies whose activity is of a different nature and incompatible with the provisions of the General Framework for Credit Institutions and Financial Companies, with reference to supervision on a consolidated basis, in accordance with Banco de Portugal Notice no. 8/94, namely in relation to commercial, industrial, agricultural or insurance companies.

The companies mentioned in the previous paragraph are excluded from consolidation for prudential purposes but are considered by the equity method. Notwithstanding, and according to the Notice 8/94 of Banco de Portugal, Banco de Portugal may order the inclusion of some of these companies in the prudential consolidation perimeter, when it considers this the most appropriate decision in terms of supervision objectives.

In addition, shareholdings excluded from consolidation for prudential purposes that are recorded in the financial statements for the purposes of supervision on a consolidated basis under the equity method, may have to be deducted from consolidated own funds, totally or partially, under the terms defined by the CRR, as detailed in chapter "3. Capital adequacy". As of 31 December 2019, there are no subsidiaries not included in the consolidation perimeter for prudential purposes, whose own funds are lower than the minimum required level. Also, there are also no subsidiaries included in the consolidation perimeter for prudential purposes, regarding which the obligations relative to the minimum level of own funds and limits to large exposures are not applicable, as per CRR articles 92 and 395.

Notwithstanding the principles and standards that rule the intra-group relations, there is no significant, current or foreseen, impediment to the prompt transfer of own funds or repayment of liabilities among the Bank and its subsidiaries, although, with reference to Mozambique, the rules in force may condition the fluidity of fund transfers, but without any potentially significant impacts at Group level.

The entities included in the consolidation perimeter of BCP Group as at 31 December 2019 are described in Table 2, indicating the consolidation method to which they are subject to and giving adequate notes aiming to highlight the regulatory treatment of entities excluded from the consolidation perimeter for prudential purposes.

TABLE 2 – TEMPLATE 3 / EU LI3 – OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION

Entity name	Accounting consolidation method	Regulatory consolidation method	Activity	Head office	% of Equity
Banco ActivoBank, S.A.	Full	Total	Banking	Portugal	100,0%
Bank Millennium, S.A.	Full	Total	Banking	Poland	50,1%
Banque Privée BCP (Suisse) S.A.	Full	Total	Banking	Switzerland	100,0%
BCP África, S.G.P.S., Lda.	Full	Total	Holding company	Portugal	100,0%
BCP Capital - Sociedade de Capital de Risco, S.A.	Full	Total	Venture capital	Portugal	100,0%
BCP International B.V.	Full	Total	Holding company	Holanda	100,0%
BCP Investment, BV	Full	Total	Holding company	Holanda	100,0%
BCP Finance Bank, Ltd.	Full	Total	Banking	Cayman Islands	100,0%
BCP Finance Company	Full	Total	Financeira	Cayman Islands	100,0%
BG Leasing S.A	Full	Total	Leasing	Poland	37,1%
BIM - Banco Internacional de Mozambique, S.A.	Full	Total	Banking	Mozambique	66,7%
Millennium bcp Bank & Trust	Full	Total	Banking	Cayman Islands	100,0%
Millennium BCP - Escritório de Representações e Serviços, Ltda.	Full	Total	Financial services	Brazil	100,0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Total	Holding company	Portugal	100,0%
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Total	Investment fund management	Portugal	100,0%
Monumental Residence - Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full	Neither consolidated nor subject to deduction (1)	Real estate management	Portugal	100,0%
Millennium bcp - Prestação de Serviços, A.C.E.	Full	Total	Services	Portugal	96,0%
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Full	Total	E-commerce	Portugal	100,0%
Millennium Dom Maklerski S.A.	Full	Total	Brokerage services	Poland	50,1%
Millennium Goodie Sp. z o.o.	Full	Total	Consultant and services	Poland	50,1%
Millennium Leasing Sp. z o.o.	Full	Total	Leasing	Poland	50,1%
Millennium Service Sp. z o.o	Full	Total	Services	Poland	50,1%
Millennium Telecommunication Sp. z o.o.	Full	Total	Brokerage services	Poland	50,1%
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Full	Total	Investment fund management	Poland	50,1%
Piast Expert Sp. z o.o.	Full	Total	Marketing services	Poland	50,1%
Millennium bcp Imobiliária, S.A	Full	Total	Real estate management	Portugal	99,9%
MULTI24, Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full	Neither consolidated nor subject to deduction (1)	Real estate management	Portugal	100,0%

Setelote - Aldeamentos Turísticos S.A.	Full	Neither consolidated nor subject to deduction (4)	Real estate company	Portugal	90,0%
Bichorro - Empreendimentos Turísticos e Imobiliários S.A.	Full	Neither consolidated nor subject to deduction (4)	Real estate company	Portugal	100,0%
Finalgarve - Sociedade de Promoção Imobiliária Turística, S.A.	Full	Neither consolidated nor subject to deduction (4)	Real estate company	Portugal	100,0%
Fiparso - Sociedade Imobiliária Lda.	Full	Neither consolidated nor subject to deduction (4)	Real estate company	Portugal	100,0%
Fundo de Investimento Imobiliário Imosotto Acumulação	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundo de Investimento Imobiliário Property management	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundo de Investimento Imobiliário Imorenda	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Oceânico II	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundo de Investimento Imobiliário Fechado Gestimo	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Millennium Fundo de Capitalização - Fundo de Capital de Risco	Full	Neither consolidated nor subject to deduction (1)	Venture capital fund	Portugal	100,0%
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Multiusos Oriente - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Grand Urban Investment Fund - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Fundial- Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
DP Invest - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	54,0%
Fundipar - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	100,0%
Domus Capital - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	63,3%
Predicapital - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction (1)	Real estate investment fund	Portugal	60,0%
Banco Millennium Atlântico, S.A.	Equity Method	Deduction (3)	Banking	Angola	22,5%

Banque BCP, S.A.S.	Equity Method	Deduction (3)	Banking	France	19,9%
Beiranave Naval shipyards Beira SARL	Equity Method	Neither consolidated nor subject to deduction (2)	Naval shipyards	Mozambique	14,0%
Constellation, S.A.	Equity Method	Neither consolidated nor subject to deduction (2)	Property management	Mozambique	12,3%
Exporsado - Trade and industry of sea products, Lda.	Equity Method	Neither consolidated nor subject to deduction (2)	Trade and industry of sea products	Portugal	35,0%
Science4you S.A.	Equity Method	Neither consolidated nor subject to deduction (2)	Cientific toys production	Portugal	28,2%
Lubuskie Fabryki Mebli S.A	Equity Method	Neither consolidated nor subject to deduction (2)	Furniture manufacturer	Poland	25,1%
PNCB - Plataforma de Negociação Integrada de Créditos Bancários, A.C.E	Equity Method	Neither consolidated nor subject to deduction (2)	Services	Portugal	33,3%
Projepolska, S.A.	Equity Method	Neither consolidated nor subject to deduction (2)	Real estate company	Portugal	23,9%
SIBS, S.G.P.S., S.A.	Equity Method	Deduction (3)	Banking services	Portugal	21,9%
UNICRE - Instituição Financeira de Crédito, S.A.	Equity Method	Deduction (3)	Credit cards	Portugal	32,0%
Webspectator Corporation	Equity Method	Neither consolidated nor subject to deduction (2)	Services de publicidade digital	USA	25,1%
Cold River's Homestead, S.A.	Equity Method	Neither consolidated nor subject to deduction (5)	Real estate company	Portugal	50,0%
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity Method	Deduction (3)	Holding company	Portugal	49,0%
SIM - Seguradora Internacional de Mozambique, S.A.R.L.	Full	Deduction (3)	Insurance	Mozambique	61,4%
Magellan Mortgages No.3 Limited	Full	Total	Special Purpose Entity (SPE)	Ireland	82,4%

(1) Entity excluded from the consolidation for prudential purposes, whose impact on solvency indicators results from the assessment of capital requirements of the participation units held in the investment fund.

(2) Entity excluded from the consolidation for prudential purposes, whose impact on solvency indicators results from the assessment of capital requirements of the equity amount registered on the balance sheet assets.

(3) Entity excluded from the consolidation for prudential purposes, for which the financial participation amount is deducted from own funds under article 48 of the CRR.

(4) Entity excluded from the consolidation for prudential purposes, since it is held by one of the investment funds identified in (1).

(5) Entity excluded from the consolidation for prudential purposes, since it is not part of the banking sector.

Hereinafter please find the description of the consolidation methods used for accounting purposes and the respective selection criteria in force in the Group.

FULL CONSOLIDATION

Investments in subsidiaries where the Group holds control are fully consolidated from the date the Group assumes control over its financial and operational activities until the control ceases to exist. Control is presumed to exist when the Group

owns more than half of the voting rights. Additionally, control exists when the Group has the power, directly or indirectly, to manage the financial and operating policies of an entity to obtain benefits from its activities, even if the percentage of capital held is less than 50%.

Additionally, the Group fully consolidates Special Purpose Entities (“SPE”) resulting from securitisation operations with assets from Group entities, based on the criteria presented in the chapter “8.2 Group accounting policies”, related to the treatment of securitisation operations. Besides these SPE resulting from securitisation operations, no additional SPE have been consolidated considering that they do not meet the criteria established on SIC 12.

In addition, the Group manages assets held by investment funds, whose participation units are held by third parties. The financial statements of these funds are not consolidated by the Group, except when the Group holds more than 50% of the participation units. However, the investment funds consolidated for accounting purposes are excluded from the consolidation for prudential purposes, as previously mentioned, with their impact being reflected in the determination of own funds requirements.

EQUITY CONSOLIDATION

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

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Group and the investee;
- Interchange of the management team;
- Provision of essential technical information.

The holdings held by the Group in insurance companies consolidated under the full consolidation method are accounted under the equity method for the purpose of supervision on a consolidated basis.

On 31 December 2019 and 31 December 2018, the full and the financial balance sheets, that translate the consolidation perimeter of the Group's accounts and for prudential purposes on that date, as well as the respective differences, are described in Table 3:

TABLE 3 – TEMPLATE 1 / EU LI1 (I)- DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

31/12/2019	(Thousand euros)		
	Carrying values as reported in published financial statements	Deconsolidation of insurance/other entities	Carrying values under scope of regulatory consolidation
ASSETS			
Cash and deposits at Central Banks	5 166 551	-3	5 166 548
Loans and advances to credit institutions repayable on demand	320 857	-221	320 636
Financial assets at amortised cost			
Loans and advances to credit institutions	892 995	-218	892 777
Loans and advances to customers	49 847 829	13 671	49 861 500
Debt instruments	3 185 876	-15 777	3 170 099
Financial assets at fair value through profit or loss			
Financial assets held for trading	878 334	-5 557	872 777
Financial assets not held for trading mandatorily at fair value through profit or loss	1 405 513	361 591	1 767 104
Financial assets designated at fair value through profit or loss	31 496		31 496
Financial assets at fair value through other comprehensive income	13 216 701	29 921	13 246 622
Assets with repurchase agreement			
Hedging derivatives	45 141		45 141
Investments in associated companies	400 391	38 837	439 228
Non-current assets held for sale	1 279 841	-296 467	983 374

Investment property	13 291	-7 121	6 170
Other tangible assets	729 442	-74 671	654 771
Goodwill and intangible assets	242 630	-938	241 692
Current tax assets	26 738	-15	26 723
Deferred tax assets	2 720 648	-4 046	2 716 602
Other assets	1 239 134	-31 502	1 207 632
TOTAL ASSETS	81 643 408	7 484	81 650 892
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	6 366 958	-1 771	6 365 187
Resources from customers	59 127 005	62 572	59 189 577
Non subordinated debt securities issued	1 594 724		1 594 724
Subordinated debt	1 577 706		1 577 706
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	343 932		343 932
Financial liabilities at fair value through profit or loss	3 201 310		3 201 310
Hedging derivatives	229 923		229 923
Non-current liabilities held for sale			
Provisions	345 312	-39 697	305 615
Current tax liabilities	21 990	-475	21 515
Deferred tax liabilities	11 069	-447	10 622
Other liabilities	1 442 225	22 956	1 465 181
TOTAL LIABILITIES	74 262 154	43 138	74 305 292
EQUITY			
Share capital	4 725 000		4 725 000
Share premium	16 471		16 471
Preference shares			
Other equity instruments	400 000		400 000
Legal and statutory reserves	240 535		240 535
Treasury shares	-102		-102
Reserves and retained earnings	435 823		435 823
Net income for the year attributable to Bank's Shareholders	302 003		302 003
TOTAL EQUITY	6 119 730		6 119 730
Non-controlling interests	1 261 524	-35 654	1 225 870
TOTAL LIABILITIES, EQUITY AND MINORITY INTERESTS	81 643 408	7 484	81 650 892

31/12/2018

(Thousand euros)

	Carrying values as reported in published financial statements	Deconsolidation of insurance/other entities	Carrying values under scope of regulatory consolidation
ASSETS			
Cash and deposits at Central Banks	2 753 839	-2	2 753 837
Loans and advances to credit institutions repayable on demand	326 707	-224	326 483
Financial assets at amortised cost			
Loans and advances to credit institutions	890 033	-228	889 805
Loans and advances to customers	45 560 926	64 357	45 625 283
Debt instruments	3 375 014	-8 221	3 366 793
Financial assets at fair value through profit or loss			
Financial assets held for trading	870 454	-10 629	859 825
Financial assets not held for trading mandatorily at fair value through profit or loss	1 404 684	423 151	1 827 835
Financial assets designated at fair value through profit or loss	33 034		33 034
Financial assets at fair value through other comprehensive income	13 845 625	36 209	13 881 834
Assets with repurchase agreement	58 252		58 252
Hedging derivatives	123 054		123 054
Investments in associated companies	405 082	43 459	448 541
Non-current assets held for sale	1 868 458	-429 117	1 439 341
Investment property	11 058	-6 709	4 349

Other tangible assets	461 276	-117 036	344 240
Goodwill and intangible assets	174 395	-4 773	169 622
Current tax assets	32 712	-49	32 663
Deferred tax assets	2 916 630	-3 285	2 913 345
Other assets	811 816	12 146	823 962
TOTAL ASSETS	75 923 049	-951	75 922 098
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	7 752 796	-1 154	7 751 642
Resources from customers	52 664 687	72 640	52 737 327
Non subordinated debt securities issued	1 686 087	14 600	1 700 687
Subordinated debt	1 072 105		1 072 105
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	327 008		327 008
Financial liabilities at fair value through profit or loss	3 603 647		3 603 647
Hedging derivatives	177 900		177 900
Non-current liabilities held for sale			
Provisions	350 832	-271 49	323 683
Current tax liabilities	18 547	-927	17 620
Deferred tax liabilities	5 460	-461	4 999
Other liabilities	1 300 074	-6 110	1 293 964
TOTAL LIABILITIES	68 959 143	51 439	69 010 582
EQUITY			
Share capital	4 725 000		4 725 000
Share premium	16 471		16 471
Preference shares			
Other equity instruments	2 922		2 922
Legal and statutory reserves	264 608		264 608
Treasury shares	-74		-74
Reserves and retained earnings	470 481		470 481
Net income for the year attributable to Bank's Shareholders	301 065		301 065
TOTAL EQUITY	5 780 473		5 780 473
Non-controlling interests	1 183 433	-52 390	1 131 043
TOTAL LIABILITIES, EQUITY AND MINORITY INTERESTS	75 923 049	-951	75 922 098

The accounting values determined under the scope of regulatory consolidation are distributed according to the regulatory risk categories presented in Table 4:

TABLE 4 – TEMPLATE 1 / EU LI1 (II) – MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

31/12/2019

(Thousand euros)

	Carrying values under the scope of regulatory consolidation	Carrying values of items				Not subject to capital requirements or subject to deduction from capital
		Subject to credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	
ASSETS						
Cash and deposits at central banks	5 166 548	5 166 548	-	-	-	-
Repayable on demand to credit institutions	320 636	348 634	-	-	-	-
Other loans and advances to credit institutions	892 777	843 739	-	-	48 316	-
Loans and advances to customers	53 031 599	51 559 740	-	1 947 057	-	61 810
Securities and derivatives (*)	16 402 368	13 980 807	455 172	5 218	2 096 956	101 094

Non current assets held for sale	983 374	983 374	-	-	-	-
Investment property	6 170	6 170	-	-	-	-
Property and equipment	654 771	654 771	-	-	-	-
Intangible assets	241 692	-	-	-	-	241 692
Current tax assets	26 723	26 723	-	-	-	-
Deferred tax assets	2 716 602	2,325 923	-	-	-	390 719
Other assets	1 207 632	1 175 989	-	-	7 254	24 389
TOTAL ASSETS	81 650 892	77 072 418	455 172	1 952 275	2 152 527	819 704
LIABILITIES	-	-	-	-	-	-
Amounts owed to credit institutions	6 366 958	6 365 187	-	-	43 369	-
Amounts owed to customers	59 127 005	59 189 577	-	-	-	-
Debt securities	1 594 724	1 594 724	-	-	950 464	-
Financial liabilities held for trading	1 577 706	1 577 706	-	-	-	-
Other financial liabilities held for trading at fair value through results	3 545 242	3 545 242	-	-	-	-
Hedging derivatives	229 923	229 923	-	-	-	-
Non current liabilities held for sale	-	-	-	-	-	-
Provisions for liabilities and charges	345 312	305 615	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Current income tax liabilities	21 990	21 515	-	-	-	-
Deferred income tax liabilities	11 069	10 622	-	-	-	-
Other liabilities	1 442 225	1 465 181	-	-	-	-
TOTAL LIABILITIES	74 262 154	74 305 292	-	-	993 833	-

31/12/2018

(Thousand euros)

	Carrying values under the scope of regulatory consolidation	Carrying values of items				Not subject to capital requirements or subject to deduction from capital
		Subject to credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	
ASSETS						
Cash and deposits at central banks	2 753 837	2 751 629	-	-	-	-
Repayable on demand to credit institutions	326 483	295 495	-	-	-	-
Other loans and advances to credit institutions	889 805	846 163	-	-	10 030	-
Loans and advances to customers	48 992 076	47 375 336	-	2 155 828	-	62 715
Securities and derivatives (*)	17 232 375	14 665 490	571 841	5 894	1 536 669	135 316
Non current assets held for sale	1 439 341	1 439 341	-	-	-	-
Investment property	4 349	4 349	-	-	-	-
Property and equipment	344 240	344 240	-	-	-	-
Intangible assets	169 622	-	-	-	-	169 622
Current tax assets	32 663	32 663	-	-	-	-
Deferred tax assets	2 913 345	2 255 598	-	-	-	657 746
Other assets	823 962	777 563	-	-	33 792	23 362
TOTAL ASSETS	75 922 098	70 787 866	571 841	2 161 722	1 580 490	1 048 762
LIABILITIES						
Amounts owed to credit institutions	7 751 642	-	-	-	38 621	-
Amounts owed to customers	52 737 327	-	-	-	-	-
Debt securities	1 700 687	-	44 654	-	926 767	-
Financial liabilities held for trading	327 008	-	-	-	-	-
Other financial liabilities held for trading at fair value through results	3 603 647	-	-	-	-	-
Hedging derivatives	177 900	-	-	-	-	-
Non current liabilities held for sale	-	-	-	-	-	-
Provisions for liabilities and charges	323 683	-	-	-	-	-
Subordinated debt	1 072 105	-	-	-	-	-
Current income tax liabilities	17 620	-	-	-	-	-
Deferred income tax liabilities	4 999	-	-	-	-	-

Other liabilities	1 293 964	-	-	-	-	-
TOTAL LIABILITIES	69 010 582	-	44 654	-	965 388	-

(*) Includes derivatives that are simultaneously subject to market risk and counterparty credit risk.

(*) Includes derivatives that are simultaneously subject to market risk and counterparty credit risk.

The most important differences between the exposure amounts for regulatory purposes and the book values presented in the statements are presented in table 5 for 12/31/2019 and 12/31/2018:

TABLE 5 – TEMPLATE 2 / EU LI2 – MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

31/12/2019 (Thousand euros)

	Total	Items subject to		
		Credit risk framework	CCR framework	Securitisation framework
1 Assets carrying value amount under the scope of regulatory consolidation⁽¹⁾	79 479 865	77 072 418	455 172	1 952 275
2 Liabilities carrying value amount under the regulatory scope of consolidation	29 673	-	29 673	-
3 Total net amount under the regulatory scope of consolidation	79 450 192	77 072 418	425 499	1 952 275
4 Off-balance sheet amounts ⁽²⁾	14 299 919	5 255 018	0	0
5 Differences in valuations	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7 Differences due to the consideration of provisions ⁽³⁾	1 948 265	1 948 265	0	0
8 Differences due to prudential filters	-	-	-	-
9 Differences due to the consideration of CCF ⁽⁴⁾	(8 920 408)	0	0	0
10 Differences due to add-on and CRM	(364 812)	(491 236)	388 021	(261 597)
11 Other	(644 256)	(519 043)	(719)	-
12 Exposure amounts considered for regulatory purposes⁽⁵⁾	85 768 901	83 265 422	812 801	1 690 678

31/12/2018 (Thousand euros)

	Total	Items subject to		
		Credit risk framework	CCR framework	Securitisation framework
1 Assets carrying value amount under the scope of regulatory consolidation⁽¹⁾	73 521 430	70 787 866	571 841	2 161 722
2 Liabilities carrying value amount under the regulatory scope of consolidation	44 654	-	44 654	-
3 Total net amount under the regulatory scope of consolidation	73 476 776	70 787 866	527 187	2 161 722
4 Off-balance sheet amounts ⁽²⁾	12 923 541	4 446 664	0	274 549
5 Differences in valuations	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7 Differences due to the consideration of provisions ⁽³⁾	2 434 818	2 434 818	0	0
8 Differences due to prudential filters	-	-	-	-
9 Differences due to the consideration of CCF ⁽⁴⁾	(8 225 936)	0	0	0
10 Differences due to add-on and CRM	(425 151)	(492 339)	341 737	(274 549)
11 Other	49 096	25 488	-	-
12 Exposure amounts considered for regulatory purposes⁽⁵⁾	80 233 144	77 202 497	868 925	2 161 722

(1) The total of line 1 does not match the total assets of Table 4 since it does not consider neither the assets subject to market risk nor the assets that are subject to own funds' deduction; (2) The total of line 4 does not match the sum of the parts because, according to the filling rules, this total refers to the original exposure net of provisions and the parts contain the exposure value after the application of CCF. (3) Provisions related to on-balance sheet exposures on the IRB method since these are included in the respective EAD. (4) Value that is only present in the "Total", as mentioned in note (2). (5) EAD reported in each of the frameworks.

2. RISK MANAGEMENT IN THE GROUP

2.1. RISK MANAGEMENT PRINCIPLES

The Group is subject to risks of a different nature related to the development of its activity, the materiality of which is regularly assessed as part of a risk identification process, carried out at least annually, under the coordination of the Bank's Risk Office and with the participation of the several subsidiaries / geographies and results presented in various governing bodies of the Bank until the conclusions are approved by the Board of Directors of BCP.

For the various risks identified, the Group defines principles, methodologies and procedures for monitoring, control and reporting, which are defined centrally by the parent company, in coordination with the respective local departments and considering the specific risks of each business. The general risk management principles and rules are approved at the maximum level of the Group: the Bank's Board of Directors in Portugal.

The Group's risk management policy aims to identify, assess, monitor and control all material risks to which the institution is exposed, both internally and externally, in order to ensure that they remain at levels compatible with the risk tolerance predefined by the management body and embodied in the set of indicators of the Risk Appetite Statement (RAS).

In this context, it is particularly relevant to monitor and control the major types of risk – particularly the credit, market, operational and liquidity risks and the risks related with the pension fund – inherent to the Group's activities. These can be defined as follows:

- Credit risk – credit risk reflects the potential losses and the degree of uncertainty regarding the future returns to be generated by the loan portfolio, due to the inability of borrowers (and of their guarantors, if any), issuers of securities or counterparties to agreements, to fulfil their obligations.
- Market risk – market risk consists of the potential losses that might occur in a given portfolio, as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering either the correlations that exist between those instruments or its volatility.
- Operational risk – operational risk consists in the occurrence of losses as a result of failures and/or inadequacies of internal processes, people or systems or due to external events.
- Liquidity risk – liquidity risk reflects the Group's potential inability to meet its obligations at maturity without incurring significant losses, resulting from a deterioration in funding conditions (funding risk) and/or from the sale of its assets below market values (market liquidity risk).
- Defined benefit pension fund risk – pension fund risk stems from the potential devaluation of the Bank's Defined Benefit Pension Fund, or from the decrease of its expected returns, implying the undertaking of unplanned contributions.
- Compliance risks – compliance risks arise from the Bank's potential violation or non-compliance with laws and regulations in its interactions with third parties, including failures in product design, market manipulation, antitrust regulations, inappropriate commercial conduct, money laundering, bribery or combating terrorist financing.
- Credit, market and operational risks were object of own funds requirements calculation within the scope of the regulatory information on capital adequacy of Basel's Pillar I, while liquidity risk is quantified through the ratios defined by the CRR/CRD IV. All these risks and the Pension Fund risk are addressed within the scope of the stress testing of the ICAAP or ILAAP.

The following highlights should be made, concerning the developments and actions in prudential activities/risk management in 2019:

- Review of the BCP Group's RAS metrics with updated tolerance limits for various risks and the introduction of a set of corporate metrics to be included in the RAS of all geographies where the Group is present, as well as a set of new risk-oriented Compliance indicators;
- Participation in the review of the Strategic Plan and in the Budget for 2019, in particular, in what concerns the goals for the reduction of NPE (non-performing exposures) and of assets received in the context of credit recovery (foreclosed assets);
- Coordination of the implementation and updates of the NPA (non-performing assets) Reduction Plan, including the launching and closing of the sale of 4 credit portfolios and a real estate owned assets portfolio, as well as the regular reporting to the Supervision concerning the fulfilment of the plan;
- Coordination of work related to liquidity stress tests (LiST);
- Participation in the “2019 EBA benchmarking” and “NPA stocktake” exercises, promoted by (ECB);

- Integration of Euro Bank SA portfolios in the Group's risk management framework;
- Adoption of measures to improve the Group's Internal Control System;
- Participation in the Group's Recovery and Resolution planning activities;
- Implementation of the monitoring and reporting process of "leveraged transactions";
- Implementation of the new definition of Default
- Submission of several authorization requests under IRB models, in Portugal and Poland, responses to TRIMIX inspections, broadening the scope of model development and monitoring (Retail PD models) and launching the re-development of several models;
- Review of the liquidity risk management and control framework, including the implementation of new short-term liquidity indicators and the review of the liquidity stress testing methodology;
- Execution of evaluation, through gap analysis, as preparatory work for the implementation of the FRTB - Fundamental Review of the Trading Book;
- Development of new methodologies for calculating interest rate risk;
- Provision of information resulting from Law 15/2019, of 12 February, on transparency of information regarding the granting of high value credits and strengthening parliamentary control in accessing banking and supervisory information;
- Participation in the Bank's alignment project with the principles of BCBS 239 (Principles for effective risk data aggregation and risk reporting);
- Participation in the study of the quantitative impact of the adoption of the Basel III (QIS) criteria;
- Participation in the Credit Underwriting exercise in order to evaluate the granting of new credit;
- Continuous review of internal regulations on policies and procedures related to risk management and control;
- Implementation of a new transaction monitoring system, strengthening the prevention of money laundering and financing of terrorism with reinforced base alarms and the possibility of developing a new alarm system in-house;
- Reinforcement and specialization of the Compliance Office teams in the context of the prevention of money laundering and financing of terrorism (AML / CTF) in its various dimensions;
- Development of IT solutions at the archive level to better catalog relevant documents requested from customers within the scope of AML / CTF;
- Elaboration of a communication plan dedicated to the 1st lines of defense with the most important aspects to be considered both in terms of the risk of financial crime and in terms of operational risk;
- Reinforcement of the instruments, controls and systems used by the 1st line within the scope of AML / CTF;
- Redesign of compliance processes in the development of new products and services.
- Coordination of ICAAP and ILAAP, with the execution of the process of identifying risks and updating their taxonomy.

2.2. RISK MANAGEMENT GOVERNANCE

In the area of risk management, Millennium bcp's Board of Directors (BoD) - composed of non-executive and executive directors, the latter comprising the Executive Committee (EC) of the Board of Directors - is the body responsible for defining the risk policy, the scope of which including the approval of the high level principles and rules to be followed in risk management. The EC is responsible for conducting such policy and for the executive decision on risk management's measures and actions.

The Risk Assessment Committee (CAvR), which emanates from the Board of Directors and is composed of non-executive directors, has the responsibility to advise on matters related to the definition of the risk strategy, capital and liquidity management and risk management, namely with regard to the supervision of the execution of the Bank's risk strategy by the other management bodies, with a view to ensuring that the risks to which the Bank is exposed are aligned with the business strategy, corporate culture and institution's values. This governance body also assists the Board of Directors in assessing the risk strategy of the main foreign subsidiaries.

The specific competences of CAvR are:

- Evaluate, monitor and intervene in the review process of the Group's RAS, issuing an opinion to the Board of Directors on its adequacy and evaluate and monitor its evolution over time;
- Monitor the effectiveness of Liquidity and Business Continuity Contingency Plans;
- Supervise the ICAAP, ILAAP and Recovery Plan processes and issue an opinion on the respective reports addressed to the Board of Directors;
- Pronounce on the technical profile of the Bank's Risk Officer candidate.

The Audit Committee (CAud), which also stems from the Board of Directors and is composed of non-executive Directors and a Statutory Auditor, is responsible for overseeing management, ensuring, *inter alia*, the appropriate functioning of risk management and control systems, as well as the existence and enforcement of adequate compliance and auditing policies, at the level of the Group and of each entity.

The specific competences of CAud are:

- Assess, monitor, supervise and intervene in the Group's internal control system, issuing an opinion addressed to the Board of Directors on its adequacy;
- Periodically analyze and monitor the financial statements and the main prudential indicators, as well as the Compliance Office and Internal Audit activities;
- Analyze and comment on the periodic reports prepared by the internal control functions, in terms of conflict of interest, communication of irregularities and money laundering and financing of terrorism (AML / CTF);
- Pronounce on the technical profile of the Bank's candidate for Compliance Officer and Head of Audit Department.

The Risk Commission (RC) stems from the Executive Committee, is coordinated by the Group's Chief Risk Officer, and has the responsibility to monitor, at an executive level, the overall levels of credit, market, liquidity and operational risk, ensuring that they are compatible with the objectives, financial resources available and approved strategies for the development of the Group's activity, with a view to support management decision-making and to promote the best articulation of the daily management decisions within the organization. The RC also oversees the Model Monitoring and Validation Subcommission.

The RC specific competences are:

- Monitor the evolution of different risks and compliance with applicable policies, regulations and limits;
- Review the principles, policies, rules, limits and practices applied in the Group's risk management function;
- Ratify the conclusions of the Model Monitoring and Validation Sub-committee.

In addition to the Risk Commission, the Bank also has other specialized Commissions involved in the Governance of the Risk Management System:

- Compliance and Operational Risks Commission, responsible for monitoring the compliance of the Bank's performance with legal and regulatory standards, regarding AML / CTF, defining the Group's operational risk management model and for monitoring the internal control system.
- NPA Monitoring Commission (non-performing assets), responsible for monitoring the evolution of NPE exposures and non-productive assets.
- Pension Fund Risk Monitoring Commission, responsible for monitoring the performance and risk of the Group's Pension Fund (Defined Benefit Fund and Complementary Fund) and establishing the appropriate investment policies and risk coverage strategies, approving changes to the Fund's actuarial assumptions.
- Data Security, Quality and Protection Commission, responsible for the security policies of the BCP Group and for monitoring the main security risks and personal data protection policies and processes.

The Risk Office gives support to the Risk Commission, informing this body on the general level of risk and proposing measures to improve its respective control, implementing the approved limits. The responsible for the Risk Office also has the power to veto any decision that is not subject to the approval of the Board of Directors or of the Executive Committee and that may have an impact on the Group's risk level.

The Compliance Office watches over the compliance, by all Group Institutions, with the legal and regulatory rules, external and internal, that frame their activity, in order to contribute to the mitigation of the risk of sanctions imposed on to those entities.

The Risk Officer and the Compliance Officer of Banco Comercial Português report hierarchically to the Bank's Board of Directors and its Executive Committee and functionally to the Risk Assessment Committee and the Audit Committee (respectively).

In addition to the Risk and Compliance Offices, the Bank's second line of defense also includes the Rating Division and the Office for Validation and Monitoring of Models, whose functions are, respectively, to ensure that the ratings of all Bank Customers are permanently assessed in an appropriate manner, by developing, implementing and calibrating the different rating systems and models of the Bank; and monitoring and validating the results of the same systems and models.

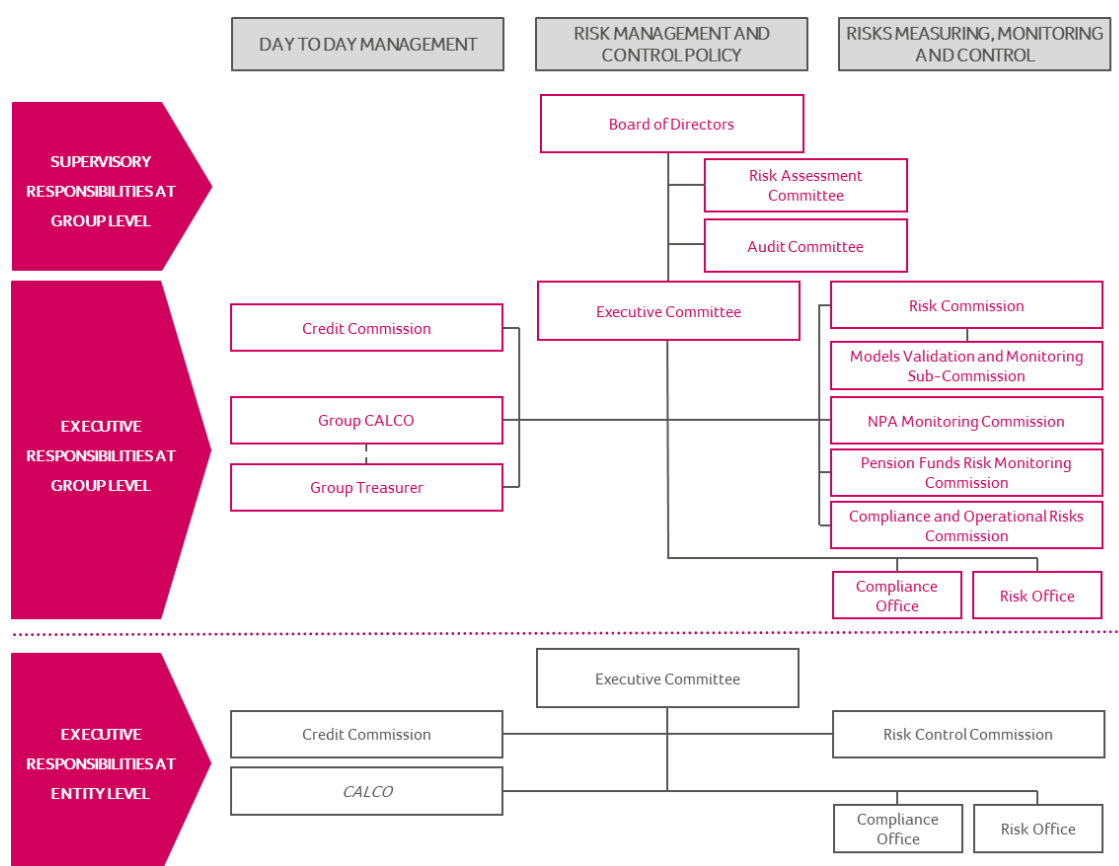
All entities included in the Bank's consolidation perimeter guide their activities by the principles and guidelines centrally established by the Risk Commission and the main subsidiaries abroad have local Risk Office structures sized in accordance with the risks inherent to their respective activities. Those subsidiary companies also have a Risk Control Commission responsible for controlling risk locally, in which the BCP's Risk officer participates.

The main foreign subsidiaries also have a local AML / CTF Commission, responsible for monitoring and controlling the operations and procedures of money laundering and terrorism financing and the entity's global AML / CTF risk assessment.

By delegation of the Board of Directors, the Group CALCO (Capital, Assets and Liabilities Management Committee) is the responsible for the management of the overall capital of the Group, the management of assets and liabilities and the definition of the liquidity management strategies at the consolidated level. The Group CALCO is responsible for the structural management of market and liquidity risks, including the monitoring of the liquidity plan execution, for the definition of transfer prices and of capital allocation rules, for the management of the Investment Portfolio and for the decisions regarding the coverage of specific positions (and respective monitoring).

The Bank also has a Nominations and Remunerations Committee, a Board for International Strategy and a Committee for Corporate Governance, Ethics and Professional Conduct.

The next diagram illustrates the risk management governance framework, including most of the above referred bodies, as well as the Credit Commission - responsible for the assessment and decision on credit granting applications from the Bank's Clients.



2.3. RISK ASSESSMENT

2.3.1. RISK IDENTIFICATION AND RISK TAXONOMY

The Bank has implemented a regular risk identification process at BCP Group consolidated level and at each Entity level in order to assure that all potential risks to capital, earnings and liquidity are regularly considered, and that the Group decides on respective high-level risk materiality, resulting on a comprehensive internal risk inventory.

The risk identification process of BCP Group is based on a risk taxonomy approach, where the major risk sources, namely the high level categories of credit, market, liquidity, operational, compliance and other risks, are cascaded down into a list of specific risks that shall be analyzed by the Bank, in a self-assessment exercise, in order to foresee the respective impact in the risk profile of the BCP Group or any of its Entities.

The BCP Group risk taxonomy, containing the list of risks that are formally assessed in the annual risk identification process is regularly updated in order to reflect all the risk types that may impact in or arise from the activity of the BCP Group:

Risk Name	Credit risk
Credit default risk	The current or prospective risk to earnings, capital and liquidity arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed.
Issuer credit risk	The current or prospective risk to earnings, capital and liquidity arising from default or downgrade of issuer of security or contractual trading party. This includes e.g. loans, bonds and potential future exposure through OTC derivatives.
Counterparty credit risk	The current or prospective risk to earnings, capital and liquidity arising from the risk of a trading counterparty defaulting before the settlement date of a transaction.
Settlement risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that the credit institution will deliver the asset sold or cash to the counterparty and will not receive the purchased asset or cash as expected. As such a settlement risk comprises credit risk and liquidity risk.
Securitization risk	The risk of loss associated with buying or selling asset-backed securities (investor perspective). The current or prospective risk to earnings, capital and liquidity arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed, in a securitized exposure that is not de-recognized for risk purposes (originator perspective).
Country risk	The current or prospective risk to earnings, capital and liquidity arising from the risk of exposure to losses caused by events in a specific country (countries where Bank does not have a local presence), which may be under the control of the government but not under the control of a private enterprise or individual.
Residual risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that recognized risk measurement and mitigation techniques used by the firm prove less effective than expected.
Transfer risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that the government will impose restrictions on the transfer of funds by debtors in the country in question to foreign creditors, either for financial or other reasons. This risk is almost exclusively related to foreign currency exposure.
Wrong way risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty.
Sovereign risk	The current or prospective risk to earnings, capital and liquidity arising from the credit risk related with all sovereign exposures, including the risk associated with the impact of changes of rating of Sovereign debt or events of default (Banking Book).
Migration risk	The current or prospective risk to earnings, capital and liquidity arising from the risk that a portfolio's credit quality will materially deteriorate over time without allowing a repricing of the portfolio to compensate the creditor for the now higher default risk being undertaken.
FX Lending	The current or prospective risk to earnings, capital and liquidity arising from an obligor's failure to meet the terms of any lending contract in non-local currency or increased probability of default in such contracts only due to changes in FX rates and not by the deterioration of the credit quality of the debtor.

Risk Name	Credit concentration risk
Single name	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with large individual exposures.
Sector	The current or prospective risk to earnings, capital and liquidity arising from significant exposures to groups of counterparts whose likelihood of default is driven by common industrial sector underlying factors.
Geography	The current or prospective risk to earnings, capital and liquidity arising from significant exposures to groups of counterparts whose likelihood of default is driven by common geographical underlying factors.

Risk Name	Liquidity risk
Intra-day liquidity risk	The current or prospective risk to earnings, capital and liquidity arising from an liquidity constrains during the daily operations.
Short term cash flow risk	The current or prospective risk to earnings, capital and liquidity arising from an institution's inability to meet its liabilities when they come due in the short term.
Structural liquidity	The current or prospective risk to earnings, capital and liquidity arising from an institution's inability to meet its liabilities when they come due arising from balance sheet structural imbalances of assets and liabilities terms NSFR.
FX Liquidity Risk	The current or prospective risk to earnings, capital and liquidity arising from an institution's inability to meet its liabilities in foreign currency.
Funding concentration risk	The current or prospective risk to earnings, capital and liquidity arising from the potential cost to obtain additional funding to compensate significant and sudden withdraw from large funding providers.
Funding cost risk	The current or prospective risk to earnings, capital and liquidity arising from an increase in the cost of the wholesale funding of the Bank

Risk Name	Market risk
Traded market risk	The current or prospective risk to earnings, capital and liquidity arising from adverse movements in bond prices, security or commodity prices, interest rates or foreign exchange rates in the trading book. It can arise from market making, dealing, and position taking in bonds, securities, currencies, commodities, or derivatives (on bonds, securities, currencies, or commodities).
CVA risk	The current or prospective risk to earnings, capital and liquidity arising from the fair value adjustment, required for OTC derivatives, due to the additional risk implied for positive fair values due to the counterparty inability to pay the required cash flows.
Non-traded market risk - FX rate risk BB	The current or prospective risk to earnings, capital and liquidity arising from the risk of holding or taking positions in foreign currencies in the banking book (e.g. in the form of loans, bonds, deposits or cross-border investments, including financial participations in foreign currencies).
Market concentration risk	The current or prospective risk to earnings, capital and liquidity arising from the risk of loss arising from a large position in a single asset or market exposure. An excessive concentration can give rise to liquidity risk or market risk losses (Trading Book).
Credit spread risk	The current or prospective risk to earnings, capital and liquidity arising from the possibility that changes in credit spreads will affect the value of financial instruments or contracts (including both trading and banking book positions).
Financial instruments Price Risk (BB)	The current or prospective risk to earnings, capital and liquidity arising from adverse movements in bond prices, security or commodity prices in the banking book (BB).
Default and migration risk	The current or prospective risk to earnings, capital and liquidity arising from the materialization of credit default and credit migration risks types.
Market liquidity risk	Also named "asset illiquidity risk". The current or prospective risk to earnings, capital and liquidity arising from positions that cannot easily be unwound or offset at short notice without significantly influencing its market price, because of insufficient market depth or market disruption. Includes risk from holding illiquid equity assets.
Valuation risk	The current or prospective risk to earnings, capital and liquidity arising from mispricing or pricing adjustments, due to complex pay-offs/pricing models or illiquidity / unobservability of pricing model's input parameters as well as adjustments made to the mid-price of fair valued positions (e.g. valuation adjustments on derivatives due to collateral, liquidity, funding costs, model risk, close out costs, etc.).

Risk Name	Operational risk
Process risk	
Damage to physical assets	The current or prospective risk to earnings, capital and liquidity arising from accidental or deliberate (such as terrorism or vandalism acts) damage to firm's physical assets.
Execution, delivery & process management	The current or prospective risk to earnings, capital and liquidity arising from errors in execution of operative processes (e.g., "fat finger errors"; lack of or loosing documentation), including failed process management and relations with counterparties and vendors (e.g. outsourcing).
External fraud risk	The current or prospective risk to earnings, capital and liquidity arising from external fraud.
Employment practices and workplace safety	The current or prospective risk to earnings, capital and liquidity arising from losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

Model risk	The current or prospective risk to earnings, capital and liquidity arising from flawed or inappropriately applied models/algorithms used to price or facilitate transaction decision making, internal capital models or other business decisions.
ICT risk	
ICT - Security risks	The current or prospective risk to earnings, capital and liquidity arising from a financial loss, disruption or damage to the reputation connected with activity online, internet trading, electronic systems and technological networks, as well as storage of personal data, (e.g., disruptive cyber-attacks and other external based attacks; inadequate IT physical or logical security).
ICT - Availability and continuity risk	Or “Business disruption and system failures”. The current or prospective risk to earnings, capital and liquidity arising from disruption of business or system failures (e.g., inadequate capacity management; inadequate continuity and disaster recovery planning; dysfunctional data processing or handling; ill designed data validation controls in systems; ill designed and/or managed data architecture, data flows, data models or data dictionaries).
ICT - Data integrity risk	The current or prospective risk to earnings, capital and liquidity arising from data stored and processed by ICT systems incomplete, inaccurate or inconsistent across different ICT systems, for example as a result of weak or absent ICT controls during the different phases of the ICT data life cycle, impairing the ability of an institution to provide services and produce (risk) management and financial information in a correct and timely manner.
ICT change risk	The current or prospective risk to earnings, capital and liquidity arising from the inability of the institution to manage ICT system changes in a timely and controlled manner, in particular for large and complex change programmes (e.g., inadequate controls over systems changes and development; inadequate architecture; inadequate lifecycle and patch management).
ICT Outsourcing risk	The current or prospective risk to earnings, capital and liquidity arising from engaging a third party, or another Group entity (intra-group outsourcing), to provide ICT systems or related services adversely impacts the institution’s performance and risk management (e.g. inadequate SLA, breaches in the SLA, fail of the providers).
Legal and compliance risk	
Compliance and conduct risk	Or “Clients, products & business practices”. The current or prospective risk to earnings, capital and liquidity arising from violations or non-compliance with laws and regulations due to internal fraud or unintentional or negligent failure to meet a professional obligation to specific clients, including fiduciary and suitability requirements, from the nature or design of a product, or from market manipulation, antitrust or improper trade and customer conduct risk.
Financial crime risk	The current or prospective risk to earnings, capital and liquidity arising from violations or non-compliance with financial regulations (includes AML-Anti money laundering and CTF - Counter terrorism financing, sanctions and bribery)
Data protection risk	The current or prospective risk to earnings capital and liquidity arising from failing to ensure the data protection legal requirements.
Litigation risk	The current or prospective risk to earnings, capital and liquidity arising from court processes started by clients due to contractual disagreements.
Governance risk	The current or prospective risk to earnings capital and liquidity arising from violations or non-compliance with principles of good governance within the firm.

Risk Name	Real estate risk
Real estate risk	The current or prospective risk to earnings, capital and liquidity arising from changes in value of firm-owned real estate

Risk Name	IRRBB - Interest rate risk in the Banking Book
Behavioral and optional risk	The current or prospective risk to earnings, capital and liquidity arising from early unscheduled return of principal on interest rate sensitive asset and liabilities (e.g. changes in the behavioral profile of classes of customers and products, including embedded options).
Gap risk	The current or prospective risk to earnings, capital and liquidity arising from direct or indirect financial losses in the banking book due to movements in interest rates and mismatch between assets and liabilities, making the bank vulnerable to changes in the yield curve, under the current behavioral and prepayment customer and product profiles
Basis risk	The current or prospective risk to earnings, capital and liquidity arising from imperfect hedges.

Risk Name	Business risk
Economic risk	The current or prospective risk to earnings, capital and liquidity arising from the uncertainty in revenues in the short run (< 1 year) due to unforeseen changes in the economic and competitive environment as well as risk of regulatory changes and requirements.
Strategic risk	The current or prospective risk to earnings, capital and liquidity arising from changes in strategy and from adverse business decisions.

Participations	The current or prospective risk to earnings, capital and liquidity arising from the risk of depreciation of strategic financial participations outside the consolidation perimeter.
IT Strategy risk	The current or prospective risk to earnings, capital and liquidity arising from misalignment between the IT framework and the strategy of the Bank

Risk Name	Reputational risk
Reputational risk	The current or prospective risk to earnings, capital and liquidity arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators due to actions of any BCP Group entity or its employees.
Industry-wide reputational risk	The current or prospective risk to earnings, capital and liquidity arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators due to actions of the wider industry.
Insurance reputation	The current or prospective risk to earnings, capital and liquidity arising from reputational risk associated with the selling process of financial insurance.

Risk Name	Other risks
Environmental and Social Risk	Potential negative consequences to earnings, capital or liquidity resulting from Bank's business impacts (or perceived impacts) on the natural environment (i.e. air, water, soil) or communities of people (e.g. employees, customers, local residents). E.g. Equator principles for project finance activities.
Step-in risk	The current and prospective risk to earnings, capital and liquidity due to the need of the Bank, by reputational reasons, to provide financial support to an entity beyond or in the absence of contractual obligations, should the entity experience financial stress (unconsolidated entities, only)
Pension fund risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with the uncertainty surrounding required contributions to defined benefit pension schemes or with market rates movements that could lead to direct or indirect financial losses in the pension fund assets.
Underwriting risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with underwriting issuance of equity or debt securities.
Equity risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with the issuance stock at incorrect risk premiums.
Insurance risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with future income/expenses due to life insurance business arm.
Re-hypothecation risk	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with the use of assets that have been posted as collateral by bank's clients.
Geo-political risks	The current or prospective risk to earnings, capital and liquidity arising from the risk associated with political and/or economic and/or military developments in particular geographies where the Group operates or which may indirectly impact Group operations.
Resolution fund risk	The current or prospective risk to earnings, capital and liquidity arising from the value of the increase in the future contributions to the Resolution Fund.
Circumstantial risks	Other risks that should be evaluated in specific moments on time which due to its temporary nature do not require to be systematically evaluated every year.

2.3.2. CREDIT RISK

The granting of credit is based on the previous classification of risk of Customers, on the respective capacity for the repayment of credit to be made through the cash flows generated in the customer's activity, on the rigorous assessment of the level of protection provided by the underlying collateral and in line with the guidelines that reflect the Bank's credit risk appetite.

For the purposes of rating the customer's risk, a single rating system, the Rating Master Scale, based on the Expected Probability of Default (PD) is used, allowing a greater discriminating capacity in the evaluation of Customers and a better hierarchy of the associated risk.

The Rating Master Scale also enables the Bank to identify Customers that show signs of degradation in their capacity to service their debts and, in particular, those who are classified, within the prudential scope, as being in default. All the rating models and systems used in the Group have been duly calibrated for the Rating Master Scale.

The Group also uses an internal scale of "protection levels" as an instrument aimed at assessing the collateral efficiency in the mitigation of the credit risk, promoting a more active credit collateralisation and a better adequacy of the pricing to the incurred risk.

Aiming at the best possible adequacy of credit risk assessment, the Group has defined a series of client macro-segments

and segments which are treated under different rating systems and models and support the links between internal ratings (risk grades) and the Customers' PD, ensuring that the risk assessment takes into account the specific characteristics of the Customers, in terms of their respective risk profiles.

The assessments made by the rating systems and models referred above are translated into the risk grades of the transversal Master Scale, with fifteen levels, of which the last three correspond to situations of relevant deterioration in Customer creditworthiness, called "procedural risk grades". Non-processual risk grades are attributed by rating systems models with automatic decision or by the Rating Department and are revised/updated periodically or whenever justified by events. The worst rating on Master Scale corresponds to customers classified in default (Default).

The development, implementation and calibration of rating models and systems is carried out by the Rating Division (non-individual customers) and the Risk Office (individual customers), with the respective monitoring and validation being guaranteed periodically by the Office for Validation and Monitoring of Models. The models are reviewed / updated periodically or whenever events occur that justify it.

The internal estimates of Loss Given Default (LGD) and Credit Conversion Factors (CCF) are supported by internal approaches validated by the Supervisor within the scope of the approval of the IRB-based approaches. The LGD estimations are produced by resorting to a model that collects and analyses the history of losses due to credit risk and discounts all the cash flows inherent to the respective recovery processes while the CCF own estimations result from the analysis made to data on the use of credit lines and limits or from the execution of the collateral provided for a time horizon of one year before the occurrence of the defaults. The CCF own estimations (or the regulatory values for these factors) apply to all off-balance sheet exposures.

The stage of development of the processes and systems allocated by the Group to credit risk management and control enabled the approval, by the Supervision, of the Group's application for the use of the IRB approach for the calculation of the regulatory capital requirements for this type of risk and for the main risk classes, with effect as of 31 December 2010 for the Group's activities in Portugal, which was followed by the joint authorisation given by the Polish and Portuguese supervision authorities for the sequential adoption of that approach for Bank Millennium (Poland), effective as at 31 December 2012. Effective from 31 December 2013, the Supervisor has approved, for the Group activities in Portugal, the use of own LGD estimates for the Corporates risk class (IRB Advanced), as well as internal rating models with own LGD estimates for the real estate promotion Clients.

The consistency of the credit granting framework with the Group's risk appetite is ensured by the alignment of the credit regulations with the credit risk strategy and policy guidelines approved by the Board of Directors and by the Executive Committee, respectively, and by the definition of a credit risk matrix with specific guidelines for the areas involved in the credit granting, monitoring and recovery process.

The Group adopts a policy of continuous monitoring of its credit risk management processes, promoting changes and improvements whenever deemed necessary, aiming at greater consistency and effectiveness of these processes. In this context, the Credit Risk Monitoring Area of the Risk Office is responsible for developing and implementing the appropriate processes for credit life cycle monitoring, in line with the RAS, policies and procedures implemented by the Bank, namely with regard to the evolution of the relevant risk parameters, both for existing credit portfolios and for new businesses and restructured loans, implementing preventive alert systems adjusted to the various credit portfolios.

Still within the Risk Office, the Credit Risk Area is responsible for permanently monitoring the levels of Non Performing Exposures (NPE), ensuring the processes of marking and unmarking Customers in default, and of restructuring due to financial difficulties of Customers, monitoring the quality and effectiveness of the credit recovery process and also for the analysis of the impairment of the Bank's loan portfolio.

2.3.3. MARKET RISKS

For the purposes of profitability analysis and market risks quantification and control, the following management areas are defined for each entity of the Group:

- Trading - Management of positions whose objective is the achievement of short term gains, through sale or revaluation. These positions are actively managed, tradable without restriction and may be valued frequently and accurately. The positions in question include securities and derivatives of sales activities;
- Funding - Management of institutional funding (wholesale funding) and money market positions;
- Investment - Management of all the positions in securities to be held to maturity (or for a longer period of time) or positions which are not tradable on liquid markets;
- Commercial - Management of positions arising from commercial activity with Customers;
- Structural - Management of balance sheet items or operations which, due to their nature, are not directly related to any of the management areas referred to above; and
- ALM - Assets and Liabilities Management.

The definition of these areas allows for an effective management separation of the trading and Banking Books, as well as for the correct allocation of each operation to the most suitable management area, according to its respective context and strategy.

The Trading Book portfolio is composed by positions held with the aim of obtaining short-term gains, through sale or revaluation. These positions are actively managed, traded without restrictions and can be precisely and frequently evaluated. The positions in question include securities and derivatives relative to the Treasury sales' activities. The Banking Book portfolio includes all the other positions, namely: the wholesale funding, the securities held for investment, the commercial activity and the structural activity.

In order to ensure that the risks incurred in the portfolios of the Group are in accordance with the Group's risk tolerance levels, several limits are defined for market risks (reviewed at least once a year) and are applied to all portfolios that, in accordance with the management model, might incur these risks.

The definition of these limits is based on the market risk metrics used by the Group in its control and monitoring, which are followed by the Risk Office on a daily basis (or intra-daily, in the case of the financial markets areas - Trading and Funding).

In addition to these risk limits, stop loss limits are also defined for the financial markets areas, based on multiples of the previously defined risk limits, aiming at limiting the maximum losses which might occur within each of the areas. When these limits are reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

Also, within the scope of risk appetite, the Group has clearly defined the list of products and currencies in which the dealing rooms of the different entities are authorized to trade. The introduction of any new product or currency is subject to approval by the Bank's Risk Committee, based on a reasoned proposal from the Risk Office.

The Group uses an integrated market risk measure that allows the monitoring of all the relevant sub-types of risk considered. This measure covers the evaluation of the following types of risk: generic risk, specific risk, non-linear risk and commodities' risk. The measurement used on the assessment of the generic market risk - relative to interest rate risk, exchange rate risk, equity risk and price risk of Credit Default Swaps uses a VaR (Value at Risk) model, where the calculation considers a time horizon of ten business days and a significance level of 99%.

A model is also used to assess the specific risk existing due to the ownership of securities (bonds, shares, certificates, etc.) and of derivatives which performance is directly related with the securities' value. With the necessary adjustments, this model follows the standard methodology defined in the CRD IV/CRR.

Other complementary methods are also applied to the remaining risk types, namely a non-linear risk measure that incorporates the option risk not covered by the VaR model, with a confidence interval of 99%, and a standardised approach for the commodities risk. These measures are integrated in the market risk indicator, with the conservative assumption of perfect correlation between the several risk types (worst-case scenario).

The amounts of capital at risk are thus determined, both on an individual basis, for each of the portfolio positions of the taking and managing risk areas, and in consolidated terms, considering the effects of diversification of the various portfolios.

In order to ensure that the internal VaR model is adequate to assess the risks involved in the positions held, there is a process of backtesting, carried out daily through which the VaR indicators are confronted with those that really occurred. This backtesting is made in a hypothetical manner (using the static portfolio for the estimation of the VaR and the market variations occurred in the meantime) and in a real manner (using the real result of the portfolio, writing off the intermediation results).

The interest rate risk derived from the operations of the Banking Book is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated Balance Sheet.

This analysis considers the financial characteristics of the contracts available at the Group management information systems. Based on these data, the respective projection of expected cash flows is carried out, according with the repricing dates and any prepayment assumptions considered.

The aggregation, for each of the currencies assessed, of the expected cash flows for each of the periods of time, allows the determination of the interest rate gaps by repricing period.

The sensitivity of each currency to the interest rate risk is determined by the difference between the present value of the interest rate mismatch, discounted at market interest rates, and the present value of the same cash flows arising from the simulation of parallel and non-parallel shifts of the yield curves.

Complementing the previous approach, the Bank monthly calculates the impact on net interest margin projected for the following 12 months, due to changes in market interest rates (NII method). For this purpose, all assets, liabilities and off-balance products that generate interest are considered and the calculation on interest cash flows is performed based on the repricing and amortisation characteristics of the products and on yield curves for 12 months projected in accordance

with the “cash and carry trade” and “non-arbitrage principle” methods. This exercise assumes a static balance for 12 months in which, for each amortisation, an exposure with the same maturity and proce features is generated.

The Group performs hedging operations with the market on a regular basis, aimed at reducing the interest rate mismatch of risk positions associated to the portfolio of the Commercial and Structural areas.

In the context of market risk management, in 2019, the Group continued its efforts to continually improve the market risk management framework, leading to the reinforcement of the control mechanisms of the assumptions of the internal model used (VaR - Value at risk), to the update of Risk Appetite for market risks, namely, in what concerns the revision of the limits established for the different areas, and to the revision and formalisation of internal manuals that accordingly define the operationalisation of market risks’ control.

Among its main responsibilities, the Risk Office's Market Risks Area is responsible for:

- Proposing and implementing market risks’ management policies and methodologies for their identification, measurement, limitation, monitoring, mitigation and reporting;
- Participating in the structural management of market risk, particularly in the planning processes, in ICAAP and Recovery Planning;
- Measuring, monitoring and reporting the risk positions and the results of stress test exercises, as well as compliance with the established internal limits, computing the capital requirements (or RWA) for market risks and ensure the calculation of the Credit Valuation Adjustment (CVA / DVA) for OTC derivatives;
- Modeling the market risk management system and ensure the respective updates as well as verify its operational implementation on the Bank's front-office platform;
- Reporting to the Executive Committee any excess over limits, as well as verifying the compliance with the required ratification and approval processes;
- Analysing the new products prior to their launching and the trading in new currencies;
- Defining and reporting the classification of financial instruments, in Level 1, Level 2 or Level 3, under the terms defined in terms of IFRS and ensure the calculation of impairment for the securities and financial holdings portfolio;
- Coordinating with the relevant Group entities the definition of the negotiation strategies, validating their compliance with the defined policy and limits.

On the other hand, the Market Risks Area acts independently – both organically and functionally - from all market risks taker, which ensures the autonomy of its management functions, oriented towards a risk profile in accordance with the Group's strategic goals.

2.3.4. OPERATIONAL RISK

Operational risk materialises in the occurrence of losses resulting from failures or inadequacies of internal processes, systems or people, or resulting from external events.

In the management of this type of risk, the Group adopts duly documented principles and practices, which are expressed in control mechanisms subject to continuous improvement. This framework has a variety of features, such as: functions segregation, definitions for lines of responsibility and respective authorisations, tolerance limits for exposures to risks, appropriate internal regulations’ framework (including ethical codes and codes of conduct), risks self-assessment (RSA) exercises, key risk indicators¹ (KRI), access controls (physical and logical), reconciliation activities, exception reports, loss events data capture, a structured process for new products approval, contingency plans, contracting of insurance (for the total or partial transfer of risk), follow-up of the Bank’s outsourcing contracts and internal training on processes, products and systems.

The operational risk management system adopts the 3 lines of defence model and is based on a structure of end-to-end processes, considering that a vision which is transversal to the functional units of the organisational structure is the most suitable approach for the perception of risks and to estimate the effects of the corrective measures introduced for their mitigation. Furthermore, this processes’ structure also underlies other strategic initiatives related to the management of this risk such as the actions to improve operating efficiency and the management of business continuity.

Hence, all the Group's subsidiaries have their own processes structure, which is periodically adjusted according to business

¹ The monitoring of the KRI metrics enables the identification of changes in the risk profile or in the efficiency of the controls, providing the detection of opportunities for the launching of corrective actions to prevent effective losses. This management tool is used for all processes of the main Group geographies.

evolution, in order to ensure suitable coverage of the business activities (or business support activities) developed.

The responsibility for the day-to-day management of operational risk lies with the 1st line of defence which is composed of process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective KRI, to perform the RSA exercises, as well as to identify and implement suitable actions to mitigate operational risk exposures, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment. The periodic review of the processes' structure in each geography is ensured by their own structure units.

The Risk management System represents the 2nd Line of Defence, which implements the defined risk policy for the Group, having the responsibility of proposing and developing methodologies for managing this risk, supervising its implementation and challenging the 1st Line of Defence regarding the levels of risks incurred.

The objective of the risks self-assessment (RSA) is to promote the identification and mitigation (or even elimination) of risks, actual or potential, within each process. Each risk is classified according to its positioning on a tolerance matrix, for three different scenarios, which allows for the: determination of the risk of the process without considering the existent controls (Inherent Risk); assessment of the risks exposure of the different processes, considering the influence of existing controls (Residual Risk); and identification of the impact of the improvement opportunities in the reduction of the most significant exposures (Target Risk).

The RSA exercises are based on workshops, attended by the Risk Office and with the participation of the process owners and process managers, or on questionnaires sent to the process owners for the updating of previous results, according to pre-defined updating criteria.

The process owners play a relevant role in promoting the data collection on losses occurring within the context of their processes, which are identified through the systematic monitoring of their activities, through notifications of any employee or through communications from organisational units, following costs authorizations concerning operational flaws. The Risk Office ensures the completeness of the database, notifying process owners about events that are not yet registered in the database by using information made available by other areas, such as accounting, complaints and insurance.

The main objective of data collection on operational loss events is to strengthen awareness of this type of risk and provide relevant information to the process owners, to be incorporated in the management of their processes, besides providing some feedback measure on the assessment made for each risk.

The identified operational losses are related to a process and risk and are registered in the Group's operational risk management IT application, being characterised by their respective process owners and process managers.

The full characterisation of an operational loss includes, in addition to the description of the respective cause-effect, its valuation and, when applicable, a description of the identified mitigation action (based on the analysis of the cause of loss) which was or will be implemented.

Each process has a set of identified KRI, the continuous monitoring of which allows to assess changes to the risk profile of the processes, thus trying to anticipate risk situations that have not yet materialised.

The consolidation of the loss data capture process at the different subsidiaries of the Group is evidenced by the evolution of its respective records in the database. Uniformity of criteria in data capture is ensured by the Group Risk Office, which analyses loss events data and promotes the circulation of information on the mitigation of events throughout all the geographical areas in which the Group operates.

The Risk Office integrates an Operational Risk Area that ensures the following activities:

- plan and carry out the annual Self Assessment exercise on operational risks in all Bank processes, together with the 1st and 3rd lines of defence;
- monitor and control the recording of operational losses in the event database, ensuring their completeness, quality and timeliness;
- monitor the risk indicators (KRI) and plan and carry out the Scenario Analysis exercise;
- promote the assessment of the operational risks in terms of IT, cybersecurity and outsourcing risks;
- propose operational risk mitigation actions and monitor their implementation together with the respective Process Owners;
- support the design of measures to remedy internal control weaknesses and monitor the implementation of the respective mitigation plans.

2.3.5. LIQUIDITY RISK

Liquidity risk is the potential inability of the Group to meet its liabilities concerning funding repayment without incurring

in significant losses, whether due to the deterioration of funding conditions (funding risk) or due to the sale of assets for amounts below market value (market liquidity risk).

The liquidity risk assessment is based on the regulatory framework, as well as on other internal indicators for which exposure limits have also been defined.

Regarding the evolution of the Group's structural liquidity, a number of indicators are included - such as the Loans-to-Deposits Ratio, the LCR (Liquidity Coverage Ratio) and the NSFR (Net Stable Funding Ratio) - as well as the available collateral eligible for discount at central banks. These indicators are regularly monitored and reported to the Bank's management bodies. Some of the liquidity indicators structure are metrics integrated in the Group's Risk Appetite Statement.

Liquidity risk management also includes the preparation of an annual liquidity plan defining the desired financing structure for the expected evolution of the Group's assets and liabilities, including a set of initiatives and an action plan to achieve the financing structure at both Group level and for the major subsidiaries and currencies. This plan is an integral part of the Group's planning process and is approved simultaneously with final budget approval.

At the same time, the Bank regularly monitors the evolution of the Group's liquidity position, with the identification of all factors that may justify the variations occurred. This analysis is submitted to the appraisal of the CALCO, aiming at making decisions that enable to maintain financing conditions suitable for the development of the activity. The control of the exposure to liquidity risk pertains to the Risk Commission.

The Risk Office has a Liquidity Risk Area that collaborates with the Treasury, Markets and International Department in the preparation of the Group's annual liquidity plan and which has the following responsibilities in managing liquidity risk:

- permanently monitor liquidity risk levels and promote the implementation of the respective control mechanisms;
- prepare limit proposals in the area of liquidity risks;
- coordinate the Group's ILAAP process;
- proceed with the design and performance of liquidity stress tests.

2.3.6. DEFINED BENEFIT PENSION FUND RISK

The defined benefit pension fund risk stems from the potential devaluation of the Bank's Defined Benefit Pension Fund, or from the decrease of its expected returns as well as from changes on the actuarial factors used on the fund projections, implying the necessity of unplanned contributions. The Pension Funds Risk Monitoring Commission is responsible for the regular monitoring and follow-up of this risk.

2.3.7. COMPLIANCE RISK

The compliance risk is materialized by the occurrence of financial losses (e.g. fines, fines, indemnities) or reputational damages resulting from non-compliance with laws, regulations or contractual commitments to which the Bank is obliged in its activity.

The Compliance Office's main mission is to promote the adoption of internal and external principles and rules that frame the Group's activity, and to ensure that all Group's entities comply with the legal and regulatory standards as well as with the contractual commitments and ethical values of the Group. The Compliance Office promotes the existence of a strong internal control culture, in order to contribute to the mitigation of the risk of imputation to the Group's entities of significant sanctions or damage to property or reputation.

In this context, compliance with the AML / CTF regulatory framework is particularly important, both in correspondence banking and trade finance operations involving jurisdictions classified as high risk, in the monitoring the financial and transactional behavior of the Bank's clients and in the risk analysis of new customers in the onboarding activity.

For AML / CTF risk control, the Bank has implemented in the central system a set of rules, procedures and operational criteria applied to customer processes and transactions that generate alerts to drive acceptance or refusal decisions, including refusal with report to competent authorities. In addition, the Bank monitors, through the exercise of due diligence procedures, the customers that were once participated to the authorities as well as all those that offer a higher AML / CTF risk, in accordance with the AML rating system implemented.

The Compliance Office also carries out the due diligence analysis of entities involved in credit operations, with a special focus on non-client entities or those in the beginning of a commercial relationship and ensures the updating and conformity of the information related to the identification data of Customers, representatives and beneficial owners, promoting their regularization whenever inconsistencies are detected.

Regarding the onboarding activity, simple or reinforce due diligence procedures, is carried out to new customers, deciding whether to continue or cancel account opening processes, through KYC (Know Your Customer) validation, existence of PEP

(Politically Exposed Persons), and other AML / CFT risk factors considered relevant, including the verification of the existence of sanctions or embargoes, or belonging to “black” lists published by international entities.

2.3.8. ENVIRONMENTAL AND SOCIAL RISKS

Considering the environmental risk in the context of the Banking system, the BCP Group is following the legal and regulatory initiatives related with the climate change as a systemic risk to the financial system (e.g. the Task Force on Climate Related Disclosures sponsored by the Financial Stability Board; the Principles for Responsible Banking promoted by the UN; or the Network for Greening the Financial System, bringing together an important number of central banks and supervisors). These initiatives aim to align the Banking system with the Paris Agreement (carbon neutrality) and with the 17 Sustainable Development Goals and are a challenge to the banking system, namely, to its culture, financial products, portfolio management and risk management function.

Changes will occur in micro prudential and supervisory work streams and on the macro-financial work stream for scaling up green finance. The Bank expects that these changes will be gradual in order not to create disruptive effects on the financing of economic activities, ensuring an appropriate transition period. The development of a scale for environmental impact with clear criteria and approved technical standards to be broadly and unequivocally implemented in the market, would be welcomed, in order to avoid a dichotomy “green” vs. “brown” enterprises, with disruptive effects on the financing of economic activities.

In what concerns the BCP Group, the Bank is an active partner in the task forces working on the environmental risk (among others, “APB – Associação Portuguesa de Bancos” Sustainable Finance Working Group and Task Force for Sustainable Taxonomy; “EBF – European Banking Federation” Sustainable Finance Working Group; Portuguese “Ministry of Environment” Sustainable Finance Think Tank; ISO/TC 322 – Sustainable Finance Portuguese Subcommittee)

In this context, the BCP Group guarantees a complete and combined offer of financial and continuous products and services, within the scope of the development of its responsible business lines, with the provision of products and services that incorporate social principles and respect for the environment and nature. It is also aware that the implementation of social and environmental standards and standards offers commercial offer translated into more effective risk management, reputation value and better quality of products and services made available to customers.

In 2019 the Bank has created the Sustainability Commission with the purpose to assist the Executive Committee in integrating the principles of Sustainability (Environmental, Social and Corporate Governance) in the decision and management processes of the Bank, to assess and approve the initiatives required to implement the actions defined to materialise the strategic axes of the Bank’s Sustainability Master Plan in force, as well as other changes or adaptations necessary to meet the defined objectives, and to follow-up and monitor the progress of the approved initiatives.

3. CAPITAL ADEQUACY

3.1. REGULATORY FRAMEWORK

On 26 June 2013, the European Parliament and the Council approved the Directive 2013/36/EU and the Regulation (EU) no. 575/2013 (Capital Requirements Directive IV / Capital Requirements Regulation – CRD IV/CRR), which established new and stricter capital requirements to credit institutions, with effects from 1 January 2014.

These stricter requirements result from a narrower definition of own funds and risk weighted assets, together with the establishment of minimum ratios, including a capital conservation buffer and additional Pillar 2 requirements.

Additionally, supervisory authorities may impose a capital buffer to systemically important institutions given their dimension, importance to the economy, business complexity or degree of interconnection with other institutions of the financial sector and, in the event of insolvency, the potential contagion of these institutions to the rest of the non-financial and financial sectors. The Group has been considered an O-SII (other systemically important institution) and is obliged to comply with an additional buffer.

It is also predicted a countercyclical buffer, which aims to ensure that the banking sector has enough capital to absorb the losses generated in macroeconomic downturn conjectures, especially after periods of excess credit expansion, and to moderate these movements, given that this buffer depends on a discretionary decision of the competent authorities, based on their assessment regarding the underlying risks of the evolution of credit aggregates. This buffer may vary between zero and 2.5% for each institution and the need to achieve the defined goals may also impose restrictions in terms of distributions that go against an adequate capital conservation level. Pursuant to a decision of 30 September 2019, Banco de Portugal, in the exercise of its powers as national macroprudential authority, decided that the countercyclical buffer rate to be in force in the fourth quarter of 2019 would remain unchanged at 0% of the total risk exposure amount.

The CRD IV/CRR also predicts the possibility of institutions to gradually accommodate the new requirements, both in terms of own funds and compliance with minimum capital ratios, over determined maximum transition periods.

On the scope of the Supervisory Review and Evaluation Process the minimum Own Funds requirements for 2019 were as follows:

TABLE 6 – MINIMUM CAPITAL REQUIREMENTS FROM SREP

	Minimum required Pillar 1	Additional requirements Pillar 2	Capital conservation buffer	O-SII capital buffer	Total
CET1	4,5%	2,25%	2,500%	0,375%	9,625%
T1	6,0%	2,25%	2,500%	0,375%	11,125%
Total	8,0%	2,25%	2,500%	0,375%	13,125%

The consolidated capital ratios, as of 31 December 2018 and 2019, were calculated applying methodologies based on Internal Rating Based Models (IRB) for the calculation of capital requirements for credit and counterparty risks, covering a substantial part of both its retail portfolio in Portugal and Poland, and its corporate portfolio in Portugal. The advanced method (internal model) was used for the coverage of trading portfolio's general market risk and for exchange rate risks generated in exposures in the perimeter centrally managed from Portugal, and the standard method was used for the purposes of operating risk coverage. The capital requirements of the other portfolios/geographies were calculated using the standardised approach.

3.2. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER OF 2018 AND 2019

Own funds, calculated according to the applicable regulatory norms, include tier 1 and tier 2. Tier 1 comprises common equity tier 1 (CET1) and additional tier 1 (AT1).

Common equity tier 1 includes:

- (i) paid-up capital, share premium, reserves and retained earnings (excluding the positive net income of the second half of 2019, unaudited at the reporting date) and non-controlling interests;
- (ii) and deductions related to own shares and loans given to finance the acquisition of Bank's shares, the shortfall of value adjustments and provisions to expected losses concerning exposures whose capital requirements for credit risk are calculated under the IRB approach and goodwill and other intangible assets.

Reserves and retained earnings are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, to the extent related to own credit risk. The minority interests are only eligible up to the amount of the capital requirements attributable to the minorities.

In addition, the deferred tax assets arising from unused tax losses are deducted, as well as the deferred tax assets arising from temporary differences relying on the future profitability and the interests held in financial institutions and insurers of at least 10%, in this case only in the amount that exceeds the thresholds of 10% and 15% of the common equity tier 1, when analysed on an individual and aggregated basis, respectively.

The additional value adjustments necessary for the prudent valuation requirements applied to all assets at fair value as well as the irrevocable payment commitments for the Deposits Guarantee Fund and the Single Resolution Fund, are also deducted.

Additional tier 1 comprises preference shares and other hybrid instruments that are compliant with CRR requirements and the minority interests related to minimum additional capital requirements of institutions that are not totally owned by the Group.

Tier 2 includes the subordinated debt that is compliant with the CRR requirements and the minority interests related to minimum total capital requirements of institutions that are not totally owned by the Group. Tier 2 instruments held in financial institutions and insurers of at least 10% are deducted.

The legislation in force stipulates a transitional period between the own funds calculated under national law until 31 December 2013, and the own funds estimated according to the EU law, to exclude some elements previously considered (phase-out) and to include new elements (phase-in). The transitional period for most of the elements lasted until the end of 2017, except for the deferred tax assets already recorded on the balance sheet of 1 January 2014, and the subordinated debt and all the hybrid instruments not eligible to the own funds, that have a longer period (until the end of 2023 and 2021, respectively).

With the IFRS9 introduction the Group has decided to gradually recognise the impacts, according to art^o 473^o-A of CRR.

By decision of the General Meeting of Shareholders the Bank decided to join the special regime applicable to the deferred tax assets.

The Bank has no restrictions applied to the own funds calculations, on the scope of the CRR article 437^o e).

The main aggregates of the consolidated own funds and own funds requirements, as of 31 December 2019 and 2018 as well as the respective capital ratios are shown in Table 7:

TABLE 7 - CAPITAL RATIO AND SUMMARY OF THE MAIN AGGREGATES

	(Thousand euros)			
	<i>Fully implemented</i>		<i>Phased-in</i>	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
OWN FUNDS				
Tier I	5,918,966	5,028,574	5,932,462	5,047,969
of which: Common Equity Tier I	5,415,326	4,949,684	5,428,513	4,974,060
Tier II	1,032,681	563,883	1,027,643	570,652
Total capital	6,951,648	5,592,457	6,960,105	5,618,621
RWA				
Credit risk and counterparty credit risk	39,468,942	36,882,826	39,528,525	36,946,914
Market risk	1,301,134	1,125,845	1,301,134	1,125,845
Operational risk	4,058,072	3,631,244	4,058,072	3,631,244
Credit Valuation Adjustments (CVA)	113,884	151,302	113,884	151,302
Total	44,942,031	41,791,217	45,001,614	41,855,305

CAPITAL RATIOS

Common Equity Tier I	12.0%	11.8%	12.1%	11.9%
Tier I	13.2%	12.0%	13.2%	12.1%
Total capital	15.5%	13.4%	15.5%	13.4%

Notes: December 2019 ratios do not include accumulated net income for the second half. The amounts and values of ratios presented in the 2019 Annual Report and Accounts differ from those presented in the table above given that, in the first case, the net positive results for the year were included.

The phased-in CET1 ratio, calculated according to our interpretation of the CRD IV/CRR and the current applicable prudential regulatory framework, stood at 12.1% as at 31 December 2019 and at 11.9% as at 31 December 2018, both above the respective minimum required thresholds.

The performance of the CET1 phased-in ratio in 2019 mainly reflects the following impacts:

- the second half 2018 positive net income inclusion, net of predictable dividends (+17 basis points in CET1 phased-in ratio);
- the phase-in progression along with the 2019 SREP, determined increases of CET1 by Euro 47 million and RWA by Euro 53 million as at 1 January 2019 (- 10 basis points in CET1 phased-in ratio);
- the acquisition of Euro Bank, S.A. by Bank Millennium in Poland, determined an increase of Euro 32 million in CET1 and of Euro 2,067 million in risk weighted assets (-49 basis points in CET1 phase-in ratio);
- the IFRS16 adoption decreased the RWA by Euro 256 million (- 7 basis points in CET1 phased-in ratio);
- The actuarial losses of the pension fund recognized in reserves, after tax, led to a decrease of Euro 389 million in the CET1 and Euro 148 million in the risk weighted assets (-89 basis points in CET1 phase-in ratio);
- the issuance of perpetual subordinated notes qualified as Additional Tier 1 (AT1), in the amount of Euro 400 million (+96 basis points in T1 phased-in ratio);
- the issuance, by Bank Millennium, S.A. in Poland, of subordinated bonds qualified as Tier 2 capital instruments, amounting 830 million zlotys (+10 basis points in Total ratio phased-in);
- the organic generation of capital, based on the positive net income in the first half 2019, also contributed to the positive performance of capital ratios on this period.

The amounts presented on the 2019 Annual Report differ from the ones obtained on this report due to the positive net income inclusion on the 2019 Annual Report amounts.

The following table presents the full reconciliation of own funds items to audited financial statements as at 31 December 2019 and 31 December 2018, according to the Commission Implementing Regulation (EU) No 1423/2013:

TABLE 8 - RECONCILIATION BETWEEN ACCOUNTING AND REGULATORY CAPITAL

		(Thousand euros)	
		31 Dec. 19	31 Dec. 18
1	Share capital	4 725 000	4 725 000
2	Own shares	-102	-74
3	Share premium	16 471	16 471
4	Preference shares		
5	Other capital instruments	400 000	2 922
6	Reserves and retained earnings	676 358	735 089
7	Net income for the period attributable to Shareholders	302 003	301 065
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		6 119 730	5 780 472
8	Non-controlling interests (minority interests)	1 225 870	1 131 043
TOTAL EQUITY		7 345 600	6 911 516
9	Own shares of CET1 not eligible instruments	-3 010	-3 915
10	Preference shares not eligible for CET1		
11	Other capital instruments not eligible for CET1	-400 000	-2 922
12	Subordinated debt fully subscribed by the Portuguese State eligible for CET1	-157 692	-150 422
13	Non-controlling interests not eligible for CET1	-476 700	-579 768
14	Other regulatory adjustments	-879 685	-1 200 428
COMMON EQUITY TIER 1 (CET1)		5 428 513	4 974 060
15	Subordinated debt	400 000	1 169
16	CET1 transferred adjustments	103 949	72 740
17	T2 transferred adjustments		
18	Other Adjustments		

Of which: Intangible assets		
Of which: Shortfall of impairment to expected loss		
Of which: Residual amounts of CET1 instruments of financial entities in which the institution has a significant investment		
Of which: Other		
TIER 1 (T1)	5 932 462	5 047 969
19 Subordinated debt	821 704	477 675
20 Non-controlling interests eligible for T2	264 739	151 777
21 Preference shares eligible for T2		
22 Adjustments with impact in T2, including national filters	-58 800	-58 800
23 Adjustments that are transferred for T1 for insufficient T2 instruments		
TIER 2 (T2)	1 027 643	570 652
OWN FUNDS	6 960 105	5 618 621

Table 9 shows BCP Group risk weighted assets as at 31/12/2019, 30/09/2019 and 31/12/2019.

TABLE 9 – TEMPLATE 4 / EU OV1 - OVERVIEW OF THE RISK WEIGHTED ASSETS (RWA)

	(Thousand euros)					
	RWA			Minimum capital requirements		
	31 Dec 19	30 Sep 19	31 Dec 18	31 Dec 19	30 Sep 19	31 Dec 18
CREDIT RISK (EXCLUDING CCR)	36 871 770	36 898 074	34 400 279	2 949 742	2 951 846	2 752 022
of which:						
Standardised Approach	12 934 834	12 956 820	10 299 053	1 034 787	1 036 546	823 924
Foundation IRB (FIRB) Approach						
Advanced IRB (AIRB) Approach	23 936 936	23 941 254	24 101 226	1 914 955	1 915 300	1 928 098
Equity under the Simple Risk-weighted Approach						
CCR	522 857	562 828	588 938	41 829	45 026	47 115
of which:						
Mark to Market	408 973	431 886	437 636	32 718	34 551	35 011
Original exposure						
Standardised Approach						
Internal Model Method (IMM)						
Risk exposure amount for contributions to the default fund of a CCP						
CVA	113 884	130 942	151 302	9 111	10 475	12 104
SETTLEMENT RISK						
SECURITISATION EXPOSURES IN THE BANKING BOOK (AFTER THE CAP)	258 666	270 092	284 073	20 693	21 607	22 726
of which:						
IRB Approach	1 874	1 886	1 946	150	151	156
IRB Supervisory Formula Approach (SFA)	256 791	268 206	282 127	20 543	21 456	22 570
Internal Assessment Approach (IAA)						
Standardised Approach						
MARKET RISK	1 301 134	1 274 727	1 125 845	104 091	101 978	90 068
of which:						
Standardised Approach	433 699	536 727	485 130	34 696	42 938	38 810
IMA	867 435	738 000	640 715	69 395	59 040	51 257
LARGE EXPOSURES						
OPERATIONAL RISK	4 058 072	3 889 986	3 631 244	324 646	311 199	290 500
of which:						
Basic Indicator Approach						
Standardised Approach	4 058 072	3 889 986	3 631 244	324 646	311 199	1 929 735
Advanced Measurement Approach						
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (subject to 250% risk weight)	1 989 116	2 012 009	1 824 927	159 129	160 961	145 994
Floor Adjustment						
TOTAL	45 001 614	44 907 715	41 855 305	3 600 129	3 592 617	3 348 424

The Group is no longer qualified as a financial conglomerate; therefore, the capital requirements were not assessed.

3.3. LEVERAGE RATIO ON 31 DECEMBER 2019

The calculation of the regulatory leverage ratio is specified in article 429 of the CRR, modified by the Delegated Act no. 62/2015 of 10 October 2014.

The leverage ratio is defined as the proportion of tier 1 capital (either in a phased-in or fully implemented mode) divided by the exposure measure, i.e. balance sheet and off-balance-sheet assets after certain value adjustments, related namely to intra-group exposures, to securities financing transactions (SFT's), to items deducted from the total capital ratio's numerator and off-balance-sheet items, to account for different risk profiles of each type of exposure (in SFT's and derivatives add-ons for future risks are considered while in off-balance sheet items different CCFs are considered according to the risk of the exposure).

The following table shows the values of the consolidated leverage ratio, on a phased-in basis, on 12/31/2019 and 12/31/2018:

TABLE 10 – LEVERAGE RATIO ON 31 DECEMBER 2019

		(Thousand euros)	
Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amount	
		31/12/2019	31/12/2018
1	Total assets as per published financial statements	81 648 408	75 933 421
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	7 485	-921
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013	0	0
4	Adjustments for derivative financial instruments	0	889 684
5	Adjustment for securities financing transactions (SFTs)	0	68 274
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	6 138 999	5 151 577
UE-6a	Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013	0	0
UE-6b	Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013	0	0
7	Other adjustments	-1 526 170	-1 487 078
8	Leverage ratio total exposure measure	86 268 722	80 554 958

		(Thousand euros)	
Leverage ratio common disclosure		CRR Leverage Ratio exposures	
		31/12/2019	31/12/2018
On-Balance Sheet Exposures (Excluding Derivatives, SFT and Fiduciary Assets)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	80 502 295	76 019 568
2	Asset amounts deducted in determining Tier 1 capital	-867 679	-974 059
3	Total of on-balance exposures (excluding derivatives, SFT and fiduciary assets) = sum of lines 1 and 2	79 634 616	75 045 509
Derivatives' exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	674 653	455 102
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	225 236	158 161
UE-5a	Exposure determined under the Original Exposure Method	0	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	-144 600	-152 810
8	Exempted CCP leg of client-cleared trade exposures	-310 497	-225 515
9	Adjusted effective notional amount of written credit derivatives	2 000	64 681
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	0	0
11	Total of derivatives exposures = sum of lines 4 to 10	446 792	299 620
SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	48 315	58 252
13	Netted amounts of cash payables and cash receivables of gross SFT assets		0

14	Counterparty credit risk exposure for SFT assets	0	0
UE-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0	0
15	Agent transaction exposures	0	0
UE-15a	Exempted CCP leg of client-cleared SFT exposure	0	0
16	Total of SFT exposures = sum of lines 12 to 15a	48 315	58 252
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	14 111 568	19 745 165
18	Adjustments for conversion to credit equivalent amounts	-7 972 569	-14 593 588
19	Total of other off-balance sheet exposures = sum of lines 17 and 18	6 138 999	5 151 577
Exempted exposures in accordance with article 429 (7) and (14) of regulation (EU) no 575/2013 (on and off-balance sheet)			
UE-19a	Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet)	0	0
UE-19b	Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet)	0	0
Own funds and total exposure measure			
20	Tier 1 capital	5 932 462	5 047 969
21	Leverage ratio total exposure measure	86 268 722	80 554 958
Leverage ratio			
22	Leverage ratio	6.9%	6.3%
Choice on transitional arrangements and amount of derecognised fiduciary items			
UE-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
UE-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0	0

(Thousand euros)

Breakdown of on-balance sheet exposures (excluding derivatives, SFT and exempted exposures)		CRR Leverage Ratio exposures	
		31/12/2019	31/12/2018
UE-1	Total on-balance sheet exposures (excluding derivatives, SFT, and exempted exposures), of which:	80 502 295	76 019 568
UE-2	Trading Book exposures	1 514 326	1 011 920
UE-3	Banking Book exposures, of which:	82 016 621	77 031 487
UE-4	Covered bonds	0	0
UE-5	Exposures treated as sovereigns	15 362 812	14 871 866
UE-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	1 030 095	862 573
UE-7	Institutions	1 218 177	1 154 359
UE-8	Secured by mortgages of immovable properties	26 537 506	24 775 718
UE-9	Retail exposures	10 929 257	7 839 203
UE-10	Corporate	13 865 421	12 734 056
UE-11	Exposures in default	3 482 108	4 988 319
UE-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	9 591 245	9 805 395

As of December 31, 2019, the value of the Group's leverage ratio, on a phased-in basis, was 6.9% (also 6.9% on a fully implemented basis), a value considerably higher than the reference minimum. In this way, and in accordance with the values presented, it is considered that the Group's position is comfortable.

Although the Bank does not face a situation of excessive leverage risk, considering the level of the leverage ratio as of 31/12/2019 and the defined prudential minimum, the regular monitoring of this ratio allows the management bodies to detect and take the measures considered appropriate to avoid the risk of a situation of excessive leverage.

Thus, the leverage ratio is monitored monthly in the scope of the Group's Risk Appetite Statement (RAS), which enables regular monitoring by management bodies and, if necessary, to undertake corrective actions.

3.4. EVENTS WITH A MATERIAL IMPACT ON OWN FUNDS AND CAPITAL REQUIREMENTS IN 2019

The main events with recognised or possible material impact on own funds and capital requirements in 2020 are related with:

I) SECOND HALF 2019 POSITIVE NET INCOME INCLUSION:

The second half 2019 positive net income inclusion, after the 2019 account approval, will generate an estimated increase of +17 basis points in both fully implemented and phased-in.

II) SREP MINIMUM REQUIREMENTS:

The Bank was informed of the European Central Bank's (ECB) decision regarding the minimum prudential requirements to be fulfilled from March 1st, 2020, based on the results of the Supervisory Review and Evaluation Process (SREP). In addition, BCP was informed by the Banco de Portugal on its capital buffer requirement as "other systemically important institution" (O-SII). These decisions define, concerning minimum own funds requirements, the following ratios, determined as a percentage of total risk weighted assets (RWA): 9.813% CET1, 11.313% T1 and 13.313% Total. In addition to the minimum requirements set by CRR article 92 these minimum own funds requirements include 2.25% of Pillar 2, 2.5% of additional conservation buffer and 0.563% of other systemically important institutions (O-SII) buffer.

III) PHASE-IN PROGRESSION:

The estimated impact on CET1 ratio, considering the application of the SREP result and the 2020 phase-in progression, stood at +4 basis points in fully implemented ratio and +2 basis points in phased-in ratio.

IV) ECB DECISION TO RELIEVE THE ECONOMIC EFFECTS OF THE WORLD PANDEMIC - COVID19:

In March 12, 2020, the European Central Bank announced to the banks a set of measures to be adopted in order to guarantee the continue financing of households and corporates experiencing temporary difficulties, due to the economic effects that are felt worldwide. The agreed supervisory measures aim to support banks in serving the economy and addressing operational challenges, including the pressure on their staff.

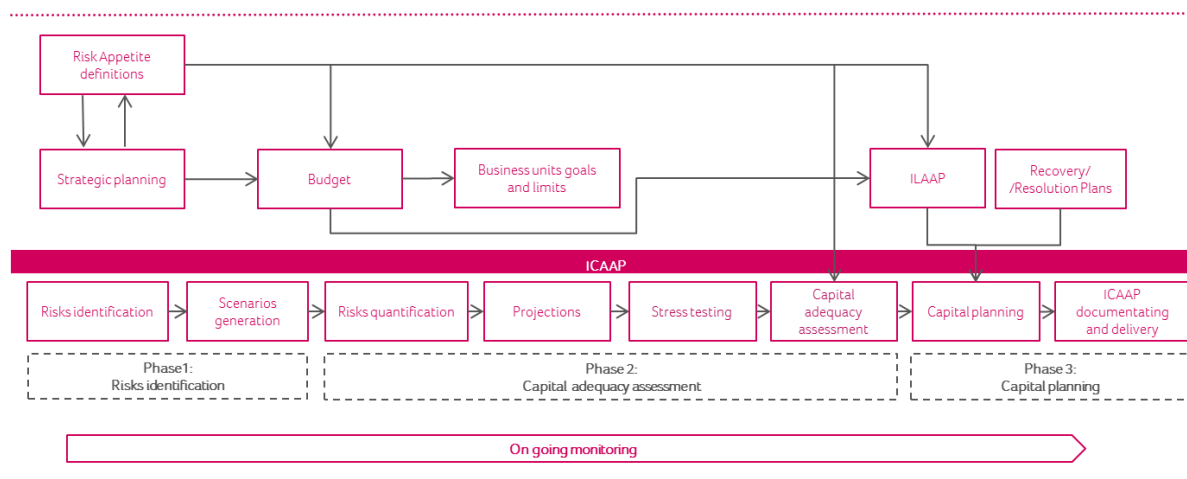
The capital buffers have been designed with a view to allowing banks to withstand stressed situations and since the European banking sector has built up a significant amount of these buffers, the ECB will allow banks to operate temporarily below the capital level defined by Pillar 2 Guidance (P2G) and the capital conservation buffer (CCB).

Banks will also be allowed to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example Additional Tier 1 or Tier 2 instruments, to meet the Pillar 2 Requirements (P2R). This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V).

Despite the above measures provide significant capital relief, the Bank does not currently have objective data to estimate the impacts of this crisis on its activity.

3.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The ICAAP (Internal Capital Adequacy Assessment Process), is a fundamental element of the BCP group risk management, consisting in the permanent assessment of the capital needs to adequately cover the risks in which the Group incurs by developing its business strategy, current and projected for the medium-term. The chart below summarizes the process at stake:



The ICAAP develops under an internal governance model that ensures the involvement of the BoD, of the Risk Assessment Committee (RAC), of the EC and of the Group's top management, along the various stages of the process.

The results of the ICAAP allow the Bank's management bodies – namely, the Board of Directors and the Executive Committee – to test if the Group's capitalisation is appropriate for the risks stemming from its activities and if the strategic plan and budget are sustainable in the medium term and comply with the risk limits defined in the Risk Appetite Statement (RAS) approved for the Group, allowing the Bank to anticipate possible situations of weakness and, if necessary, to develop active capital management policies in order to ensure the adequacy of both the solvency levels and the return on capital.

For this purpose, the ICAAP is rolled-out from a prospective vision of the impact estimates concerning the occurrence of risks over the Bank's capital (capital requirements), considering their scale or dimension, complexity, frequency, probability and materiality, against a background consisting of the medium term (3 years) projection for the developments of the Group's activities. In this process, impacts are estimated for a base scenario and stress scenario; the latter, with a severely negative evolution of macroeconomic indicators in order to test the Group's resilience and the adequacy of the capital levels to cover the risks to which its activity may become subject.

The ICAAP's first stage is the identification of the material risks to which the Group's activity is subject, which involves the Bank's management and the management from the main subsidiaries abroad. For this purpose, the Group uses a methodological approach based on an internal list of risks, covering more than 60 different risks, considering the relevancy of each one by taking into consideration its probability of occurrence and the magnitude of the impacts of its occurrence – either before or after the implementation of risk mitigation measures.

Besides all risks considered to be material, the Group integrates in the ICAAP all of Basel's Pillar I risks, even if these do not attain levels that are material, at Group level.

The result of this stage, in which the main Group subsidiaries are involved, is the list of material risks to be considered by the ICAAP, as well as supporting data for the definition of the variables to be considered for the establishment of the base and the stressed scenarios, mentioned ahead. The approval of the results of the risks identification process is a capacity attributed to the RAC.

In a second phase, the base and stressed scenarios that are the ICAAP's framework are defined taking into consideration the main geographies in which the Group develops its business. While the baseline scenario corresponds to the Group's view on the most probable evolution of the medium-term business constraints, the stress scenarios incorporate extreme conditions, with a low probability of occurrence and with a severe expected impact over the Group's activity. The approval of the scenarios to be considered in ICAAP is also a responsibility assigned to the RAC.

In the third stage, the impact of the risks identified is modelled for the reference date and the capital requirements are calculated for that date, under a regulatory and an economic perspective. A set of methodologies and internal models, formally approved and audited, is used for this purpose, considering a significance level in line with regulatory requirements (CRR or Solvency 2) and a time horizon of 1 year (which is lower for the trading portfolio, due to its business nature).

In the prospective component, scenarios for the projections of the Group's activities are considered with a medium-term time horizon (3 years): a baseline scenario – corresponding to the current vision of the Group's management – and adverse scenarios that severely penalise the macroeconomic indicators, in order to test the Group's resilience under extreme scenarios and if it has adequate capital levels to cover the risks to which its activity may be subject.

Some risks whose nature does not allow for the modeling of the impact on capital are incorporated by way of a capital add-on (risks considered as non-material), other through their impact on profits.

Within the ICAAP for 2020, the Group has considered the following risks (as materially relevant ones, after mitigation effects, or considered within the scope of Pillar I):

TABLE 11 – MATERIAL RISKS

Credit risk	Counterparty credit risk
	Default risk
	Issuer risk
	Securitisation risk
	Sovereign risk
Concentration risk	Geographic concentration
	Sectoral concentration
	Single-name concentration
Market risks	Non-traded market risk - FX rate risk BB
	Traded market risk
Business risks	Economic risk
	Strategy risk
	IT strategy risk
	Participations risk
	Process risk
Operational risk	ICT risk
	Legal and compliance risk
Interest rate risk (IRR)	Interest rate risk of the Banking Book (Gap risk)
Real Estate risk	Real Estate market risk
Other risks	Exposure to the insurance sector risk
	Resolution Fund risk
	Pension fund risk

These risks are modeled or incorporated into the Group's stress testing methodology framework, producing estimated impacts on capital levels both through the impact on operating results or through changes in the risk-weighted assets (RWA) levels.

Once the impacts of the various risks on the Group's operating account and balance sheet – in particular, over own funds – have been estimated, the Group is able to assess the adequacy of its risk-absorbing capacity against the expected profile for its activity.

The Group assumes a Risk-Taking Capacity aligned with the definition of regulatory capital ratios under Directive 2013/36/EU and Regulation (EU) 575/2013 ("CRD IV" and "CRR", respectively), based on the regulatory definition of CET1 Own Funds (Common Equity Tier 1).

In the ICAAP for December 31, 2019, a preliminary assessment of the effects of the Covid-19 crisis was incorporated considering, for a two-year horizon, the guidelines and expectations communicated by the ECB and macroeconomic scenarios developed by the Banco de Portugal (March 2020) and the authorities of Poland and Mozambique. To this end, the Bank considered in its projection's different assumptions regarding the economic effects of the pandemic, testing short and long-term scenarios of the Covid crisis¹⁹. Despite the uncertainty regarding the duration and impact of the pandemic, the simulations carried out point to the resilience of the Group's capital position to face a significant shock such as that experienced in the current situation.

On a quarterly basis, the Bank updates the quantification of ICAAP's main material risks, reporting the results to the Bank's management bodies. In case of significant changes in the Group's risk profile, the internal capital adequacy assessment model is fully processed.

4. CREDIT RISK

4.1. DEFINITIONS AND POLICIES FOR LOSSES AND PROVISIONING ASSESSMENT

Credit risk is associated with the potential losses and with the uncertainty concerning the expected returns due to the failure of the borrower – and of its guarantor, if there is one – or of the issuer of a security or of the counterparty of a contract in complying with their duties.

Past due loans, for accounting purposes, correspond to the global value of the credits and instalments due and not collected associated to credit agreements recognised in the balance sheet in any form whatsoever. Thus, all the credits (capital) that have not been settled 30 days after their maturity date are accounted in past due loans.

This framework also includes the capital instalments contractually foreseen for future periods but that, due to the non-payment of one of the instalments (of capital or of interests) may, in accordance with the law, be considered due and there are doubts on whether they will be paid.

A loan, including its components of principal, interest and expenses, is “non performing” whenever a previously established limit has been exceeded, whenever a contractual covenant has been breached or when an overdraft situation has occurred (with no previous approval and after its liquidation has been requested to the debtor). Materiality thresholds per client segment are defined for the monitoring of credit risk.

Since January 1, 2019, the credit impairment calculation process incorporates the general principles defined by IFRS 9 and the guidelines issued by Banco de Portugal through Circular Letter 2018/00000062.

For the purpose of impairment calculation, the expected losses of operations are determined according to the stage in which they are classified, according to the following criteria:

- Stage 1 - Contracts whose credit risk has not increased significantly since its initial recognition (except POCI)².
- Stage 2 - Contracts whose credit risk increased significantly from its initial recognition, but for which there is no objective evidence of impairment.
- Stage 3 - Contracts with objective signs of impairment.

The following situations are considered ‘objective signs of impairment’:

- Clients that are ‘in default’ (i.e., with an internal risk grade of 15 in the Bank’s Masterscale);
- Financial distress recognised in accordance to the answers provided by clients to a specific questionnaire to analyse signs of financial distress;
- 90-days past due loans, whenever these represent more than 20% of the global (on-balance) debt of a given debtor;
- 90-days past due loans in one or more contracts, for which the overall amount exceeds 500 euros, for non-Retail clients;
- 90-days past due loans in one or more contracts, for which the overall amount exceeds 200 euros, for Retail clients;
- Contracts restructured due to clients’ financial distress, past due for more than 30 days, when the past-due amount is greater than 200 euros.

Clients representing high risk and exposure for which objective signs of impairment exist (Stage 3) are submitted to individual impairment analysis.

That individual analysis is a regular process for the allocation of a recovery expectation concerning all of the exposures, as well as of a term expected for the recovery. The impairment amount for each client is based, essentially, in the prospects of repayment and repayment term, concerning monetary, financial or physical assets. This periodic process is based on the elements that are relevant for the impairment assessment, namely:

- Financial and economic data, based on the Client’s most recent accounting statements;
- Qualitative data that characterise the Client’s situation in what concerns the economic viability of the business;

² POCI: Purchased or Originated Credit Impaired; financial assets with objective evidence of impairment at the time of initial recognition.

- Projected cash-flows for clients that are analysed in a 'going concern' perspective;
- Creditworthiness track-record of the Client within the Bank and the financial system.

Collateral and guarantees data is of particular importance, especially in real estate companies and in cases for which economic viability is reduced ("gone concern" approach).

The Bank has a conservative approach towards the treatment of collateral, materialised in the use of haircuts, aiming at incorporating the assets' devaluation risk, the costs inherent to their selling and the maintenance costs and term that occur until the sale.

For each client, impairment is calculated as the difference between the respective exposure and the total of expected cash-flows for the various operations, discounted at the effective interest rate of each operation.

The credits that are not subject to individual impairment analysis are grouped, taking into consideration their risk features and impairment assessed is based on homogeneous populations (collective analysis), defined in accordance to the risk grade and the segment of clients.

For these cases, the following main parameters are used for impairment assessment:

- PD: Probability of Default ('1-year' for credits in Stage 1, 'lifetime' for credits in Stage 2);
- LGD: Loss Given Default;
- CCF: Credit Conversion Factor applicable to the undrawn off-balance amount.

These parameters are estimated through statistical internal models, including macro-economic adjustments in a forward-looking perspective. Those models are updated annually and submitted for appreciation to the Models' Validation and Monitoring Office.

The results of the impairment assessment process are duly registered in accounting terms.

In accordance with Banco de Portugal Circular Letter No. CC / 2017/00000020, the Bank has defined in its internal regulations a policy for the classification, derecognition and monitoring of credits considered uncollectible. The Bank recognizes a credit as written off to the balance sheet when it there are no reasonable expectations of its recovery in whole or in part. This registration occurs after all the recovery actions carried out have proved unsuccessful. Thus, when a credit reaches 100% impairment, its classification as uncollectible should be considered. However, even if a loan does not yet have 100% impairment, it can also be classified as uncollectible, if there are no expectations of recovery. In this case, impairment should be recognized for the remaining amount. In the case of credits that still have collateral, write-offs can only be made on the part not covered, if there is evidence of the uncollectibility of the excess on the value of the collateral and it is 100% covered by impairment. The credit uncollectibility decision is the responsibility of the Credit Decision Bodies, under the proposal of the recovery area responsible for the Client's management. As a rule, the removal of an uncollectible credit from the balance sheet is irreversible, so, if any amount related to these credits is recovered, the recovery amount is recognized as an income in the profit and loss account. Loans written off are recorded in off-balance sheet items when they are derecognised from the balance sheet and kept until the moment of the definitive extinguishment of the liabilities.

On each balance date, an evaluation of the objective evidence of impairment is made. A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment, resulting of one or more events that occurred after its initial recognition, such as: (i) for listed securities, a continued or significant price devaluation, and (ii) for unlisted securities, when that event (or events) has an impact in the financial asset, or group of financial assets, estimated future cash flow value that can be reasonably estimated. According to the Group's policies, 30% of devaluation of the fair value of a debt instrument is considered a significant devaluation and the one-year period is assumed as a continued devaluation of the fair value below acquisition cost.

If impairment is detected in a debt instrument classified as financial asset at fair value through other comprehensive income, the accumulated loss (measured as the difference between the acquisition cost and the fair value, excluding impairment losses previously recognised against results) is allocated to fair value changes and recognised in the results. If, in a subsequent period, the fair value of the debt instruments classified as financial assets at fair value through other comprehensive income increases and that increase may be objectively related with an event that occurred after the recognition of the impairment loss in the results, the impairment loss is reverted against results.

Finally, provisions are recognised when (i) the Group has a current liability (legal or deriving from practices or policies that imply the recognition of certain liabilities), (ii) it is likely that its payment is demanded and (iii) when a reliable estimation of the value of that liability can be made.

In cases where the discount effect is material, provisions are recorded, corresponding to the present value of expected future payments, discounted at a rate that reflects the risk associated with the liability.

The provisions are reviewed in the end of each reporting date and adjusted to show the better estimation, being reverted to results in the same proportion as unlikely payments. The provisions are derecognised by using them to pay the liabilities for which they have initially been made for or when the same are no longer required.

The conciliation of the general and specific credit risk adjustments, concerning exposures subject to impairment, is presented in Table 12.

TABLE 12 – TEMPLATE 16 / EU CR2-A – CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

31/12/2019	(Thousand euros)	
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
OPENING BALANCE IN 1 JULY	2 350 557	300 493
Increases due to amounts set aside for estimated loan losses during the period	296 058	35 403
Decreases due to amounts reversed for estimated loan losses during the period	-434 999	-3 661
Decreases due to amounts taken against accumulated credit risk adjustments	-75 481	-44 132
Transfers between credit risk adjustments	-15 972	15 972
Impact of exchange rate differences		
Business combinations including acquisitions and disposals of subsidiaries		
Other adjustments	8 250	608
CLOSING BALANCE IN 31 DECEMBER	2 128 413	304 683
Recoveries on credit risk adjustments recorded directly to the statement of profit and loss	12 060	
Specific credit risk adjustments directly recorded to the statement of profit and loss		

30/06/2019	(Thousand euros)	
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
OPENING BALANCE IN 1 JANUARY	2 615 761	284 594
Increases due to amounts set aside for estimated loan losses during the period	338 577	60 769
Decreases due to amounts reversed for estimated loan losses during the period	-520 182	-613
Decreases due to amounts taken against accumulated credit risk adjustments	-73 095	-54 760
Transfers between credit risk adjustments	-10 503	10 503
Impact of exchange rate differences		
Business combinations including acquisitions and disposals of subsidiaries		
Other adjustments		
CLOSING BALANCE IN 30 JUNE	2 350 557	300 493
Recoveries on credit risk adjustments recorded directly to the statement of profit and loss	-12 209	
Specific credit risk adjustments directly recorded to the statement of profit and loss		

The changes in the stock of defaulted and impaired loans and debt securities is shown in table 13.

TABLE 13 – TEMPLATE 17 / EU CR2-B - CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS AND DEBT SECURITIES

	(Milhares de euros)	
	Gross carrying value of defaulted exposures	
	Dec 19	Jun 19
OPENING BALANCE ^(a)	5 025 874	5 641 684
Loans and debt securities that have defaulted or impaired since the last reporting period	426 067	358 180
Returned to non-defaulted status	-276 212	-321 035
Amounts written off	-297 402	-415 330
Other changes	-660 625	-237 625
CLOSING BALANCE ^{(a)(b)}	4 217 702	5 025 874

^(a) 31/12/2018 for Jun 2019; 30/06/2019 for Dec 2019

^(b) 30/06/2019 for Jun 2019; 31/12/2019 for Dec 2019

4.2. CREDIT QUALITY

The following tables present the breakdown of both on-balance and off-balance sheet items' credit quality, excluding counterparty credit positions (except in the Table 21).

TABLE 14 - TEMPLATE 11 / EU CR1-A – CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

31/12/2019	(Thousand euros)						
	a	b	c	d	e	f	g
	Gross carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Corporates	2 333 177	14 896 524		1 622 809			15 606 892
Retail	1 036 173	30 041 759		325 456			30 752 476
Equity		1 420 647		25 033			1 395 614
TOTAL IRB APPROACH	3 369 350	46 358 931		1 973 299			47 754 983
Central Governments or Central Banks		15 679 201		1 359			15 677 842
Regional Governments or Local Authorities		818 986		1 243			817 743
Public Sector Entities		301 479		377			301 102
Multilateral Development Banks		41 422					41 422
International Organisations							
Institutions		2 704 246		1 402			2 702 844
Corporates		9 681 595		109 661			9 571 935
Retail		5 538 957		60 215			5 478 742
Secured by mortgages on immovable property		2 274 469		14 746			2 259 723
Exposures in default	843 397			341 890			501 508
Items associated with particularly high risk		1 521		8			1 514
Covered bonds							
Claims on institutions and corporates with a short-term credit assessment							
Collective Investments Undertakings		155 294					155 294
Equity exposures		38 652					38 652
Other exposures							
TOTAL STANDARDISED APPROACH	843 397	37 235 822		530 900			37 548 319
TOTAL	4 212 748	83 594 753		2 504 199			85 303 301

30/06/2019

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Corporates	3 018 366	14 140 322		1 884 697			15 273 991
Retail	1 303 187	28 607 023		411 005			29 499 205
Equity		1 538 071		70 435			1 467 635
TOTAL IRB APPROACH	4 321 553	44 285 415		2 366 137			46 240 832
Central Governments or Central Banks		15 043 593		3 280			15 040 313
Regional Governments or Local Authorities		976 884		1 282			975 602
Public Sector Entities		146 252		456			145 796
Multilateral Development Banks		19 111					19 111
International Organisations							
Institutions		2 760 903		1 390			2 759 512
Corporates		9 225 661		58 734			9 166 927
Retail		5 236 879		52 769			5 184 111
Secured by mortgages on immovable property		2 681 885		21 072			2 660 814
Exposures in default	790 003			280 845			509 158
Items associated with particularly high risk							
Covered bonds							
Claims on institutions and corporates with a short-term credit assessment							
Collective Investments Undertakings		184 246					184 246
Equity exposures		34 398					34 398
Other exposures							
TOTAL STANDARDISED APPROACH	790 003	36 309 813		419 828			36 679 988
TOTAL	5 111 556	80 595 228		2 785 965			82 920 820

TABLE 15 - TEMPLATE 12 / EU CR1-B – CREDIT QUALITY OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES

31/12/2019

(Milhares de euros)

	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Mortgage credit	690 086	24 288 180		150 486			24 827 781
Services	588 864	9 642 459		341 999			9 889 324
Consumer credit	1 241 217	13 423 248		1 023 855			13 640 610

Construction	618 986	2 039 686	293 825	2 364 847
Other activities - national	533 374	21 273 941	307 823	21 499 492
Other activities - international		320	1	319
Wholesale business	93 459	1 887 518	75 549	1 905 427
Other	446 762	9 424 806	285 628	9 585 940
TOTAL	4 212 748	81 980 159	2 479 166	83 713 741

30/06/2019

(Milhares de euros)

	a	b	c	d	e	f	g
	Gross carrying values of						
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
Mortgage credit	910 566	24 005 930		193 098			24 723 399
Services	556 486	8 797 420		305 996			9 047 910
Consumer credit	1 514 908	12 871 443		1 070 444			13 315 907
Construction	923 637	2 268 546		448 241			2 743 942
Other activities - national	439 054	15 856 901		227 175			16 068 780
Other activities - international		204		0			204
Wholesale business	138 960	2 789 206		96 978			2 831 188
Other	627 947	12 248 863		373 598			12 503 212
TOTAL	5 111 556	78 838 513		2 715 529			81 234 540

TABLE 16 - TEMPLATE 13 / EU CR1-C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY**31/12/2019**

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values of						
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
Portugal	3 306 423	54 504 793		1 972 288			55 838 928
Poland	766 727	24 540 636		422 752			24 884 611
Mozambique and other	139 598	2 934 730		84 126			2 990 202
TOTAL	4 212 748	81 980 159		2 479 166			83 713 741

30/06/2019

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values of						
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
Portugal	4 290 743	52 674 991		2 257 009			54 708 725
Poland	699 554	23 443 461		389 731			23 753 284
Mozambique and other	121 260	2 720 062		68 790			2 772 532
TOTAL	5 111 556	78 838 513		2 715 529			81 234 540

TABLE 17 - TEMPLATE 1 - EBA/GL/2018/10 – CREDIT QUALITY OF FORBORNE EXPOSURES

(Thousand euros)

	Dec 2019							
	a	b	c	d	e	f	g	h
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne		Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted					
1.Loans and advances	950,334	2,142,154	1,964,853	2,074,402	-28,640	-1,148,405	1,582,048	808,659
2. Central banks								
3. General governments	72,550				-1,484		60,941	
4. Credit institutions								
5. Other financial corporations	65,928	290,163	287,461	290,163	-1,547	-197,101	149,549	93,056
6. Non-financial corporations	410,914	1,317,809	1,216,950	1,317,779	-21,297	-828,962	776,916	446,021
7. Households	400,942	534,181	460,441	466,460	-4,312	-122,342	594,641	269,582
8. Debt securities	9,216				-36		9,181	
9. Loan commitments given	1,047	893	893	893	3	84		
TOTAL	960,597	2,143,047	1,965,745	2,075,295	-28,673	-1,148,321	1,591,229	808,659

TABLE 18 - TEMPLATE 2 - EBA/GL/2018/10 – QUALITY OF FORBEARANCE

(Thousand euros)

	Dec 2019
	a
	Gross carrying amount of forborne exposures
Loans and advances that have been forborne more than twice	650 247
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	71 279

TABLE 19 - TEMPLATE 3 - EBA/GL/2018/10 – CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

(Thousand euros)

	Dec 2019											
	a	b	c	d	e	f	g	h	i	j	k	l
	Montante escriturado bruto / Montante nominal											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days and ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1.Loans and advances	49,329,535	49,192,277	137,258	4,206,158	1,978,933	220,514	357,084	295,748	990,264	177,034	186,581	3,886,120
2.Central Banks	0	0										
3.General governments	1,177,328	1,177,328	0	72	71	0	0	0	0	1		1
4.Credit institutions	921,810	921,810	0									
5.Other financial corporations	656,002	655,993	9	447,461	193,534	2,788	31,435	33,199	180,812	5,635	58	372,232
6.Non-financial corporations	15,181,697	15,161,704	19,993	2,419,786	1,202,127	74,217	201,204	135,493	617,770	116,830	72,145	2,263,915
7.Of which SME	11,641,552	11,621,997	19,555	1,406,367	874,834	67,576	136,374	117,485	154,495	21,638	33,965	1,288,977
8.Households	31,392,698	31,275,442	117,256	1,338,839	583,202	143,508	124,445	127,055	191,682	54,568	114,378	1,249,971
9.Debt securities	17,768,244	17,768,244		94,143	94,103				40			94,143
10. Central banks	759,829	759,829										
11. General governments	12,202,538	12,202,538										
12.Credit institutions	106,340	106,340										
13.Other financial corporations	1,743,159	1,743,159		7,750	7,750							7,750
14.Non-financial corporations	2,956,378	2,956,378		86,393	86,353				40			86,393
15.Off-balance sheet exposures	13,815,937			484,029								394,720
16. Central banks												
17. General governments	55,157			20								
18.Credit institutions	810,944											
19.Other financial corporations	454,876			16,329								4,240
20.Non-financial corporations	9,803,078			454,784								378,565
21.Households	2,691,881			12,897								11,915
TOTAL	80,913,716	66,960,521	137,258	4,784,330	2,073,036	220,514	357,084	295,748	990,303	177,034	186,581	4,374,983

TABLE 20 - TEMPLATE 4 - EBA/GL/2018/10 – PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

(Thousand euros)

	Dec 2019														
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
1.Loans and advances	49,329,535	41,759,574	7,223,595	4,206,158	15,006	4,058,330	-284,600	-103,959	-180,641	-2,144,449	-1,379	-2,117,756		33,989,287	1,514,479
2.Central Banks	0	0													
3.General governments	1,177,328	837,875	339,452	72	0	72	-3,938	-250	-3,688	-1	0	-1		440,937	
4.Credit institutions	921,810	890,588	31,222				-1,278	-157	-1,121					30,952	
5. Other financial corporations	656,002	478,014	177,987	447,461	0	447,461	-4,795	-865	-3,929	-334,833	0	-334,833		469,234	112,077
6.Non-financial corporations	15,181,697	11,852,225	3,324,708	2,419,786	156	2,418,896	-171,221	-52,707	-118,513	-1,402,197	-44	-1,401,888		8,969,134	772,867
7. Of which SME	11,641,552	8,915,403	2,721,745	1,406,367	152	1,405,483	-135,515	-35,320	-100,195	-764,272	-43	-763,964		7,910,017	545,641
8. Households	31,392,698	27,700,872	3,350,226	1,338,839	14,849	1,191,902	-103,368	-49,979	-53,389	-407,417	-1,335	-381,034		24,079,030	629,536
9. Debt securities	17,768,244	3,100,566	74,515	94,143		9,549	-5,050	-4,669	-382	-77,391		-9,480		812,558	69
10. Central banks	759,829	444,504					-414	-414							
11. General governments	12,202,538	424,263					-1,502	-1,502							
12.Credit institutions	106,340														
13. Other financial corporations	1,743,159	281,308	5,000	7,750		7,750	-317	-316	-1	-7,750		-7,750		174,455	
14.Non-financial corporations	2,956,378	1,950,490	69,514	86,393		1,799	-2,817	-2,437	-381	-69,640		-1,730		638,104	69
15.Off-balance sheet exposures	13,815,937	12,040,535	1,775,401	484,029	597	483,015	-16,651	-10,330	-6,321	-99,909	-9	-99,897		2,408,684	231,884
16. Central banks															
17. General governments	55,157	46,720	8,437	20		20	-10	-7	-2					948	
18.Credit institutions	810,944	733,040	77,904				-71	-50	-21					70,507	
19. Other financial corporations	454,876	318,085	136,792	16,329		16,329	-295	-158	-137	-2,709		-2,709		72,283	9,401
20.Non-financial corporations	9,803,078	8,396,063	1,407,015	454,784	111	454,660	-12,612	-8,337	-4,275	-96,563	0	-96,563		2,159,639	219,833
21. Households	2,691,881	2,546,627	145,254	12,897	486	12,006	-3,663	-1,777	-1,886	-638	-9	-626		105,307	2,651
TOTAL	80,913,716	56,900,675	9,073,511	4,784,330	15,603	4,550,894	-306,301	-118,957	-187,344	-2,321,749	-1,388	-2,227,134		37,210,529	1,746,433

TABLE 21 - TEMPLATE 5 - EBA/GL/2018/10 – QUALITY OF NON-PERFORMING EXPOSURES BY GEOGRAPHY

(Thousand euros)

		Dec 2019					
		a	b	d	e	f	g
		Gross carrying/nominal amount			Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing	Of which subject to impairment			
1.	On balance exposures	77,250,145	4,300,301	74,387,893	-2,433,097		-78,393
2.	<i>Portugal</i>	47,228,960	3,031,812	45,881,632	-1,692,950		-66,735
3.	<i>Poland</i>	22,306,026	770,518	21,721,572	-443,641		-10,446
4.	<i>Mozambique and others</i>	7,715,159	497,971	6,784,690	-296,506		-1,212
5.	Off balance exposures	14,299,966	484,029			-116,560	
6.	<i>Portugal</i>	10,610,310	467,405			-101,721	
7.	<i>Poland</i>	2,693,625	10,017			-12,388	
8.	<i>Mozambique and others</i>	996,032	6,607			-2,451	
TOTAL		91,550,111	4,784,330	74,387,893	-2,433,097	-116,560	-78,393

TABLE 22 - TEMPLATE 6 - EBA/GL/2018/10 – CREDIT QUALITY OF LOANS AND ADVANCES BY INDUSTRY

(Thousand euros)

Dec 2019					
	a	b	d	e	f
		Gross carrying amount		Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing	Of which loans and advances subject to impairment		
1. Agriculture, forestry and fishing	314,286	16,120	314,265	-6,448	
2. Mining and quarrying	80,542	2,336	80,541	-1,985	
3. Manufacturing	3,495,234	238,292	3,494,155	-128,770	-22
4. Electricity, gas, steam and air conditioning supply	312,977	307	312,969	-2,571	-6
5. Water supply	187,526	15,466	187,500	-9,548	-2
6. Construction	1,673,727	420,679	1,673,407	-252,997	-15
7. Wholesale and retail trade	3,195,576	213,569	3,194,343	-142,648	-102
8. Transport and storage	1,269,351	53,457	1,268,796	-38,792	-42
9. Accommodation and food service activities	1,135,525	148,272	1,135,397	-84,009	-17
10. Information and communication	393,856	8,037	393,606	-7,810	-6
11. Financial and insurance activities					
12. Real estate activities	1,641,971	230,243	1,641,940	-109,832	
13. Professional, scientific and technical activities	1,133,853	251,525	1,133,461	-211,117	-17
14. Administrative and support service activities	546,454	87,680	545,856	-77,257	-24
15. Public administration and defence, compulsory social security	53,971	0	53,971	-24	
16. Education	123,657	20,306	123,560	-6,335	-2
17. Human health services and social work activities	270,877	4,978	270,765	-3,995	-1
18. Arts, entertainment and recreation	262,769	119,833	262,727	-66,606	0
19. Other services	1,509,332	588,686	1,509,123	-422,417	-4
20. TOTAL	17,601,482	2,419,786	17,596,382	-1,573,159	-259

TABLE 23 - TEMPLATE 7 - EBA/GL/2018/10 – COLLATERAL VALUATION – LOANS AND ADVANCES

(Thousand euros)

		Dec 2019											
		a	b	c	d	e	f	g	h	i	j	k	l
		Loans and advances											
			Performing			Unlikely to pay that are not past due or are past due ≤ 90 days		Of which past due ≥ 90 dias					
								Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years
1	Gross carrying amount	53,535,693	49,329,535	137,258	4,206,158	1,978,933	2,227,225	220,514	357,084	295,748	990,264	177,034	186,581
2	Of which secured	39,048,668	36,060,793	72,870	2,987,875	1,522,589	1,465,286	108,381	250,080	182,664	630,612	133,691	159,859
3	Of which secured with immovable property	30,885,470	28,793,442	66,588	2,092,029	1,201,820	890,208	78,880	133,420	137,555	293,415	128,210	118,729
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	9,732,344	9,479,633		252,711	160,459	92,252						
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	4,544,159	4,159,555		384,605	254,471	130,134						
6	Of which instruments with LTV higher than 100%	3,758,054	2,768,386		989,668	474,738	514,930						
7	Accumulated impairment for secured assets	-1,573,492	-145,466	-4,781	-1,428,027	-619,172	-808,855	-31,394	-165,129	-99,886	-418,602	-50,620	-43,223
8	Collateral												
9	Of which value capped at the value of exposure	30,865,975	29,523,652	62,513	1,342,323	785,487	556,836	63,408	71,219	74,262	204,370	55,390	88,188
10	Of which immovable property	28,888,765	27,720,738	61,870	1,168,027	722,158	445,869	61,864	67,831	73,086	111,956	46,308	84,823
11	Of which value above the cap	28,074,032	26,391,511	54,551	1,682,521	1,042,867	639,654	58,438	121,148	66,849	312,479	27,420	53,320
12	Of which immovable property	24,287,798	23,230,959	53,971	1,056,840	743,351	313,488	55,116	56,262	55,799	76,403	24,239	45,669
13	Financial guarantees received	4,637,791	4,465,634	5,050	172,157	78,980	93,177	12,709	12,401	7,492	5,838	27,230	27,506
14	Accumulated partial write-off												

TABLE 24 - TEMPLATE 8 - EBA/GL/2018/10 – CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

(Thousand euros)

		Dec 2019	
		a	b
		Gross carrying amount	Related net accumulated recoveries
1	Initial stock of non-performing loans and advances	5,548,123	
2	Inflows to non-performing portfolios	1,312,697	
3	Outflows from non-performing portfolios	2,654,662	
4	Outflow to performing portfolio	671,342	
5	Outflow due to loan repayment, partial or total	576,897	
6	Outflow due to collateral liquidation		
7	Outflow due to taking possession of collateral	202,011	
8	Outflow due to sale of instruments	464,388	
9	Outflow due to risk transfer		
10	Outflow due to write-off	638,704	
11	Outflow due to other situations	101,319	
12	Outflow due to reclassification as held for sale		
14	Final stock of non-performing loans and advances	4,206,158	

Flows of the year (net of segmentation adjustments)

The inflows of the year include EUR185 M associated with Eurobank (acquired in Jun 19)

TABLE 25 - TEMPLATE 9 - EBA/GL/2018/10 – COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

(Thousand euros)

		Dec 2019	
		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)		
2	Other than PP&E	1,086,281	-194,857
3	Residential immovable property	454,921	-74,564
4	Commercial Immovable property	617,470	-116,543
5	Movable property (auto, shipping, etc.)	13,890	-3,750
6	Equity and debt instruments		
7	Others		
8	TOTAL	1,086,281	-194,857

TABLE 26 - TEMPLATE 10 - EBA/GL/2018/10 – COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTIO PROCESSES – VINTAGE BREAKDOWN

(Thousand euros)

		Dec 2019											
		a	b	c	d	e	f	g	h	i	j	k	l
		Debt balance reduction		Total collateral obtained by taking possession									
		Gross carrying amount	Accumulated negative changes			Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed >5 years		Of which non-current assets held-for-sale	
				Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
1	Collateral obtained by taking possession classified as PP&E												
2	Collateral obtained by taking possession other than that classified as PP&E	1,296,558	-300,229	1,086,281	-194,857	302,092	-10,689	423,410	-56,405	360,779	-127,763	1,086,281	-194,857
3	Residential immovable property	542,569	-123,180	454,921	-74,564	162,928	-2,581	182,167	-23,823	109,826	-48,160	454,921	-74,564
4	Commercial immovable property	740,099	-173,299	617,470	-116,543	129,889	-8,086	236,797	-29,023	250,784	-79,434	617,470	-116,543
5	Movable property (auto, shipping, etc.)	13,890	-3,750	13,890	-3,750	9,275	-22	4,446	-3,559	169	-169	13,890	-3,750
6	Equity and debt instruments												
7	Others												
8	Total	1,296,558	-300,229	1,086,281	-194,857	302,092	-10,689	423,410	-56,405	360,779	-127,763	1,086,281	-194,857

4.3. CONCENTRATION RISK MANAGEMENT

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined by the Board of Directors and applies across the BCP Group.

The monitoring of the concentration risk and the follow-up of major risks is made, at Group level, based on the concept of "Economic Groups" and "Customer Groups" – sets of connected Customers (individual persons or companies), which represent a single entity from a credit risk perspective, such that if one of them is affected by financial problems, one or all of the others, will probably face difficulties to fulfil their debtor obligations. The Customer connections that originate a Customer group include the formal participation on the same economic group, the evidence that a direct or indirect control relationship exists, including the control by an individual Customer (criteria of capacity of control) of a company or the existence of a strong commercial interdependency or common sources of funding that cannot be replaced on a short term (criteria of economic dependency). The identification of connected clients is an integral part of the credit granting and monitoring processes of each entity.

For the control of credit concentration risk and limit the exposure to this risk, there are limits defined for exposures to Sovereign risk, Institutions (banks/financial institutions), large exposures (Corporate single-name exposures), geographic concentration (country risk) and exposure to sectors of activity.

These limits apply to the 'Net exposures'(*) at stake, relating either to a counterparty or a group of counterparties – cases for 1), 2) and 3) – or to the set of exposures to an activity sector or to a country (the counterparty country of residence) – cases for 4) and 5). The measurement of concentration on sovereign risks and of geographic concentration exclude the countries in which the Group operates (Portugal, Poland and Mozambique) and their respective Sovereigns.

Except for the exposure to sectors of activity, the concentration limits are established by taking into consideration the credit worthiness of the debtors at stake in what concerns their rating grades/probability of Default (PD) (internal or external ratings; country rating in the case of geographic concentration).

The concentration limits for Corporate single-name exposures apply only to non-NPE positions, since the NPE positions are covered by the NPE reduction Plan.

The limits in force as at 31 December 2019, for the exposure to Sovereigns, Institutions, Single-name and geographical (for a given Customer/Group of Customers in the second and third cases) are the following, in terms of the Net Exposure weight over the Consolidated Own Funds:

TABLE 27 – LIMITS FOR SINGLE NAME CONCENTRATION

Limit = Max. % of Net Exposure over the Consolidated Own Funds				
Risk quality	Risk grades	Sovereigns	Institutions	Countries (geog.)
1st Tier	1 - 3	25,0%	10,0%	40,0%
2nd Tier	4 - 6	10,0%	5,0%	20,0%
3rd Tier	7 - 12	7,5%	2,5%	10,0%

Risk quality	Risk grades	Single-name
High	1 - 5	7,0%
Average good	6 - 7	4,5%
Average low	8 - 9	3,0%
Low	10 - 11	0,7%
Restricted credit	12 - 13	0,3%

(*) Net exposure = EAD x LGD, assuming that PD=1 and considering LGD=45% whenever own estimates for LGD do not exist.

As at 31 December 2019:

- There were no exposure excesses to Sovereigns, Institutions or countries;
- There were 3 Economic Groups with net exposure above the established Single-name limits for their respective risk grade, the same number as by the end of 2018. For each client with an exposure excess a specific plan is prepared, aiming at reducing the exposure and bringing it within the established limits.

It should also be referred that the measurement of this concentration type is also done within the Group RAS (Risk Appetite Statement) scope.

In what concerns the limit for exposure to sectors of activity, in force on 12/31/2019, this is defined as a maximum of 40% per sector of activity, in terms of the weight of the Net Exposure for each sector of activity over the Own Funds of each Group Entity. As of 12/31/2019, there was no excess over this limit.

The Bank's management body and the Risk Assessment Committee are regularly informed on the evolution of the credit concentration risk metrics (against the mentioned limits) and on major risks, which are assessed by measuring the weights of the net exposure values in question in terms of the consolidated Own Funds level. For such measurements, the Risk Office uses a database on credit exposures (the Risk Office Datamart), monthly updated by the Group's systems, which also feeds a simulation tool for supporting the analysis of the impact on changes on the Customers exposures in the consumption of the respective concentration limits, used by the Credit Division within the scope of credit analysis for large clients.

4.4. CHARACTERISATION OF THE EXPOSURES

The exposures taken into consideration for the calculation of the own funds requirements for credit risk comprise the Banking Book exposures registered in the consolidated balance sheet and in off-balance sheet accounts related, namely, with loans and advances to customers, other loans and advances to credit institutions, investments in financial instruments, the ownership of other assets, the guarantees and commitments assumed and hedging derivatives. These exposures do not include those handled within the scope of the trading portfolio, but the ones related to securitisation are considered.

Total exposures, net of impairment and amortization, amounted to 85,303 million euros on December 31, 2019 and 78,333 million euros on December 31, 2018, with table 28 showing the breakdown of this amount by risk classes, defined in CRD IV / CRR.

TABLE 28 – TEMPLATE 7 / EU CRB-B – TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

31/12/2019			(Thousand euros)
	Net value of exposures at the end of the period	Average net exposures over the period	
Central Governments or Central Banks			
Institutions			
Corporates	15 606 892	15 253 444	
Of which: Specialised lending	1 196 612	1 313 519	
Retail	30 752 476	29 776 953	
Equity	1 395 614	1 468 311	
TOTAL IRB APPROACH	47 754 983	46 498 708	
Central Governments or Central Banks	15 677 842	15 342 330	
Regional Governments or Local Authorities	817 743	855 590	
Public Sector Entities	301 102	183 479	
Multilateral Development Banks	41 422	27 852	
Institutions	2 702 844	2 800 147	
Corporates	9 571 935	9 087 922	
Retail	5 478 742	4 516 005	
Secured by mortgages on immovable property	2 259 723	1 980 163	
Exposures in default	501 508	487 011	
Exposures related to high risks	1 514	1 514	
Collective Investments Undertakings	155 294	165 348	
Equity exposures	38 652	33 762	
TOTAL STANDARDISED APPROACH	37 548 319	35 481 122	
TOTAL	85 303 301	81 979 829	

31/12/2018			(Thousand euros)
	Net value of exposures at the end of the period	Average net exposures over the period	
Central Governments or Central Banks			
Institutions			
Corporates	14 978 972	15 043 233	
Of which: Specialised lending	1 397 315	1 487 673	
Retail	29 362 874	29 492 418	
Equity	1 488 206	741 661	
TOTAL IRB APPROACH	45 830 052	45 277 312	
Central Governments or Central Banks	15 177 658	12 655 452	
Regional Governments or Local Authorities	805 634	784 913	
Public Sector Entities	143 042	360 854	
Multilateral Development Banks	19 139	18 979	
Institutions	2 735 873	2 886 780	
Corporates	8 605 592	7 875 016	
Retail	3 136 846	2 589 867	
Secured by mortgages on immovable property	1 196 472	953 923	
Exposures in default	495 780	550 472	

Collective Investments Undertakings	157 476	147 840
Equity exposures	29 457	22 270
TOTAL STANDARDISED APPROACH	32 502 970	28 846 366
TOTAL	78 333 022	74 123 679

Table 29 provides the geographical distribution of the Group's original risk positions at the end of 2019 and 2018.

TABLE 29 – TEMPLATE 8 / EU CRB-C - GEOGRAPHICAL BREAKDOWN OF EXPOSURES

31/12/2019	(Thousand euros)			
	Portugal	Poland	Other	Total
Central Governments or Central Banks				
Institutions				
Corporates	14 571 519	8 931	1 026 443	15 606 892
Retail	22 044 674	6 916 431	1 791 372	30 752 476
Equity	1 348 795	46 819		1 395 614
TOTAL IRB APPROACH	37 964 988	6 972 180	2 817 815	47 754 983
Central Governments or Central Banks	8 347 923	5 432 475	1 897 444	15 677 842
Regional Governments or Local Authorities	749 035	67 825	883	817 743
Public Sector Entities	174 522	21 144	105 435	301 102
Multilateral Development Banks			41 422	41 422
Institutions	976 508	66 931	1 659 405	2 702 844
Corporates	3 992 672	4 767 823	811 439	9 571 935
Retail	355 070	4 825 050	298 622	5 478 742
Secured by mortgages on immovable property	71 283	1 855 163	333 276	2 259 723
Exposures in default	78 269	340 184	83 055	501 508
Exposures related to high risks			1 514	1 514
Collective Investment Undertakings	155 291		3	155 294
Equity exposures			38 652	38 652
TOTAL STANDARDISED APPROACH	14 900 573	17 376 596	5 271 150	37 548 319
TOTAL	52 865 561	24 348 776	8 088 964	85 303 301

31/12/2018	(Thousand euros)			
	Portugal	Poland	Other	Total
Central Governments or Central Banks				
Institutions				
Corporates	14 075 183	4 036	899 753	14 978 972
Retail	21 302 601	6 443 836	1 616 437	29 362 874
Equity	1 466 313	21 892		1 488 206
TOTAL IRB APPROACH	36 844 097	6 469 764	2 516 190	45 830 052
Central Governments or Central Banks	8 029 614	5 547 562	1 600 483	15 177 658
Regional Governments or Local Authorities	725 060	80 574	0	805 634
Public Sector Entities	105	24 675	118 263	143 042
Multilateral Development Banks			19 139	19 139
Institutions	1 006 822	58 578	1 670 474	2 735 873
Corporates	3 731 695	4 194 989	678 908	8 605 592
Retail	303 633	2 597 449	235 764	3 136 846
Secured by mortgages on immovable property	74 658	749 829	371 985	1 196 472
Exposures in default	121 243	269 432	105 104	495 780
Collective Investment Undertakings	157 474		2	157 476
Equity exposures			29 457	29 457
TOTAL STANDARDISED APPROACH	14 150 304	13 523 087	4 829 578	32 502 970
TOTAL	50 994 401	19 992 852	7 345 769	78 333 022

The sectoral distribution of the Group's original risk positions at the end of 2019 and 2018 is provided in the next Table.

TABLE 30 – TEMPLATE 9 / EU CRB-D - CONCENTRATION OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES

31/12/2019	(Thousand euros)								
	Mortgage credit	Services	Consumer credit	Construction	Other activities, national	Other activities, international	Wholesale business	Other	Total
Central Governments or Central Banks									
Institutions									
Corporates		6 234 924		1 724 859	849 554		1 067 594	5 729 961	15 606 892
Retail	23 668 854	366 776	5 030 921	265 685	235 031	36	224 189	960 985	30 752 476
Equity								1 395 614	1 395 614
TOTAL IRB APPROACH	23 668 854	6 601 700	5 030 921	1 990 544	1 084 585	36	1 291 782	8 086 560	47 754 983
Central Governments or Central Banks		4 243 630		1 000	10 789 388	234		643 590	15 677 842
Regional Governments or Local Authorities		664			809 595			7 484	817 743
Public Sector Entities		174 522			26 379		96 920	3 281	301 102
Multilateral Development Banks					41 422				41 422
International Organisations									
Institutions		2 012 664			690 179				2 702 844
Corporates		548 697		288 049	6 341 486	48	423 781	1 969 873	9 571 935
Retail		33 045	4 590 315	36 058	571 356	1	81 014	166 953	5 478 742
Secured by mortgages on immovable property	1 146 047	15 879	36 180	29 292	980 778		8 795	42 751	2 259 723
Exposures in default	12 880	8 664	231 908	19 903	163 955		3 136	61 063	501 508
Items associated with particularly high risk		1 144			370				1 514
Covered bonds									
Claims on institutions and corporates with a short-term credit assessment									
Collective Investment Undertakings								155 294	155 294
Equity exposures								38 652	38 652
Other exposures									
TOTAL STANDARDISED APPROACH	1 158 927	7 038 910	4 858 403	374 302	20 414 907	283	613 645	3 088 940	37 548 319
TOTAL	24 827 781	13 640 610	9 889 324	2 364 847	21 499 492	319	1 905 427	11 175 501	85 303 301

31/12/2018

(Thousand euros)

	Mortgage credit	Services	Consumer credit	Construction	Other activities, national	Other activities, international	Wholesale business	Other	Total
Central Governments or Central Banks									
Institutions									
Corporates		5 963 323		1 695 435	743 630		942 239	5 634 345	14 978 972
Retail	23 241 202	314 111	4 363 588	221 881	200 185	15	203 004	818 888	29 362 874
Equity								1 488 206	1 488 206
TOTAL IRB APPROACH	23 241 202	6 277 434	4 363 588	1 917 316	943 815	15	1 145 243	7 941 439	45 830 052
Central Governments or Central Banks		2 301 577		3 900	11 879 336	180		992 665	15 177 658
Regional Governments or Local Authorities		2 699			794 728			8 208	805 634
Public Sector Entities		105			42 683		96 349	3 906	143 042
Multilateral Development Banks					19 139				19 139
International Organisations									
Institutions		2 074 155			661 718				2 735 873
Corporates		405 181		240 196	5 676 613	67	387 352	1 896 183	8 605 592
Retail		24 317	2 347 716	27 181	521 219	0	72 296	144 116	3 136 846
Secured by mortgages on immovable property	18 146	32 927	112 702	5 554	952 580		26 568	47 995	1 196 472
Exposures in default	5 872	15 280	134 894	21 865	267 763		6 819	43 286	495 780
Items associated with particularly high risk									
Covered bonds									
Claims on institutions and corporates with a short-term credit assessment									
Collective Investment Undertakings								157 476	157 476
Equity exposures								29 457	29 457
Other exposures									
TOTAL STANDARDISED APPROACH	24 018	4 856 240	2 595 312	298 697	20 815 780	247	589 384	3 323 292	32 502 970
TOTAL	23 265 219	11 133 674	6 958 900	2 216 013	21 759 595	263	1 734 627	11 264 731	78 333 022

Table 31 provides the Group's original risk positions by residual maturity term at the end of 2019 and 2018.

TABLE 31 – TEMPLATE 10 / EU CRB-E - MATURITY OF EXPOSURES

31/12/2019 (Thousand euros)

	Term to maturity < 1 Y	1 Y < Term to maturity < 5 Y	5 Y < Term to maturity < 10 Y	Term to maturity > 10 Y	Total
Central Governments or Central Banks					
Institutions					
Corporates	6 937 629	3 742 872	3 026 624	1 899 767	15 606 892
Retail	2 083 321	4 054 643	2 533 646	22 080 867	30 752 476
Equity				1 395 614	1 395 614
TOTAL IRB APPROACH	9 020 950	7 797 515	5 560 270	25 376 248	47 754 983
Central Governments or Central Banks	5 961 966	7 508 619	2 137 818	69 438	15 677 842
Regional Governments or Local Authorities	109 218	122 826	547 481	38 218	817 743
Public Sector Entities	49 169	77 651		174 281	301 102
Multilateral Development Banks		19 226	22 196		41 422
International Organisations					
Institutions	1 602 466	318 896	769 065	12 417	2 702 844
Corporates	5 934 048	3 091 621	429 299	116 967	9 571 935
Retail	608 373	2 077 212	1 556 673	1 236 484	5 478 742
Secured by mortgages on immovable property	335 419	280 110	242 575	1 401 619	2 259 723
Exposures in default	259 914	113 603	88 980	39 012	501 508
Items associated with particularly high risk	1 467	47			1 514
Covered bonds					
Claims on institutions and corporates with a short-term credit assessment					
Collective Investment Undertakings				155 294	155 294
Equity exposures				38 652	38 652
Other exposures					
TOTAL STANDARDISED APPROACH	14 862 040	13 609 811	5 794 086	3 282 382	37 548 319
TOTAL	23 882 990	21 407 326	11 354 356	28 658 630	85 303 301

31/12/2018 (Thousand euros)

	Term to maturity < 1 Y	1 Y < Term to maturity < 5 Y	5 Y < Term to maturity < 10 Y	Term to maturity > 10 Y	Total
Central Governments or Central Banks					
Institutions					
Corporates	6 916 617	3 006 487	3 004 406	2 051 462	14 978 972
Retail	1 989 594	3 483 270	2 279 202	21 610 807	29 362 874
Equity				1 488 206	1 488 206
TOTAL IRB APPROACH	8 906 211	6 489 757	5 283 609	25 150 474	45 830 052
Central Governments or Central Banks	3 587 047	8 273 046	3 059 200	258 366	15 177 658
Regional Governments or Local Authorities	179 026	135 682	461 070	29 857	805 634
Public Sector Entities	37 576	101 467	2 692	1 308	143 042
Multilateral Development Banks		19 139			19 139
International Organisations					
Institutions	1 658 326	435 168	626 765	15 614	2 735 873
Corporates	5 045 743	3 054 737	423 001	82 111	8 605 592
Retail	438 332	1 326 080	684 262	688 172	3 136 846
Secured by mortgages on immovable property	263 879	352 997	215 307	364 288	1 196 472
Exposures in default	273 987	134 026	52 245	35 522	495 780

Items associated with particularly high risk

Covered bonds					
Claims on institutions and corporates with a short-term credit assessment					
Collective Investment Undertakings				157 476	157 476
Equity exposures				29 457	29 457
Other exposures					
TOTAL STANDARDISED APPROACH	11 483 916	13 832 340	5 524 543	1 662 171	32 502 970
TOTAL	20 390 127	20 322 098	10 808 152	26 812 645	78 333 022

4.5. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

4.5.1. FRAMEWORK OF THE APPROACHES USED

As at 31 December 2019 and 2018, the Group determined the own funds requirements for credit risk in accordance with the authorisations granted by the Supervisor for the approach to calculate risk weighted assets (RWA).

For the portfolio that, on those dates, fitted the standardised approach, the original exposures were classified in line with regulatory risk classes according to the nature of the counterparty, to which specific regulatory weights are applied after carrying out some adjustments – such as the ones related with provisions and value corrections, the ones due to the application of CCF, namely, in the case of off-balance sheet exposures, and those resulting from risk mitigation – thus finding the value of the risk weighed assets.

In the capital requirements calculation based on the standardised approach, the exposures are weighted according to the provisions of the CRR. In the risk class "Central Government and Central Banks", credit ratings of issuers or issues are used, provided they have been attributed by recognised credit rating agencies (ECAI – External Credit Assessment Institutions), for the purpose of determining the respective risk quality levels, as per which the corresponding risk weights are applied as defined by the CRR (no. 2 of article 114, Section 2, Chapter 2, Title II, Part III). Whenever the same issuer or issue has two or more risk evaluations, the second-best rating attributed is used. The credit rating of the issuer is applicable to all of its operations, whereas the rating for a specific issue is only considered for that same issue. The ECAI used by the Group were Standard & Poor's, Moody's and Fitch Ratings. Exposures of unrated clients are treated in accordance with no. 1 of article 114, Section 2, Chapter 2, Title II, Part III of the CRR.

Regarding the "Institutions" risk class, the risk weight of the exposures results from the existence of specific ratings and the exposures' terms-to-maturity or from the existence of the sovereign rating at stake and the exposures original term, as defined by articles 119 to 121 of the CRR.

Concerning the risk classes "Central Government and Central Banks" and "Institutions", in Portugal, the Group uses the standardised approach, pursuant to the conditions for permanent partial use of such approach, defined by article 150, Section 1, Chapter 3, Title II, Part III of the CRR.

On 31 December 2019 and 2018, according to the supervisory authorisations granted for the Group's activities in Portugal, the Bank used the internal ratings-based approach for the exposure classes "Corporates" and "Retail Exposures" (in both cases, with own LGD estimates), "Equity exposures" and "Items representing securitisation positions". Regarding the Corporates exposure class, the exposures treated under the simplified rating system were weighted using the standardised approach. From 31 December 2012, also, according to the supervisory authorisations granted for the Group's activities in Poland, the Bank used the internal ratings-based approach for "Retail Exposures" (with own LGD estimates), regarding the positions of individual clients guaranteed by residential real estate collateral and the retail renewable positions (QRRE – Qualified Retail Renewable Exposures).

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2019 and 2018 were estimated following the standardised approach.

Also, in Portugal:

- Risk weighted assets as at 31 December 2019 and 2018 for exposures to Customers that exceptionally did not receive an internal risk level were computed according to the standardised approach, considering a PD corresponding to risk grade 12 of the Group Master Scale;
- Within the Corporates risk class, the Bank used the standardised approach for a set of exposures to churches, sports clubs and other non-profit organisations, in accordance with the supervisory authorisation for a permanent partial use of this approach, for these cases.

4.5.2. IRB APPROACH – PARAMETERS AND GENERAL INFORMATION

In the IRB Approach, the weight of exposures to determine the value of risk weighted assets is based on the PD corresponding to the various internal risk ratings of the Customers, using internal rating systems and models, adequate for each Customers segment/sub-segment.

In addition, in this approach, the computation of the risk weighted assets also uses the internally estimated LGD as well as CCF factors on off-balance sheet exposures. On the IRB approach, the effect of the credit risk decrease by means of collaterals for credit exposures is incorporated into the estimate of the risk weighted assets through the LGD parameters.

The internal ratings are given based on the Rating Master Scale, common to all the rating systems and models used, presented in Table 32.

TABLE 32 - RATING MASTER SCALE

Risk grades	Minimum PD	Maximum PD	Description
1	0,01%	0,05%	Maximum security (only for sovereign risks)
2	0,05%	0,07%	Superior quality
3	0,07%	0,14%	Very high quality
4	0,14%	0,28%	High quality
5	0,28%	0,53%	Very good quality
6	0,53%	0,95%	Good quality
7	0,95%	1,73%	Medium/high quality
8	1,73%	2,92%	Medium quality
9	2,92%	4,67%	Medium/low quality
10	4,67%	7,00%	Low quality
11	7,00%	9,77%	Very low quality
12	9,77%	13,61%	Conditioned access to credit
13 ^(*)	13,61%	27,21%	Weak signs of impairment
14 ^(*)	27,21%	100,00%	Strong signs of impairment
15 ^(*)	100,00%	100,00%	<i>Default</i>

^(*) Processual risk grade; the presented values of maximum and minimum PD for RG 13 and 14 are indicative, being applied the observed PD.

The risk ratings attributed by the rating systems and models are valid for one year and are periodically revised/updated or whenever there are grounds to do so (e.g. requests for new loans or evidence of a decrease in the debtor's credit quality).

The Rating Division is responsible for risk ratings - a unit that is independent from the credit decision-making bodies and areas - even though most risk scores are granted by automatic decision-making models used for the debtors of the Retail exposure class.

All customers are rated, but the corresponding PD are only used to compute own funds requirements through the IRB Approach for exposures that fit the risk classes for which the Supervisor authorised the use of this approach.

The rating models included in the various rating systems are regularly subject to validation, carried out in 2019 by the validation unit of the Office for the Validation and Monitoring of Models (GAVM), integrated in the second line of defense, which is independent from the units that are responsible for the development and maintenance of rating models. In addition, GAVM's validation unit is also responsible for ensuring that the Group's Rating Master Scale is up-to-date and correct.

The conclusions of GAVM's validation, as well as its amendment/improvement recommendations and proposals, are analysed and ratified by a specific Validation Committee, whose composition varies according to the type of model analysed. The proposals to amend the models originated in the Validation Committees are submitted to the approval of the Risk Commission.

Besides its responsibilities regarding the PD models and the Rating Master Scale, GAVM is also responsible for validating the models used to estimate LGD and CCF parameters. Regarding these models, the Bank estimates them all based on the methods validated by the Supervisor within the scope of the process to approve the use of the IRB approach.

In terms of LGD parameters, the computation model used is based on the gathering and analysis of past data on credit risk losses, and all losses verified are computed and the various cash flows underlying credit recovery processes are discounted, including financial losses.

CCF are estimated based on the analysis of data on the use of credit lines and limits within the time frame of one year prior to the defaults.

It should be underlined that there is a model owner for each credit risk model - PD, LGD and CCF - responsible for:

- Ensuring compliance with the regulatory requirements for storing input and output data;
- Ensuring the adequacy of the model's documentation, including the development documentation, development samples and all the documents regarding changes to the model;

- Being the senior responsible in charge of all requests pertaining to the decision process based on the model;
- Changing the model whenever necessary;
- Ensuring the existence of monitoring processes;
- Ensuring the necessary support to the GAVM pursuant to the model validation work.

In addition, regarding the rating systems in which rating models are integrated, there is also a rating system owner, who is responsible for:

- Ensuring the necessary support to the GAVM within the scope of the analysis of the rating systems decision flow;
- Promoting the execution of changes to the rating system whenever necessary.

The next table shows the off-balance credit facilities' amounts and their use, weighted by using own estimates for CCF (in accordance with article 452 (iii) e) of the CRR):

TABLE 33 – CREDIT FACILITIES OUTSIDE OF THE BALANCE SHEET

31/12/2019 (Thousand euros)

	Original exposure		Exposure at risk		Risk weighted assets		% RWA	
	Non-used	Used	Non-used	Used	Non-used	Used	Non-used	Used
Corporate	9 749 205	18 366 694	4 173 641	17 755 704	3 151 201	13 891 398	75,5%	78,2%
Large Corporate	5 467 163	9 995 469	2 669 058	9 529 618	2 040 006	7 417 338	76,4%	77,8%
Small and medium Corporate	3 765 662	7 410 443	1 147 916	7 269 310	777 814	5 639 154	67,8%	77,6%
Specialised lending	516 379	960 782	356 666	956 777	333 381	834 906	93,5%	87,3%
Equity	83 842	1 865 754	83 842	1 865 754	148 917	3 526 903	177,6%	189,0%

31/12/2018 (Thousand euros)

	Original exposure		Exposure at risk		Risk weighted assets		% RWA	
	Non-used	Used	Non-used	Used	Non-used	Used	Non-used	Used
Corporate	8 749 124	18 298 686	3 540 680	17 740 427	2 589 523	13 210 432	73,1%	74,5%
Large Corporate	4 997 675	9 832 838	2 274 139	9 383 629	1 692 347	6 770 061	74,4%	72,1%
Small and medium Corporate	3 219 428	7 583 082	834 208	7 474 075	494 279	5 605 465	59,3%	75,0%
Specialised lending	532 020	882 767	432 333	882 722	402 897	834 906	93,2%	94,6%
Equity	97 159	1 982 552	97 159	1 982 552	175 158	3 670 415	180,3%	185,1%

In accordance with paragraphs h) and i) of Art. 452 of the CRR, it also refers that:

- In 2019, the relevant IRB portfolio parameters remained stable;
- The average effective downtime LGD (weighted by EAD) is 29% and the average CCF is 52%.
- The average PD (weighted by EAD) also decreased by 1.7% following favorable economic developments.

4.5.3. IRB APPROACH – “CORPORATES” RISK CLASS

In this risk class, the computation of own funds requirements using the IRB Approach is based on the weights resulting from the risk assessment made by the Project Finance rating system and on the PD that correspond to the risk ratings given by the Real Estate Promotion and the Corporates rating system.

In the first case, the Bank uses several rating models to grant risk scores (and the respective PD used to compute the applicable weights): Large, Mid and Small Corporate models, models for Holdings of Economic Groups and for Investment Holdings, models for Real Estate Promotion projects and companies (in both cases, with specific approaches to investment or development cases), Real Estate Investment Funds model and Small Real Estate Companies/Small Real Estate Projects models.

In the second case, the Bank uses the Project Finance rating model, which consists on the mapping between the scoring of a specific questionnaire and one of four possible classifications (besides the possibility of default) for the risks in question, which then define the weights to be used in the computation of risk weighted assets in accordance with no. 5 of article 153, Sub-Section 2, Section 2, Chapter 3, Title II, Part III of the CRR.

The risk grades attributed by these models result from two evaluation components: a quantitative component (economic-financial grade, based on the Customer's accounting data) and a qualitative component, based on an evaluation template. The risk grade resulting from these two components may be adjusted (upwards or downwards) by checking several situations that are typified and pre-defined in specific internal regulations.

Finally, if the rating analyst proposes an override to the Client's Integrated Rating, this must be approved by the Rating Committee, resulting in the Final Rating. However, the overrides are not frequent.

Table 34 summarises these rating models and systems:

TABLE 34 - CORPORATES RATING MODELS AND SYSTEMS

	Large Corporate Model: quantitative component (quantitative score, based on accounting data and taking into consideration the Client's activity sector) + qualitative component (based on expert judgment and following sectorial rating matrixes that incorporate the sectors' risk) + adjustments stemming from pre-defined situations (including those arising from the identification of "imminent risk" evidence) + Group adjustments.
Rating system for Corporates	Small and Mid Corporate Models: quantitative component (economic/financial grade based on accounting data and taking into consideration the Client's activity sector) + qualitative component (based on information gathered by the commercial area on specific templates for that purpose) + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.
	Business Model for Real Estate Development/Model for Investment Companies/Real Estate income: quantitative component (specific ratios, financial score, financial flexibility) + qualitative component (sector, management quality, assets/projects quality, market and competitiveness) + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.
	Model for Small Real Estate agents: quantitative component + qualitative component + adjustments stemming from pre-defined situations or from the identification of imminent risk evidence + adjustments stemming from economic group relations (e.g. parents vs. affiliates).
	Rating model for Project Finance: scoring of specific questionnaires on the financial strength, the politic and regulatory frameworks, other features of the operation, the ability of sponsors/shareholders and the package of collaterals.
Rating system for Projects	Model for Real Estate Promotion Projects for sale / Model for Real Estate Promotion Projects for income/Model for Real Estate Investment Funds: quantitative component (specific ratios, financial score, financial flexibility) + qualitative component (sector, management quality, assets/projects quality, market and competitiveness) + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.
	Model for small Real Estate Projects: quantitative component + qualitative component + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.

4.5.4. IRB APPROACH – “RETAIL PORTFOLIO” RISK CLASS

In this risk class, the risk weighted assets calculation by the IRB Approach is based on the PD that correspond to the risk scores given by the rating systems for Small Businesses and for Individuals.

In these rating systems, the attribution of risk scores is made using two types of automated decision models: (i) a behavioural model (TRIAD), based on the past financial data of the Customers at the Bank (executed by computer on a

monthly basis), which is complemented by (ii) acceptance scoring models, used whenever the behavioural model does not apply (new Customers for instance) and defined based on the credit product the Customer wants or on the products the Customer already has.

In the Small Businesses Rating System, the TRIAD model is composed by two assessment grids that allow the model to fit the evaluated Customer's profile. In this rating system, as mentioned before, risk scores may also be granted by an acceptance scoring model designed for the segment in question.

In the Individuals Rating System, the TRIAD model is composed by four assessment grids defined based on the products already owned by the Customer, and the complementary acceptance scoring models are defined based on the credit product the Customer wants or on the products the Customer already has.

The rating systems and models used by the Bank for the Retail Portfolio are broken down in Table 35:

TABLE 35 - RETAIL PORTFOLIO RATING MODELS AND SYSTEMS

Rating system for Small Business	TRIAD model - automatic decision based on Client financial behaviour and two scorecards (according to the Client profile).
	Application Scoring model for the Small Businesses (whenever TRIAD cannot be applied - e.g. new Clients).
Rating system for Individuals	TRIAD model - Automatic decision based on Client financial behaviour and four scorecards (according to the products already owned by the Client).
	Application Scoring model for Individuals (whenever TRIAD cannot be applied - e.g. new customers), for each intended product or for products already owned by the Client.

Table 36 shows the values related to PD Backtesting, by risk class, at the end of 2019 and 2018.

TABLE 36 - TEMPLATE 24 / EU CR9 - IRB METHOD - BACKTESTING OF PD PER EXPOSURE CLASS

31/12/2019								(Unidades)
Exposure class	PD range	Weighted average PD (%)	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which, new obligors	Average historical annual default rate 2017/2018
				End of previous year	End of the year			
1. CORPORATES	0 a <0,25	0.20%	0.18%	1,257	1,335			0.03%
	0,25 a <1	0.61%	0.55%	2,711	2,962	1		0.03%
	1 a <5	2.40%	2.32%	3,127	3,515	10		0.36%
	5 a <16	9.51%	9.76%	2,971	3,601	67		2.96%
	16 a <99	51.62%	49.66%	189	206	35	1	31.35%
	100	100.00%	100.00%	741	753	749	12	
1.1 Specialised lending	0 a <0,25							
	0,25 a <1	0.69%	0.68%	49	49			
	1 a <5	1.30%	1.30%	9	9			
	5 a <16	11.50%	11.50%	4	4			
	16 a <99							
	100	100.00%	100.00%	1	1	1		
1.2 SME	0 a <0,25	0.19%	0.18%	708	744			0.05%
	0,25 a <1	0.57%	0.55%	1,947	2,134			0.02%
	1 a <5	2.41%	2.30%	2,308	2,623	9		0.31%
	5 a <16	9.70%	9.86%	2,419	2,985	53		2.99%
	16 a <99	51.27%	49.39%	138	152	23	1	30.89%
	100	100.00%	100.00%	602	613	610	11	
2. RETAIL	0 a <0,25	0.13%	0.13%	866,164	1,005,518	609	31	0.06%
	0,25 a <1	0.52%	0.52%	444,843	524,239	1,864	72	0.37%
	1 a <5	2.22%	2.20%	293,103	355,260	4,065	85	1.35%
	5 a <16	9.29%	10.06%	253,075	353,109	13,088	286	5.35%
	16 a <99	33.54%	40.62%	18,587	20,975	6,941	129	38.68%
	100	100.00%	100.00%	53,509	55,779	54,504	2,270	
2.1 Secured by real estate	0 a <0,25	0.13%	0.12%	221,788	234,430	149	6	0.07%
	0,25 a <1	0.52%	0.52%	62,309	65,800	178	3	0.31%
	1 a <5	2.26%	2.27%	41,379	43,120	371	1	1.16%
	5 a <16	9.23%	9.25%	27,450	28,088	1,608	6	7.12%
	16 a <99	30.76%	30.08%	3,395	3,429	936	1	31.19%
	100	100.00%	100.00%	9,319	9,351	8,946	32	
2.1.1 SME	0 a <0,25	0.15%	0.15%	8,651	8,911	5		0.04%
	0,25 a <1	0.55%	0.55%	3,848	4,097	6		0.10%
	1 a <5	2.27%	2.23%	3,118	3,377	17		0.77%

	5 a <16	9.68%	9.83%	2,770	2,900	125		5.15%
	16 a <99	44.46%	44.61%	136	138	56		44.68%
	100	100.00%	100.00%	544	548	535	4	
2.1.2 Non-SME	0 a <0,25	0.12%	0.12%	213,137	225,519	144	6	0.07%
	0,25 a <1	0.52%	0.52%	58,461	61,703	172	3	0.32%
	1 a <5	2.25%	2.28%	38,261	39,743	354	1	1.20%
	5 a <16	9.17%	9.18%	24,680	25,188	1,483	6	7.34%
	16 a <99	29.89%	29.47%	3,259	3,291	880	1	30.67%
	100	100.00%	100.00%	8,775	8,803	8,411	28	
2.2 Qualifying Revolving	0 a <0,25	0.13%	0.13%	582,044	702,033	394	22	0.06%
	0,25 a <1	0.53%	0.52%	303,111	361,686	1,297	56	0.38%
	1 a <5	2.12%	2.19%	196,859	244,822	2,828	69	1.31%
	5 a <16	9.85%	10.21%	178,524	267,701	8,440	250	4.52%
	16 a <99	39.98%	41.95%	12,473	14,433	4,492	115	36.38%
	100	100.00%	100.00%	34,814	36,737	36,104	1,923	
2.3 Other Retail	0 a <0,25	0.16%	0.17%	62,332	69,055	66	3	0.10%
	0,25 a <1	0.52%	0.52%	79,423	96,753	389	13	0.41%
	1 a <5	2.14%	2.20%	54,865	67,318	866	15	1.58%
	5 a <16	9.38%	9.75%	47,101	57,320	3,040	30	7.25%
	16 a <99	46.41%	46.10%	2,719	3,113	1,513	13	59.23%
	100	100.00%	100.00%	9,376	9,691	9,454	315	
2.3.1 SME	0 a <0,25	0.16%	0.15%	28,869	32,680	7	1	0.03%
	0,25 a <1	0.53%	0.53%	18,692	23,678	51	1	0.18%
	1 a <5	2.12%	2.26%	13,223	18,524	125	1	0.90%
	5 a <16	10.05%	10.54%	18,295	25,344	614	14	3.88%
	16 a <99	49.59%	49.34%	648	739	260	8	48.06%
	100	100.00%	100.00%	2,080	2,208	2,167	128	
2.3.2 Non-SME	0 a <0,25	0.16%	0.18%	33,463	36,375	59	2	0.16%
	0,25 a <1	0.52%	0.52%	60,731	73,075	338	12	0.49%
	1 a <5	2.16%	2.18%	41,642	48,794	741	14	1.81%
	5 a <16	8.91%	9.12%	28,806	31,976	2,426	16	9.41%
	16 a <99	44.38%	45.09%	2,071	2,374	1,253	5	62.04%
	100	100.00%	100.00%	7,296	7,483	7,287	187	

31/12/2018

(Unidades)

Exposure class	PD range	Weighted average PD (%)	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which, new obligors	Average historical annual default rate 2017/2018
				End of previous year	End of the year			
1. CORPORATES	0 a <0,25	0,20%	0,18%	1 107	1 180	1		0,05%
	0,25 a <1	0,60%	0,55%	2 468	2 710	1		0,02%
	1 a <5	2,49%	2,31%	2 798	3 100	13		0,38%
	5 a <16	9,23%	9,89%	2 857	3 291	82	2	3,31%
	16 a <99	47,70%	48,13%	116	123	44		38,03%
	100	100,00%	100,00%	968	988	983	20	
1.1 Specialised lending	0 a <0,25							
	0,25 a <1	0,70%	0,67%	52	55			
	1 a <5	1,30%	1,30%	10	10			
	5 a <16	11,50%	10,43%	3	3			
	16 a <99							
	100	100,00%	100,00%	2	2	2		
1.2 SME	0 a <0,25	0,19%	0,18%	691	743	1		0,07%
	0,25 a <1	0,55%	0,55%	1 807	1 976	1		0,03%
	1 a <5	2,33%	2,28%	2 049	2 296	8		0,27%
	5 a <16	10,00%	10,06%	2 244	2 620	65	2	3,40%
	16 a <99	47,66%	47,43%	92	96	39		38,37%
	100	100,00%	100,00%	771	790	785	19	
2. RETAIL	0 a <0,25	0,13%	0,13%	834 930	900 716	440	12	0,06%
	0,25 a <1	0,52%	0,52%	415 052	474 727	1 446	18	0,36%
	1 a <5	2,24%	2,19%	281 994	327 572	3 676	62	1,34%
	5 a <16	9,34%	10,00%	243 861	313 492	12 135	280	5,49%
	16 a <99	33,00%	39,99%	18 972	21 941	7 398	35	39,70%
	100	100,00%	100,00%	76 423	78 085	76 951	1 662	
2.1 Secured by real estate	0 a <0,25	0,13%	0,12%	219 035	227 367	109		0,07%
	0,25 a <1	0,52%	0,52%	61 305	64 388	172	3	0,32%
	1 a <5	2,26%	2,28%	40 872	42 449	474	1	1,30%
	5 a <16	9,26%	9,31%	29 107	29 818	2 187	6	7,76%
	16 a <99	30,72%	29,73%	3 496	3 523	1 128		33,02%
	100	100,00%	100,00%	13 297	13 329	12 921	32	
2.1.1 SME	0 a <0,25	0,15%	0,15%	7 828	8 080	5		0,03%
	0,25 a <1	0,55%	0,54%	3 636	3 889	4	1	0,07%
	1 a <5	2,26%	2,23%	2 996	3 212	30		0,88%
	5 a <16	9,68%	9,92%	3 086	3 210	180	2	5,47%
	16 a <99	41,69%	44,21%	131	131	62		46,43%
	100	100,00%	100,00%	955	965	945	10	

2.1.2 Non-SME	0 a <0,25	0,12%	0,12%	211 207	219 287	104		0,07%
	0,25 a <1	0,52%	0,52%	57 669	60 499	168	2	0,34%
	1 a <5	2,27%	2,28%	37 876	39 237	444	1	1,33%
	5 a <16	9,21%	9,24%	26 021	26 608	2 007	4	8,02%
	16 a <99	30,34%	29,17%	3 365	3 392	1 066		32,52%
2.2 Qualifying Revolving	100	100,00%	100,00%	12 342	12 364	11 976	22	
	0 a <0,25	0,13%	0,13%	559 176	612 140	280	11	0,05%
	0,25 a <1	0,53%	0,52%	283 890	329 124	1 003	8	0,36%
	1 a <5	2,10%	2,17%	189 505	225 541	2 405	41	1,27%
	5 a <16	9,74%	10,14%	169 707	231 066	6 669	210	4,49%
2.3 Other Retail	16 a <99	39,93%	41,21%	12 904	15 514	4 690	25	37,03%
	100	100,00%	100,00%	45 941	47 241	46 802	1 300	
	0 a <0,25	0,16%	0,16%	56 719	61 209	51	1	0,09%
	0,25 a <1	0,52%	0,53%	69 857	81 215	271	7	0,38%
	1 a <5	2,18%	2,20%	51 617	59 582	797	20	1,60%
2.3.1 SME	5 a <16	9,62%	9,79%	45 047	52 608	3 279	64	7,68%
	16 a <99	46,19%	45,94%	2 572	2 904	1 580	10	61,26%
	100	100,00%	100,00%	17 185	17 515	17 228	330	
	0 a <0,25	0,16%	0,15%	26 122	28 488	16	1	0,03%
	0,25 a <1	0,54%	0,53%	16 921	20 243	22	2	0,14%
2.3.2 Non-SME	1 a <5	2,14%	2,24%	12 337	15 549	106	3	0,89%
	5 a <16	10,12%	10,54%	17 312	22 345	726	45	4,18%
	16 a <99	49,10%	48,89%	426	597	220	3	52,65%
	100	100,00%	100,00%	3 385	3 571	3 524	186	
	0 a <0,25	0,16%	0,17%	30 597	32 721	35		0,16%
	0,25 a <1	0,52%	0,52%	52 936	60 972	249	5	0,47%
	1 a <5	2,21%	2,19%	39 280	44 033	691	17	1,84%
	5 a <16	9,26%	9,23%	27 735	30 263	2 553	19	9,94%
	16 a <99	44,23%	45,18%	2 146	2 307	1 360	7	62,93%
	100	100,00%	100,00%	13 800	13 944	13 704	144	

The figures for the risk positions of portfolios treated by the IRB approach, with reference to 31 December and 30 June 2019 are presented in the following 37 to 40, which reflect the different risk classes of the portfolios – Corporate, retail, Specialised Lending and Equity.

TABLE 37 – TEMPLATE 21 / EU CR6 (I) – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE - CORPORATES

31/12/2019

(Thousand euros, Units)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
CORPORATE	0,01% a 0,05%												
	0,05% a 0,07%	0	5 154	0,09%	4 393	0,05%	21	42,26%	371	495	11,3%	1	
	0,07% a 0,14%	6	8 631	50,17%	4 336	0,10%	104	42,26%	1 274	1 593	36,7%	2	
	0,14% a 0,28%	952 090	745 321	83,53%	1 577 673	0,20%	453	37,51%	689	511 992	32,5%	1 184	
	0,28% a 0,53%	416 984	609 433	75,19%	884 627	0,40%	468	40,91%	772	496 012	56,1%	1 447	
	0,53% a 0,95%	460 233	594 685	80,82%	962 394	0,69%	417	39,76%	758	660 274	68,6%	2 677	
	0,95% a 1,73%	518 482	171 613	73,37%	627 252	1,29%	271	39,74%	1 192	654 490	104,3%	3 239	
	1,73% a 2,92%	1 336 460	358 192	62,90%	1 545 869	2,29%	283	36,37%	789	1 512 030	97,8%	12 921	
	2,92% a 4,67%	496 124	334 036	53,41%	640 800	3,64%	347	38,03%	868	775 831	121,1%	9 034	
	4,67% a 7,00%	150 770	147 937	31,21%	189 923	5,72%	172	38,08%	1 123	280 872	147,9%	4 280	
	7,00% a 9,77%	36 400	69 466	36,61%	60 788	8,19%	80	37,36%	595	90 188	148,4%	1 882	
	9,77% a 13,61%	535 444	244 764	33,65%	617 443	11,47%	336	36,88%	1 270	1 144 282	185,3%	26 174	
	13,61% a 100,00%	34 445	18 564	28,46%	39 729	52,14%	49	34,32%	1 337	69 169	174,1%	7 113	
	100,00% (default)	1 654 516	160 130	29,17%	1 701 221	100,00%	150	73,49%	1 171	165 852	9,7%	1 202 952	
	SUBTOTAL	6 591 953	3 467 925	66,49%	8 856 447	21,24%	3 151	44,93%	916	6 363 081	71,85%	1 272 905	-1 284 542
SME	0,01% a 0,05%												
	0,05% a 0,07%	2 887	415	49,37%	2 456	0,04%	8	28,43%	1 044	248	10,1%	0	
	0,07% a 0,14%	7 747	3 173	48,80%	8 879	0,10%	73	37,01%	1 095	1 876	21,1%	3	
	0,14% a 0,28%	61 643	116 273	69,01%	137 064	0,19%	503	39,49%	623	32 284	23,6%	108	
	0,28% a 0,53%	222 553	228 992	64,18%	346 870	0,37%	996	38,02%	823	134 551	38,8%	526	
	0,53% a 0,95%	329 158	223 245	58,68%	433 729	0,64%	1 102	38,43%	918	232 770	53,7%	1 162	
	0,95% a 1,73%	437 309	222 046	56,53%	491 832	1,15%	1 083	38,43%	840	324 976	66,1%	2 445	
	1,73% a 2,92%	304 308	166 556	42,53%	320 339	1,97%	794	38,26%	826	242 062	75,6%	2 812	
	2,92% a 4,67%	468 684	330 782	31,02%	515 086	3,34%	785	35,86%	939	446 476	86,7%	6 780	

4,67% a 7,00%	366 778	168 624	36,62%	400 209	5,51%	716	35,36%	876	379 399	94,8%	8 294	
7,00% a 9,77%	221 625	112 006	29,68%	235 999	7,71%	373	34,76%	976	252 847	107,1%	6 741	
9,77% a 13,61%	848 939	270 325	36,08%	899 781	10,97%	1 989	33,77%	1 062	1 144 674	127,2%	34 744	
13,61% a 100,00%	139 591	66 264	23,59%	153 523	52,81%	203	35,30%	1 363	230 412	150,1%	28 874	
100,00% (<i>default</i>)	428 201	69 281	26,70%	446 697	100,00%	614	57,89%	1 305	63 283	14,2%	254 912	
SUBTOTAL	3 839 423	1 977 979	44,77%	4 392 463	15,06%	9 239	38,43%	967	3 485 859	79,36%	347 404	-334 592
TOTAL	10,431,376	5,445,904	-	13,248,911	-	12,390	-	-	9,848,939	74.3%	1,620,309	-1,619,134

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

30/06/2019

(Thousand euros. Units)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
CORPORATE	0,01% a 0,05%												
	0,05% a 0,07%	123	5 031	85,19%	4 409	0,05%	18	42,26%	371	496	11,3%	1	
	0,07% a 0,14%	21	9 942	40,71%	4 069	0,10%	97	42,26%	1 077	1 334	32,8%	2	
	0,14% a 0,28%	744 503	913 259	79,26%	1 480 404	0,20%	384	41,94%	643	538 743	36,4%	1 237	
	0,28% a 0,53%	480 972	335 417	74,22%	735 680	0,40%	394	31,69%	824	307 548	41,8%	933	
	0,53% a 0,95%	394 520	440 974	75,43%	738 881	0,69%	397	39,65%	808	524 042	70,9%	2 049	
	0,95% a 1,73%	491 386	211 283	62,72%	619 880	1,27%	304	38,25%	626	497 774	80,3%	3 084	
	1,73% a 2,92%	1 454 609	364 707	69,76%	1 703 895	2,29%	296	37,58%	915	1 801 880	105,8%	14 721	
	2,92% a 4,67%	525 219	331 064	40,68%	618 678	3,67%	269	38,03%	1 003	763 766	123,5%	8 698	
	4,67% a 7,00%	212 527	158 847	32,97%	259 108	5,78%	183	34,66%	987	340 210	131,3%	5 300	
	7,00% a 9,77%	300 219	63 938	29,17%	315 422	8,15%	101	39,59%	1 114	552 446	175,2%	10 403	
	9,77% a 13,61%	370 427	237 473	30,73%	441 484	11,44%	287	34,45%	1 293	764 555	173,2%	17 472	
	13,61% a 100,00%	19 397	22 095	27,81%	25 541	52,98%	52	39,16%	882	49 597	194,2%	5 240	
	100,00% (<i>default</i>)	1 950 645	191 599	36,47%	2 020 515	100,00%	176	70,28%	1 204	220 445	10,9%	1 326 419	
	SUBTOTAL	6 944 569	3 285 630	62,56%	8 967 965	24,51%	2 958	45,24%	932	6 362 834	71,0%	1 395 559	-1 397 133
SME	0,01% a 0,05%												
	0,05% a 0,07%	2	643	60,00%	388	0,05%	5	42,67%	394	33	8,5%	0	

0,07% a 0,14%	6 009	3 725	47,28%	6 521	0,08%	85	34,31%	852	978	15,0%	2	
0,14% a 0,28%	71 484	126 363	76,32%	161 112	0,18%	487	38,01%	679	39 761	24,7%	126	
0,28% a 0,53%	204 860	224 886	60,37%	312 555	0,37%	982	38,91%	841	122 706	39,3%	486	
0,53% a 0,95%	345 871	211 057	58,51%	445 478	0,64%	1 011	37,69%	868	236 915	53,2%	1 168	
0,95% a 1,73%	406 371	189 579	54,05%	417 295	1,10%	1 046	38,40%	767	263 429	63,1%	2 068	
1,73% a 2,92%	333 440	167 038	41,44%	336 390	1,92%	818	37,62%	839	248 433	73,9%	2 884	
2,92% a 4,67%	288 999	294 433	29,10%	321 098	3,22%	693	36,42%	765	262 287	81,7%	4 277	
4,67% a 7,00%	269 462	134 683	32,98%	293 927	5,53%	615	35,29%	821	273 260	93,0%	6 082	
7,00% a 9,77%	151 628	93 888	31,94%	159 993	7,38%	297	35,39%	913	162 792	101,8%	4 628	
9,77% a 13,61%	672 508	196 753	34,60%	715 841	11,13%	1 713	33,43%	996	889 260	124,2%	27 399	
13,61% a 100,00%	185 663	37 148	25,87%	194 934	47,41%	170	33,77%	1 435	293 292	150,5%	31 471	
100,00% (<i>default</i>)	739 182	113 708	23,97%	766 443	100,00%	739	58,42%	1 224	84 762	11,1%	420 793	
SUBTOTAL	3 675 480	1 793 903	44,29%	4 131 976	22,39%	8 661	40,17%	941	2 877 907	69,7%	501 385	-483 270
TOTAL	10 620 048	5 079 533	-	13 099 941	-	11 619	-	-	9 240 741	70,5%	1 896 945	-1 880 403

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

TABLE 38 – TEMPLATE 21 / EU CR6 (II) – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE - RETAIL

31/12/2019

(Thousand euros, Units)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
SECURED BY REAL ESTATE	0,01% to 0,05%												
	0,05% to 0,07%	100 735	3 562	93,21%	104 056	0,05%	1 419	15,90%		2 415	2,3%	8	
	0,07% to 0,14%	10 010 544	52 127	98,93%	10 185 988	0,09%	184 142	20,71%		483 209	4,7%	1 886	
	0,14% to 0,28%	4 365 357	37 608	94,92%	4 455 283	0,20%	62 960	18,55%		341 638	7,7%	1 628	
	0,28% to 0,53%	2 409 464	22 953	98,75%	2 472 222	0,40%	37 420	18,84%		322 751	13,1%	1 850	
	0,53% to 0,95%	1 633 408	14 238	90,53%	1 638 520	0,70%	25 186	19,36%		326 465	19,9%	2 230	
	0,95% to 1,73%	1 073 597	6 625	101,96%	1 078 911	1,29%	17 047	20,32%		338 031	31,3%	2 832	
	1,73% to 2,92%	754 529	2 205	76,84%	739 340	2,28%	11 881	20,28%		330 389	44,7%	3 419	
	2,92% to 4,67%	772 433	5 023	103,78%	773 776	3,71%	12 771	18,99%		427 199	55,2%	5 480	
	4,67% to 7,00%	509 302	914	100,09%	453 495	5,93%	7 703	18,70%		315 426	69,6%	5 050	
	7,00% to 9,77%	350 802	825	78,72%	309 107	8,50%	5 164	18,78%		256 388	82,9%	5 015	
	9,77% to 13,61%	785 053	5 864	65,03%	694 069	11,49%	11 806	16,56%		557 421	80,3%	13 213	
	13,61% to 100,00%	222 470	73	99,31%	222 528	37,45%	3 031	22,15%		271 425	122,0%	17 323	
	100,00% (default)	674 701	0	99,56%	674 701	100,00%	8 482	33,73%		740 648	109,8%	191 453	
	SUBTOTAL	23 662 396	152 018	95,55%	23 801 997	4,16%	389 012	20,11%		4 713 404	19,80%	251 388	-145 560
QUALIFYING REVOLVING RETAIL EXPOSURES	0,01% to 0,05%												
	0,05% to 0,07%	2 019	159 946	22,17%	37 475	0,05%	92 994	63,06%		840	2,2%	12	
	0,07% to 0,14%	113 084	717 298	44,97%	435 673	0,08%	406 232	56,81%		13 498	3,1%	205	
	0,14% to 0,28%	116 197	559 990	25,54%	259 239	0,20%	271 555	57,66%		16 642	6,4%	295	
	0,28% to 0,53%	111 737	244 040	30,89%	187 110	0,40%	192 059	57,29%		20 998	11,2%	424	
	0,53% to 0,95%	82 794	120 879	37,06%	127 587	0,71%	120 382	57,54%		22 743	17,8%	518	
	0,95% to 1,73%	68 266	68 869	43,53%	98 246	1,29%	86 169	58,85%		28 358	28,9%	743	
	1,73% to 2,92%	55 804	40 342	45,56%	74 183	2,27%	64 615	60,16%		33 216	44,8%	1 010	
	2,92% to 4,67%	46 553	26 986	44,63%	58 596	3,77%	56 612	61,02%		38 137	65,1%	1 349	

	4,67% to 7,00%	33 973	17 444	42,07%	41 311	6,04%	47 198	60,99%		36 710	88,9%	1 525	
	7,00% to 9,77%	26 179	12 300	41,92%	31 335	9,21%	38 800	61,81%		36 564	116,7%	1 794	
	9,77% to 13,61%	27 557	42 511	15,27%	34 048	11,50%	173 148	60,55%		43 649	128,2%	2 371	
	13,61% to 100,00%	40 998	4 697	70,63%	44 315	24,40%	28 097	64,85%		75 256	169,8%	6 921	
	100,00% (default)	39 285	2 840	9,16%	39 545	100,00%	49 551	80,30%		56 177	142,1%	28 487	
	SUBTOTAL	764 445	2 018 142	34,89%	1 468 662	4,59%	1 627 412	58,91%		422 789	28,79%	45 655	-38 326
OTHER RETAIL – SME	0,01% to 0,05%												
	0,05% to 0,07%	3 861	17 511	43,42%	11 258	0,05%	256	36,70%		494	4,4%	2	
	0,07% to 0,14%	66 575	118 681	35,74%	128 312	0,09%	16 977	32,08%		8 336	6,5%	42	
	0,14% to 0,28%	213 159	132 870	36,47%	286 330	0,18%	20 249	30,50%		28 952	10,1%	177	
	0,28% to 0,53%	251 467	94 251	34,90%	276 611	0,35%	15 170	30,89%		44 126	16,0%	346	
	0,53% to 0,95%	213 012	63 428	28,80%	186 791	0,62%	11 039	31,28%		41 093	22,0%	413	
	0,95% to 1,73%	161 735	37 544	29,97%	134 067	1,14%	8 668	31,41%		38 528	28,7%	549	
	1,73% to 2,92%	109 508	29 993	51,10%	93 440	2,07%	5 493	30,08%		29 959	32,1%	641	
	2,92% to 4,67%	76 934	20 171	47,12%	92 668	3,37%	6 852	30,70%		32 939	35,5%	1 053	
	4,67% to 7,00%	37 716	7 817	32,62%	26 555	5,46%	3 264	35,45%		11 615	43,7%	565	
	7,00% to 9,77%	24 284	6 013	39,13%	17 547	7,45%	1 895	32,37%		7 396	42,2%	477	
	9,77% to 13,61%	128 106	65 187	28,76%	94 049	10,98%	20 890	34,91%		47 134	50,1%	3 805	
	13,61% to 100,00%	16 864	20 529	24,91%	21 518	49,74%	883	34,81%		15 365	71,4%	3 814	
	100,00% (default)	67 054	96 561	23,91%	90 146	100,00%	2 746	48,14%		98 876	109,7%	35 487	
	SUBTOTAL	1 370 274	710 555	33,43%	1 459 291	7,79%	114 382	32,36%		404 814	27,74%	47 371	-50 405
OTHER RETAIL – NON SME	0,01% to 0,05%												
	0,05% to 0,07%	21 924	5 528	54,32%	24 927	0,05%	857	15,88%		613	2,5%	2	
	0,07% to 0,14%	111 828	19 528	72,41%	129 853	0,10%	5 174	17,48%		5 939	4,6%	23	
	0,14% to 0,28%	403 949	31 604	55,77%	429 948	0,20%	31 645	21,43%		39 432	9,2%	184	
	0,28% to 0,53%	511 126	18 779	64,32%	527 686	0,40%	46 850	24,85%		87 447	16,6%	524	
	0,53% to 0,95%	330 691	28 588	54,36%	345 102	0,70%	31 687	27,57%		86 538	25,1%	666	
	0,95% to 1,73%	223 128	5 244	73,42%	223 993	1,30%	22 557	26,55%		70 876	31,6%	773	
	1,73% to 2,92%	139 224	4 445	66,29%	140 814	2,30%	15 052	27,46%		54 322	38,6%	889	

2,92% to 4,67%	93 395	2 894	82 ,54%	94 307	3 ,69%	10 936	27 ,61%		39 268	41 ,6%	963	
4,67% to 7,00%	80 436	2 049	74 ,71%	77 982	5 ,89%	8 606	28 ,92%		35 745	45 ,8%	1 330	
7,00% to 9,77%	69 668	1 648	75 ,07%	67 702	8 ,29%	6 948	32 ,85%		37 380	55 ,2%	1 846	
9,77% to 13,61%	104 656	3 603	36 ,56%	101 376	11 ,49%	12 576	32 ,13%		60 190	59 ,4%	3 746	
13,61% to 100,00%	29 010	1 403	26 ,23%	29 370	44 ,60%	2 634	31 ,60%		24 276	82 ,7%	4 218	
100,00% (<i>default</i>)	153 092	2 639	25 ,13%	153 755	100 ,00%	10 068	55 ,71%		167 811	109 ,1%	72 226	
SUBTOTAL	2 272 128	127 954	59 ,94%	2 346 816	8 ,68%	205 590	27 ,34%		709 837	30 ,25%	87 390	-91 165
TOTAL	28 069 243	3 008 669	-	29 076 766	-	2 336 396	-		6 250 843	-	431 803	-325 456

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

30/06/2019

(Thousand euros. Units)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
SECURED BY REAL ESTATE	0,01% to 0,05%												
	0,05% to 0,07%	95 476	2 431	87 ,98%	97 615	0 ,05%	1 309	16 ,38%		2 334	2 ,4%	8	
	0,07% to 0,14%	9 324 589	49 372	98 ,46%	9 497 930	0 ,09%	168 230	20 ,35%		445 579	4 ,7%	1 744	
	0,14% to 0,28%	4 302 874	52 371	99 ,03%	4 416 448	0 ,20%	64 198	19 ,06%		344 702	7 ,8%	1 636	
	0,28% to 0,53%	2 438 620	16 850	95 ,49%	2 487 529	0 ,40%	38 616	18 ,98%		327 343	13 ,2%	1 876	
	0,53% to 0,95%	1 681 472	9 976	88 ,24%	1 682 573	0 ,70%	26 972	20 ,03%		347 661	20 ,7%	2 371	
	0,95% to 1,73%	1 082 008	5 334	93 ,48%	1 077 544	1 ,29%	17 861	20 ,25%		336 398	31 ,2%	2 820	
	1,73% to 2,92%	757 255	5 349	84 ,60%	747 247	2 ,28%	12 688	20 ,19%		332 206	44 ,5%	3 442	
	2,92% to 4,67%	753 374	2 000	172 ,39%	762 745	3 ,72%	13 380	19 ,24%		427 808	56 ,1%	5 473	
	4,67% to 7,00%	529 674	96	1119 ,71%	476 308	5 ,94%	8 308	19 ,33%		343 562	72 ,1%	5 487	
	7,00% to 9,77%	360 290	1 050	72 ,86%	309 447	8 ,48%	5 515	18 ,88%		257 402	83 ,2%	5 028	
	9,77% to 13,61%	819 887	10 929	66 ,68%	733 748	11 ,49%	12 350	16 ,93%		604 430	82 ,4%	14 286	
	13,61% to 100,00%	228 292	302	100 ,00%	228 568	35 ,25%	3 385	21 ,51%		275 563	120 ,6%	16 273	
	100,00% (<i>default</i>)	875 696	346	99 ,10%	876 038	100 ,00%	10 319	30 ,60%		857 211	97 ,9%	221 792	
	SUBTOTAL	23 249 509	156 404	96 ,05%	23 393 741	5 ,10%	383 131	20 ,12%		4 902 201	21 ,0%	282 235	-189 407

QUALIFYING REVOLVING RETAIL EXPOSURES	0,01% to 0,05%												
	0,05% to 0,07%	2 007	118 520	12,79%	17 164	0,05%	62 645	62,17%		379	2,2%	5	
	0,07% to 0,14%	75 316	550 779	41,51%	303 958	0,08%	296 891	58,22%		9 589	3,2%	146	
	0,14% to 0,28%	97 437	481 080	22,53%	205 835	0,20%	258 966	58,06%		13 322	6,5%	236	
	0,28% to 0,53%	104 926	214 193	30,57%	170 400	0,40%	189 500	58,26%		19 417	11,4%	392	
	0,53% to 0,95%	94 989	114 145	40,94%	141 718	0,71%	132 659	59,10%		25 985	18,3%	592	
	0,95% to 1,73%	88 139	71 573	49,28%	123 408	1,28%	101 005	60,76%		36 738	29,8%	962	
	1,73% to 2,92%	59 009	36 153	44,64%	75 148	2,26%	64 371	61,38%		34 314	45,7%	1 043	
	2,92% to 4,67%	45 443	23 066	40,51%	54 787	3,77%	52 504	61,79%		36 112	65,9%	1 278	
	4,67% to 7,00%	30 017	14 404	35,32%	35 103	6,04%	45 329	61,06%		31 222	88,9%	1 297	
	7,00% to 9,77%	19 886	9 551	32,59%	22 999	9,15%	33 185	61,45%		26 580	115,6%	1 302	
	9,77% to 13,61%	26 217	45 166	12,73%	31 966	11,50%	165 425	60,58%		40 985	128,2%	2 227	
	13,61% to 100,00%	28 661	3 348	52,16%	30 408	25,60%	18 750	64,95%		52 224	171,8%	4 962	
	100,00% (default)	37 477	2 600	6,68%	37 651	100,00%	49 644	77,90%		51 612	137,1%	26 139	
	SUBTOTAL	709 525	1 684 578	32,12%	1 250 545	4,88%	1 470 874	59,91%		378 479	30,3%	40 581	-35 611
OTHER RETAIL – SME	0,01% to 0,05%												
	0,05% to 0,07%	3 397	15 719	42,18%	9 509	0,05%	272	33,01%		378	4,0%	2	
	0,07% to 0,14%	65 999	118 987	36,01%	123 820	0,09%	15 344	32,10%		8 094	6,5%	40	
	0,14% to 0,28%	208 652	133 733	36,06%	260 225	0,17%	18 768	30,72%		26 847	10,3%	164	
	0,28% to 0,53%	217 586	90 980	34,92%	228 353	0,34%	13 283	30,48%		36 424	16,0%	284	
	0,53% to 0,95%	168 256	61 426	35,79%	160 160	0,60%	9 990	31,30%		35 759	22,3%	358	
	0,95% to 1,73%	134 559	32 857	30,21%	111 048	1,13%	7 856	30,78%		31 672	28,5%	452	
	1,73% to 2,92%	95 828	31 380	51,79%	78 456	2,01%	5 120	30,06%		25 768	32,8%	548	
	2,92% to 4,67%	66 712	16 791	41,49%	77 333	3,36%	6 234	31,62%		28 457	36,8%	909	
	4,67% to 7,00%	41 770	6 590	21,49%	29 925	5,34%	3 024	32,15%		11 795	39,4%	570	
	7,00% to 9,77%	21 590	3 683	20,20%	13 790	7,43%	1 882	31,70%		5 729	41,5%	370	
	9,77% to 13,61%	113 211	58 872	30,39%	85 529	10,84%	18 886	34,57%		42 580	49,8%	3 436	
	13,61% to 100,00%	17 358	19 924	25,14%	21 745	47,83%	811	34,33%		15 259	70,2%	3 655	
	100,00% (default)	109 026	93 913	24,07%	131 630	100,00%	3 626	51,90%		105 456	80,1%	59 881	

	SUBTOTAL	1 263 944	684 856	33,92%	1 331 521	10,95%	105 096	33,10%		374 217	28,1%	70 666	-80 185
OTHER RETAIL – NON SME	0,01% to 0,05%												
	0,05% to 0,07%	19 538	4 824	54,00%	22 131	0,05%	718	15,94%		547	2,5%	2	
	0,07% to 0,14%	95 714	12 912	60,47%	108 131	0,10%	4 748	17,65%		5 000	4,6%	19	
	0,14% to 0,28%	343 418	22 190	46,24%	363 536	0,20%	29 124	20,22%		31 405	8,6%	147	
	0,28% to 0,53%	467 484	15 746	60,16%	475 983	0,40%	42 073	26,55%		84 319	17,7%	505	
	0,53% to 0,95%	274 635	6 539	63,22%	279 789	0,70%	29 175	26,58%		67 643	24,2%	520	
	0,95% to 1,73%	200 155	4 271	68,70%	204 053	1,30%	21 218	27,33%		66 449	32,6%	725	
	1,73% to 2,92%	133 819	2 947	54,40%	131 956	2,30%	14 137	26,39%		48 877	37,0%	801	
	2,92% to 4,67%	88 079	1 822	63,13%	88 593	3,70%	9 992	27,31%		36 491	41,2%	895	
	4,67% to 7,00%	66 298	1 868	61,04%	63 830	5,90%	8 013	29,47%		29 783	46,7%	1 110	
	7,00% to 9,77%	51 614	703	70,67%	48 414	8,29%	6 672	30,42%		24 731	51,1%	1 222	
	9,77% to 13,61%	132 822	3 665	32,71%	128 612	11,50%	13 087	34,43%		82 054	63,8%	5 093	
	13,61% to 100,00%	25 022	1 145	24,94%	25 307	41,34%	2 509	30,83%		20 460	80,9%	3 288	
	100,00% (<i>default</i>)	181 348	2 781	24,23%	182 022	100,00%	11 491	55,06%		200 685	110,3%	84 158	
	SUBTOTAL	2 079 945	81 412	53,75%	2 122 357	10,77%	192 957	28,15%		698 447	32,9%	98 484	-105 802
TOTAL		27 302 923	2 607 250	-	28 098 165	-	2 152 058	-		6 353 343	22,6%	491 966	-411 005

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

TABLE 39 – TEMPLATE 5 / EU CR10 (I)– IRB (SPECIALISED LENDING)

31/12/2019		(Thousand euros)					
Regulatory categories	Remaining maturity	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Expected losses
Category 1	Less than 2.5 years			50%			
	Equal to or more than 2.5 years	34 565		70%	34 595	24 217	138
Category 2	Less than 2.5 years			70%			
	Equal to or more than 2.5 years	762 476	242 383	90%	964 641	868 162	7 717
Category 3	Less than 2.5 years			115%			
	Equal to or more than 2.5 years	107 420	23 889	115%	107 893	123 648	3 021
Category 4	Less than 2.5 years			250%			
	Equal to or more than 2.5 years	13 654	3 922	250%	15 275	38 187	1 222
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years	5 463	2 840		6 802	10 214	1 685
TOTAL	Less than 2.5 years						
	Equal to or greater than 2.5 years	923 578	273 034		1 129 207	1 064 428	13 783

30/06/2019		(Thousand euros)					
Regulatory categories	Remaining maturity	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Expected losses
Category 1	Less than 2.5 years			50%			
	Equal to or more than 2.5 years	39 386		70%	39 431	27 602	158
Category 2	Less than 2.5 years			70%			
	Equal to or more than 2.5 years	817 530	286 709	90%	1 046 775	942 082	8 374
Category 3	Less than 2.5 years			115%			
	Equal to or more than 2.5 years	114 702	30 715	115%	117 804	134 995	3 299
Category 4	Less than 2.5 years			250%			
	Equal to or more than 2.5 years	15 772	3 273	250%	17 486	43 714	1 399
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years	1 473	2 482		2 846	325	1 368
TOTAL	Less than 2.5 years						
	Equal to or greater than 2.5 years	988 863	323 180		1 224 341	1 148 718	14 598

TABLE 40 – TEMPLATE 5 / EU CR10 (II) – IRB (EQUITY POSITIONS)

31/12/2019 (Thousand euros)

Equities under the simple risk-weighted approach

Categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Own funds requirements	Expected losses
Private equity exposures	944 090		190%	944 090	1 793 772	143 502	7 553
Exchange-traded equity exposures	14 372		290%	14 372	41 678	3 334	115
Other equity exposures	152 143		370%	152 143	562 930	45 034	3 651
TOTAL	1 110 605			1 110 605	2 398 379	191 870	11 319

30/06/2019 (Thousand euros)

Equities under the simple risk-weighted approach

Categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Own funds requirements	Expected losses
Private equity exposures	1 025 838		190%	1 025 838	1 949 092	155 927	8 207
Exchange-traded equity exposures	14 198		290%	14 198	41 174	3 294	114
Other equity exposures	141 443		370%	141 443	523 340	41 867	3 395
TOTAL	1 181 479			1 181 479	2 513 606	201 088	11 715

The following table shows the breakdown of RWA flows in the last quarter of 2019.

TABLE 41 – TEMPLATE 23 / EU CR8 – RWA FLOW STATEMENTS OF CCR EXPOSURES UNDER THE IRB APPROACH

	31 Dec 2019		30 Sep 2019	
	RWA amounts	Capital requirements	RWA amounts	Capital requirements
RWA AS AT THE END OF THE PREVIOUS REPORTING PERIOD ^(a)	20 688 573	1 655 086	20 476 915	1 638 153
Asset size	26 286	2 103	206 819	16 546
Asset quality				
Model updates				
Methodology and policy				
Acquisitions and disposals				
Foreign exchange movements	24 585	1 967	-4 685	-375
Other	32 008	2 561	9 523	762
RWA AS AT THE END OF THE REPORTING PERIOD ^{(a)(b)}	20 771 452	1 661 716	20 688 573	1 655 086

^(a) 30/06/2019 for Sep 2019; 30/09/2019 for Dec 2019

^(b) 30/09/2019 for Sep 2019; 31/12/2019 for Dec 2019

4.5.5. STANDARDISED APPROACH – EXPOSURES AND RISK WEIGHTS BY REGULATORY RISK CLASSES

TABLE 42 – TEMPLATE 20 / EU CR5 – STANDARDISED APPROACH

The on- and off-balance sheet risk positions within the scope of the regulatory consolidation, net from specific credit risk adjustments and cancellations, post conversion factors and post CRM techniques, relative to portfolios that are treated under the standardised approach, as at 31 December and 30 June 2019, are broken down in the following table:

31/12/2019																(Thousand euros)		
Exposure classes	Risk weights															Deduzidas	TOTAL	RWA
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Outros			
Central Governments or Central Banks	15 299 335				7 768		30 580			1 079 425	238 801						16 655 909	1 454 470
Regional Governments or Local Authorities					571 614		43			4	405				85		572 151	114 968
Public Setor Entities	107				30		13 509			174 308	75 925						263 879	294 955
Multilateral Development Banks	41 422																41 422	
International Organisations																		
Institutions					1 266 961		202 572			80 634	1 305				228 192		1 779 663	441 834
Corporates					14 156		46 931			5 378 053	134 768				72 378		5 646 287	5 384 967
Retail							0	4 988 160		0					0		4 988 160	3 622 634
Secured by mortgages on immovable property					94		514 187		73 227	227 303	108 096				1 245 598		2 168 504	1 106 386
Exposures in default	1 794									259 553	193 409				0		454 757	549 667
Items associated with particularly high risk											1 511						1 511	2 267
Covered bonds																		
Claims on institutions and corporates with a short-term credit assessment																		
Collective Investment Undertakings											21 421				133 873		155 294	105 042
Equity exposures										1 155		37 497					38 652	94 899
Other exposures																		
TOTAL	15 342 658				1 860 623		807 821		5 061 387	7 200 436	775 642	37 497			1 680 125		32 766 190	13 172 088

30/06/2019

(Thousand euros)

Exposure classes	Risk weights															Deduzidas	TOTAL	RWA
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Outros			
Central Governments or Central Banks	14 678 149				11 092		50 837			1 042 430	400 333						16 182 841	1 670 566
Regional Governments or Local Authorities					615 192		42			27	0				84		615 345	123 099
Public Setor Entities	111				0		15 196			21	25 164						40 492	45 365
Multilateral Development Banks	19 111																19 111	
International Organisations																		
Institutions					1 225 479		235 955			56 303	5 457				245 111		1 768 305	432 464
Corporates					16 397		45 340			5 257 496	191 204				88 862		5 599 300	5 360 979
Retail									4 744 404								4 744 404	3 443 003
Secured by mortgages on immovable property					153		712 692		126 301	212 850	132 748				1 396 691		2 581 434	1 322 737
Exposures in default	1 648						0			218 064	228 622				0		448 334	560 997
Items associated with particularly high risk																		
Covered bonds																		
Claims on institutions and corporates with a short-term credit assessment																		
Collective Investment Undertakings											22 674				161 572		184 246	108 944
Equity exposures										1 145		33 253					34 398	84 278
Other exposures																		
TOTAL	14 699 019				1 868 314		1 060 062		4 870 706	6 788 336	1 006 202	33 253			1 892 319		32 218 210	13 152 432

5. COUNTERPARTY CREDIT RISK

The counterparty credit risk translates the risk of counterparties being unable to meet their liabilities resulting from securities contracts such as derivatives for instance.

The Bank gives preference to the definition of exposure limits to counterparty credit risk, bilateral contracts to guarantee exposures resulting from derivatives and the creation of collaterals within the scope of these agreements as preferred tools to mitigate counterparty credit risk.

The manual Credit Regulations for Sovereigns and Financial Institutions defines the way in which the consumptions of the counterparty credit risk limits are determined. This calculation is regularly made based on the market value of the operations, to which a factor arising from the future potential variation of that same value is added, adjusting for the volatility and deadline of each operation.

The Bank has a policy of closing bilateral contracts to guarantee exposures resulting from OTC derivatives contracted with Banks under the ISDA Master Agreement (ISDA – International Swaps and Derivatives Association).

In addition, an ISDA Master Agreement may frame the creation of collateral using an annex or ISDA Credit Support Document. As a template for the Credit Support Document, the Bank chose the Credit Support Annexes (CSA) contracts to guarantee the constitution, by the entity with net values payable in the future, of financial collaterals from the other party to guarantee the payment of these contractual obligations. In these contracts, the Bank (almost exclusively) accepts deposits in Euros as collateral.

The Bank does not use netting as a technique for credit risk mitigation/reduction under RWA/capital requirements calculation; only in accounting, non-prudential terms, netting is used for interest rate swaps, per operation. The exception to this is the approved ISDA Master Netting Agreements (MNA) celebrated with 5 entities from the “Institutions” risk class that effectively provide prudential credit risk mitigation.

The total exposure limits for counterparties that are not financial institutions, in contracts subject to this type of risk, are generally divided into two components: one for traditional credit operations (financial and / or subscription) and another for treasury products.

Finally, the Bank uses a framework agreement model of TBMA/ISMA (The Bond Market Association/International Securities Market Association) within the scope of the repo operations it carries out. This framework agreement, the Global Master Repurchase Agreement (GMRA), defines the repo transactions between the parties and regulates the creation of the collateral that guarantees the exposure.

Both in 2019 and in 2018, for the purposes of reducing counterparty credit risk, the Group used the financial collateral comprehensive method, as established in article 223, Section 4, Chapter 4, Title II, Part III of the CRR, and the mark-to-market method to calculate the future exposure in the relevant positions with credit risk, as defined in article 274, Section 3, Chapter 6, Title II, Part III of the CRR.

After estimating the exposures as at 2019 and 2018, the own funds requirements were computed, on one hand, according to Chapter 2, Title II, Part III of the CRR, for risk scores and portfolios that followed the standardised approach, and, on the other hand, according to Chapter 3, Title II, Part III of the CRR, for the portfolios for which the Supervisor has authorised the IRB Approach.

According to the mark-to-market method, the necessary values to calculate the exposure in the relevant positions have two components: (i) the market value of each operation and (ii) the percentage of the nominal to be applied as an add-on to that market value.

The market values of the operations are directly collected from the Bank’s front-end application (namely Kondor+), in which the management and evaluation of the operations is carried out, whilst the add-on values to be applied are directly identifiable in table I of paragraph c) of article 274, Section 3, Chapter 6, Title II, Part III of the CRR.

Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories – commonly referred to as EMIR (European Markets Infrastructure Regulation) – has introduced legal obligations with the aim of improving post-trade transparency and reducing the risks associated with the derivatives market, in particular through the need to bring in a central counterparty or the adoption of risk mitigation techniques for derivatives not centrally cleared.

Considering the regulations applicable to its category, the Group became obliged to carry out the clearing of the OTC derivatives portfolio within the criteria defined by the EMIR, with a qualified CCP. This clearing obligation is, in a first stage, applicable to the simpler derivatives, namely, those relating to interest rate (IRS and FRA) and in the most common currencies (EUR, GBP, JPY, USD). Afterwards, there will be a phased extension of these obligations to a broader set of derivatives.

The Bank’s negotiating policy for ISDA CSA clauses privileges bilateral conditions, without any terms associated with the counterparties’ ratings. Moreover, after the implementation of the last phase of EMIR, the conditions defined for OTC

collateral contracts cannot be linked to credit ratings. In this context, there is currently no relation between the collateral requirements for OTC derivatives and the rating of the Bank.

As at December 2019, the Group did not have any formal counterparty credit risk coverage operation in force.

The next tables present further details on the exposures to counterparty credit risk.

TABLE 43 – TEMPLATE 25 / EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

31/12/2019

(Thousand euros)

	Notional	Replacement cost / Current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		323 865	256 078			584 609	404 409
Original exposure							
Standardised approach							
Internal Model Method - IMM (for derivatives and SFTs)							
Of which: securities financing transactions							
Of which: derivatives and long settlements transactions							
Of which: from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR (Value at risk) for SFTs							
TOTAL							404 409

30/06/2019

(Thousand euros)

	Notional	Replacement cost / Current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		341 636	287 984			639 743	434 487
Original exposure							
Standardised approach							
Internal Model Method - IMM (for derivatives and SFTs)							
Of which: securities financing transactions							
Of which: derivatives and long settlements transactions							
Of which: from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR (Value at risk) for SFTs							
TOTAL							434 487

TABLE 44 – TEMPLATE 26 / EU CCR2 – CVA CAPITAL CHARGE

	(Thousand euros)			
	31 Dec 2019		30 Jun 2018	
	Exposure value	RWA	Exposure value	RWA
Total portfolios subject to the advanced method				
(i) VaR component (including the 3x multiplier)				
(ii) SVaR component (including the 3x multiplier)				
All portfolios subject to the standardised method			380 220	142 837
Based on the original exposure method				
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE			380 220	142 837

TABLE 45 – TEMPLATE 27 / EU CCR8 – EXPOSURES TO CCP

31/12/2019		(Thousand euros)	
		EAD post CRM	RWA
EXPOSURES TO QCCP (TOTAL)			
Exposures for trades at QCCP (excluding initial margin and default fund contributions); of which:			
(i) OTC derivatives		228 192	4 564
(ii) Exchange-traded derivatives			
(iii) SFT			
(iv) Netting sets where cross-product netting has been approved			
Segregated initial margin		310 974	
Non-segregated initial margin			
Prefunded default fund contributions			
Alternative calculation of own funds requirements for exposures			
EXPOSURES TO NON-QCCP (TOTAL)			
Exposures for trades at non-QCCP (excluding initial margin and default fund contributions); of which:			
(i) OTC derivatives		15 678	7 566
(ii) Exchange-traded derivatives			
(iii) SFT			
(iv) Netting sets where cross-product netting has been approved			
Segregated initial margin		235	
Non-segregated initial margin			
Prefunded default fund contributions			
Unfunded default fund contributions			

30/06/2019		(Thousand euros)	
		EAD post CRM	RWA
EXPOSURES TO QCCP (TOTAL)			
Exposures for trades at QCCP (excluding initial margin and default fund contributions); of which:			
(i) OTC derivatives		245 111	4 902
(ii) Exchange-traded derivatives			
(iii) SFT			
(iv) Netting sets where cross-product netting has been approved			
Segregated initial margin		164 557	
Non-segregated initial margin			
Prefunded default fund contributions			
Alternative calculation of own funds requirements for exposures			
EXPOSURES TO NON-QCCP (TOTAL)			5 573
Exposures for trades at non-QCCP (excluding initial margin and default fund contributions); of which:			
(i) OTC derivatives		11 960	5 573

(ii) Exchange-traded derivatives		
(iii) SFT		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin	235	
Non-segregated initial margin		
Prefunded default fund contributions		
Unfunded default fund contributions		

TABLE 46 – TEMPLATE 28 / EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK

31/12/2019													(Thousand euros)
Exposure classes	Risk weights											Total	RWA
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other		
Central Governments or Central Banks	8 496											8 496	
Regional Governments or Local Authorities													
Public Setor Entities					1							1	0
Multilateral Development Banks													
International Organisations													
Institutions					119 433	149 183			1 471		228 192	498 278	104 513
Corporates									133 111			133 111	132 559
Retail								12				12	7
Institutions and corporates with a short-term credit assessment													
Other items													
TOTAL	8 496				119 433	149 183		12	134 582		228 192	639 898	237 079

30/06/2019													(Thousand euros)
Exposure classes	Risk weights											Total	RWA
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other		
Central Governments or Central Banks	25 296								20			25 316	20
Regional Governments or Local Authorities													
Public Setor Entities					0							0	0
Multilateral Development Banks													
International Organisations													
Institutions					110 808	182 058			2 115		245 111	540 091	120 208
Corporates									139 683			139 683	139 286
Retail								16				16	9
Institutions and corporates with a short-term credit assessment													
Other items													
TOTAL	25 296				110 808	182 058		16	141 817		245 111	705 106	259 523

TABLE 47 – TEMPLATE 29 / EU CCR4 (I) – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE – CORPORATES

31/12/2019		(Thousand euros)						
	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
CORPORATE	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%	55	0,10%	1	42,26%	365	10	18,6%
	0,14% to 0,28%	158	0,20%	3	42,26%	365	47	29,9%
	0,28% to 0,53%	33	0,40%	1	42,26%	365	15	45,8%
	0,53% to 0,95%	527	0,70%	4	42,26%	1 231	478	90,8%
	0,95% to 1,73%	14	1,30%	3	42,26%	365	11	81,3%
	1,73% to 2,92%	5 478	2,30%	4	42,26%	1 049	6 767	123,5%
	2,92% to 4,67%	147	3,70%	4	42,26%	365	172	117,5%
	4,67% to 7,00%	2 049	5,90%	1	42,26%	861	3 202	156,3%
	7,00% to 9,77%			1				
	9,77% to 13,61%							
	13,61% to 100,00%							
	100,00% (default)	4	100,00%	1	39,09%	365	3	74,5%
	SUBTOTAL	8 463	3,07%	23	42,26%	982	10 706	126,5%
SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%	9	0,20%	2	44,40%	365	2	19,9%
	0,28% to 0,53%							
	0,53% to 0,95%	7	0,70%	3	43,85%	365	3	39,7%
	0,95% to 1,73%	64	1,30%	7	39,77%	602	39	61,5%
	1,73% to 2,92%	18	2,30%	3	42,37%	365	11	60,1%
	2,92% to 4,67%	13	3,70%	2	39,38%	472	11	84,2%
	4,67% to 7,00%	45	5,90%	2	43,76%	365	40	89,0%
	7,00% to 9,77%	211	8,30%	2	44,40%	612	299	141,4%
	9,77% to 13,61%	13 823	11,50%	10	29,86%	642	14 456	104,6%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	14 190	11,36%	31	30,20%	640	14 861	104,73%
TOTAL		22 653	-	54	-	-	25 567	112,9%

NOTE: This data does not include the Specialised Lending exposures.

30/06/2019		(Thousand euros)						
	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
CORPORATE	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%	61	0,20%	2	42,26%	365	18	29,9%
	0,28% to 0,53%	185	0,40%	3	42,26%	365	85	45,8%
	0,53% to 0,95%	890	0,70%	7	42,26%	1 097	768	86,3%
	0,95% to 1,73%	17	1,30%	3	42,26%	365	14	81,3%
	1,73% to 2,92%	6 310	2,30%	4	42,26%	1 205	8 133	128,9%
	2,92% to 4,67%	241	3,70%	3	42,26%	365	283	117,5%
	4,67% to 7,00%	80	5,90%	1	42,26%	365	113	140,2%
	7,00% to 9,77%							
	9,77% to 13,61%	2 936	11,50%	3	42,26%	836	5 866	199,8%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	10 720	4,70%	26	42,26%	1 049	15 281	142,5%

SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%	115	0,20%	8	39,62%	365	26	22,3%
	0,28% to 0,53%	16	0,40%	3	42,86%	365	5	29,5%
	0,53% to 0,95%	23	0,70%	3	39,42%	365	12	51,7%
	0,95% to 1,73%	114	1,30%	8	39,13%	556	75	65,8%
	1,73% to 2,92%	9	2,30%	2	41,42%	365	7	75,1%
	2,92% to 4,67%	20	3,70%	3	38,66%	514	18	89,6%
	4,67% to 7,00%	71	5,90%	4	44,32%	365	72	101,3%
	7,00% to 9,77%	227	8,30%	4	44,40%	711	317	139,4%
	9,77% to 13,61%	40	11,50%	5	35,84%	455	49	121,4%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	637	4,81%	40	41,59%	533	581	91,2%
TOTAL		11 357	-	66	-	-	15 861	139,7%

NOTE: This data does not include the Specialised Lending exposures.

TABLE 48 – TEMPLATE 29 / EU CCR4 (II) – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE - RETAIL

31/12/2019

(Thousand euros)

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
OTHER RETAIL - SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%	6	0,10%	1	45,18%		1	9,1%
	0,14% to 0,28%	3	0,20%	2	25,17%		0	8,2%
	0,28% to 0,53%							
	0,53% to 0,95%	4	0,70%	1	43,17%		1	30,0%
	0,95% to 1,73%	1	1,30%	1	26,39%		0	24,1%
	1,73% to 2,92%	7	2,30%	2	72,48%		5	77,9%
	2,92% to 4,67%							
	4,67% to 7,00%	1	5,90%	1	15,06%		0	18,3%
	7,00% to 9,77%							
	9,77% to 13,61%	1	11,50%	2	19,58%		0	27,9%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	21		10			8	36,08%
OTHER RETAIL - NON SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%							
	0,28% to 0,53%							
	0,53% to 0,95%							
	0,95% to 1,73%							
	1,73% to 2,92%							
	2,92% to 4,67%							
	4,67% to 7,00%							
	7,00% to 9,77%							
	9,77% to 13,61%							
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL							
TOTAL		21		10			8	36,1%

NOTE: This data does not include the Specialised Lending exposures.

30/06/2019

(Milhares de euros)

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
OTHER RETAIL – SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%	4	0,10%	3	44,12%		0	8,8%
	0,14% to 0,28%	12	0,20%	2	33,98%		1	11,1%
	0,28% to 0,53%							
	0,53% to 0,95%	3	0,70%	2	25,87%		1	18,0%
	0,95% to 1,73%							
	1,73% to 2,92%							
	2,92% to 4,67%	10	3,70%	1	85,66%		10	99,1%
	4,67% to 7,00%	1	5,90%	1	43,17%		1	52,4%
	7,00% to 9,77%							
	9,77% to 13,61%	7	11,50%	4	16,23%		2	23,1%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	37	3,52%	13	45,08%		14	38,6%
OTHER RETAIL – NON SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%							
	0,28% to 0,53%							
	0,53% to 0,95%							
	0,95% to 1,73%							
	1,73% to 2,92%							
	2,92% to 4,67%							
	4,67% to 7,00%							
	7,00% to 9,77%							
	9,77% to 13,61%							
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL							
TOTAL		37	3,52%	13	45,08%		14	38,6%

TABLE 49 – TEMPLATE 31 / EU CCR5-A – IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

31/12/2019

(Thousand euros)

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	392 240	27 506	364 734	67 259	307 606
Value of collateral held without impact				9 510	
SFT					
Cross-product netting					
TOTAL	392 240	27 506	364 734	67 259	307 606

(Thousand euros)

30/06/2019

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	572 346	70 752	501 594	45 938	462 334
Value of collateral held without impact				6 234	
SFT					
Cross-product netting					
TOTAL	572 346	70 752	501 594	45 938	462 334

TABLE 50 – TEMPLATE 32 / EU CCR5-B – COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

31/12/2019

(Thousand euros)

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	20 678	311 209	245 646	0	0
Other assets			0			
TOTAL	0	20 678	311 209	245 646	0	0

30/06/2019

(Thousand euros)

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	62 816	164 793	286 673	0	37 087
Other assets			0			
TOTAL	0	62 816	164 793	286 673	0	37 087

TABLE 51 – TEMPLATE 33 / EU CCR6 – CREDIT DERIVATIVES EXPOSURES

31/12/2019

(Thousand euros)

	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
NOTIONALS			
Credit default swaps	2 000	4 000	
Total return swaps			
Credit linked notes			30 000
Other credit derivatives			
TOTAL NOTIONALS	2 000	4 000	30 000
FAIR VALUES			
Positive fair value (asset)	182		
Negative fair value (liability)	93		650

30/06/2019

(Thousand euros)

(thousand euros)			
	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
NOTIONALS			
Credit default swaps	2 000	4 000	
Total return swaps			
Credit linked notes			30 000
Other credit derivatives			
TOTAL NOTIONALS	2 000	4 000	30 000
FAIR VALUES			
Positive fair value (asset)	182		
Negative fair value (liability)	91		1 391

6. CREDIT RISK MITIGATION TECHNIQUES

6.1. ELIGIBILITY AND TYPE OF MITIGATION INSTRUMENTS

On the risk evaluation of an operation or of a group of operations, the mitigation elements of credit risk associated to those operations are considered in accordance with the rules and internal procedures that fulfil the requirements defined by the regulations in force, also reflecting the experience of the loans recovery areas and the Legal Department opinions with respect to the entailment of the various mitigation instruments.

The collaterals and the relevant guarantees can be aggregated in the following categories:

- Financial collaterals, real estate collaterals or other collaterals;
- Receivables;
- First demand guarantees, issued by banks or other entities with Risk Grade 7 or better on the Rating Master Scale;
- Personal guarantees, when the persons are classified with Risk Grade 7 or better;
- Credit derivatives.

The financial collaterals accepted are those that are traded in a recognised stock exchange, i.e., on an organized secondary market, liquid and transparent, with public bid-ask prices, located in countries of the European Union, United States, Japan, Canada, Hong Kong or Switzerland.

In this context, it is important to refer that the Bank's shares are not accepted as financial collaterals of new credit operations.

Regarding guarantees and credit derivatives, it can be applied the substitution principle by replacing the Risk Grade of the client by the Risk Grade of the guarantor, (if the Risk of Grade Degree of the guarantor is better than the client's), when the protection is formalized through:

- State, Financial Institutions or Mutual Guarantee Societies guarantees exist;
- personal guarantees (or, in the case of Leasing, there is a recovery agreement of the provider);
- Credit derivatives;
- Formalization of the clause of the contracting party in leasing contracts in which it is an entity that is in a relationship of dominion or group with the lessee.

6.2. PROTECTION LEVELS

An internal level of protection is attributed to all credit operations at the moment of the credit granting decision, considering the credit amount as well as the value and type of the collaterals involved. The protection level corresponds to the loss reduction in case of default that is linked to the various collateral types, considering their market value and the amount of the associated exposure.

In the case of financial collaterals, adjustments are made to the protection value using a set of haircuts, in order to reflect the price volatility of the financial instruments.

6.3. COLLATERAL VALUATION

In the case of real estate mortgages, the initial appraisal of the real estate value is done during the credit analysis and before decision process.

Either the initial evaluations or the subsequent reviews carried out are performed by external expert valuers and the ratification process is centralized in the Appraisals Unit, which is independent of the clients' areas.

In any case, they are the subject to a written report, in a standardized digital format, based on a group of predefined methods that are aligned with the sector practices – income, replacement cost and/or market comparative – mentioning the obtained value, for both the market value and for purposes of the mortgage guarantee, depending on the type of the real estate. The evaluations have a declaration/certification of an expert valuer since 2008, as requested by Regulation (EU) 575/2013 (CRR) and Law 153/2015 of 14 September and are ratified by the Appraisals Unit.

Regarding residential real estate, after the initial valuation and in accordance with Notice n. 5/2006 of Bank of Portugal and e CRR 575/2013, the Bank monitors the respective values through market indexes. If the index is lower than 0.9, the Bank revalues choosing one of the following two methods:

- i. Depreciation of the property by direct application of the index, if the amount owed does not exceed 300,000 euros;
- ii. Review of the property value by external valuers, depending on the value of the credit operation, and in accordance with the established standards from ECB and Bank of Portugal.

For all non-residential real estate, the Bank also monitors its values through market indexes and to the regular valuation reviews with the minimum periodicities in accordance with the Regulation (EU) 575/2013, in the case of offices, commercial spaces, warehouses and industrial premises.

For all real estate (residential or non-residential) for which the monitoring result in significant devaluation of the real estate value (more than 10%), a valuation review is subsequently carried out by an expert valuer, preserving the referred i) above.

For the remaining real estate (land or country side buildings for example) there are no market indexes available for the monitoring of appraisal values, after the initial valuations. Therefore, for these cases and in accordance with the minimum periodicity established for the monitoring and reviewing of this type of real estate, valuation reviews are carried out by expert valuers.

The indexes currently used are supplied to the Bank by an external specialized entity that, for more than a decade, has been collecting and processing the data upon which the indexes are built.

In the case of financial collaterals, their market value is daily and automatically updated, through the IT connection between the collaterals management system and the relevant financial markets data.

The next tables (52 and 53) show figures concerning the use of credit risk mitigation techniques, as at 31/12/2019 e 30/06/2019.

TABLE 52 – TEMPLATE 18 / EU CR3 – CRM TECHNIQUES - OVERVIEW

31/12/2019					
(Thousand euros)					
Exposures:	Unsecured	Secured	Secured by collateral	Secured by financial guarantees	Secured by credit derivatives
Total loans	13 631 381	37 475 264	33 066 687	4 408 577	
Total debt securities	16 780 376	999 569	685 087	314 482	
TOTAL EXPOSURES	30 411 757	38 474 833	33 751 774	4 723 059	
Of which: defaulted	499 721	1 375 314	1 285 695	89 619	

Note: Securities of the Trading Book are not included.

30/06/2019					
(Thousand euros)					
Exposures:	Unsecured	Secured	Secured by collateral	Secured by financial guarantees	Secured by credit derivatives
Total loans	13 641 804	37 223 126	32 945 102	4 278 024	
Total debt securities	17 211 068	1 038 820	733 533	305 287	
TOTAL EXPOSURES	30 852 872	38 261 946	33 678 635	4 583 311	
Of which: defaulted	488 486	1 949 328	1 818 584	130 745	

Note: Securities of the Trading Book are not included.

TABLE 53 – TEMPLATE 19 / EU CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

31/12/2019 (Thousand euros)						
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central Governments or Central Banks	15 322 639	348 066	16 479 969	167 443	1 454 470	8,7%
Regional Governments or Local Authorities	773 988	44 998	566 718	5 433	114 968	20,1%
Public Sector Entities	257 901	43 578	255 300	8 579	294 955	111,8%
Multilateral Development Banks	41 422		41 422			
International Organisations						
Institutions	1 219 513	954 966	1 237 351	44 033	337 321	26,3%
Corporates	5 966 771	3 556 078	5 096 262	416 914	5 252 408	95,3%
Retail	5 094 801	444 140	4 983 128	5 020	3 622 627	72,6%
Secured by mortgages on immovable property	2 155 274	119 195	2 126 912	41 592	1 106 386	51,0%
Exposures in default	782 642	60 638	446 206	8 434	549 492	120,9%
Items associated with particularly high risk	1 519	2	1 511		2 267	150,0%
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective Investment Undertakings	155 294		155 294		105 042	67,6%
Equity exposures	38 652		38 652		94 899	245,5%
Other exposures						
TOTAL	31 810 415	5 571 661	31 428 726	697 449	12 934 834	40,3%

30/06/2018 (Thousand euros)						
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central Governments or Central Banks	14 667 523	350 754	15 987 475	170 051	1 670 546	10,3%
Regional Governments or Local Authorities	870 893	105 991	610 606	4 739	123 099	20,0%
Public Sector Entities	93 841	52 411	27 375	13 117	45 365	112,0%
Multilateral Development Banks	19 111		19 111			
International Organisations						
Institutions	1 180 493	1 002 467	1 195 651	32 563	312 256	25,4%
Corporates	5 909 021	3 175 564	5 113 706	345 911	5 221 693	95,6%
Retail	4 817 425	419 423	4 721 331	23 057	3 442 993	72,6%
Secured by mortgages on immovable property	2 585 925	95 960	2 549 455	31 978	1 322 737	51,2%
Exposures in default	710 360	79 636	434 193	14 133	560 985	125,1%
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective Investment Undertakings	184 246		184 246		108 944	59,1%
Equity exposures	34 398		34 398		84 278	245,0%
Other exposures						
TOTAL	31 073 236	5 282 205	30 877 548	635 548	12 892 898	40,9%

6.4. WRONG WAY RISK

The Wrong Way risk corresponds to the risk of a given exposure being adversely correlated with the counterparty's credit risk. Within credit granting this risk stems from the correlation between the collateral value and the credit worthiness of the borrower, i.e., when the deterioration of the credit risk of the latter leads to a devaluation of the collateral.

Similarly, in the case of derivative and repo transactions, this translates to the risk associated with the fact that the exposure at risk is adversely impacted by the credit quality of the counterparty.

Overall, the Bank considers this risk as immaterial, considering the composition of financial collateral. In terms of credit granted, the borrower's own securities (shares or bonds) represents a very small percentage of the total amount of credit, corresponding mainly to structured finance, including Project Finance, where the usual pledge of shares from the companies or vehicles is part of a comprehensive guarantees' package. Indeed, almost all the credits that have a securities' pledge have additional collateral to secure the exposure.

In the case of derivative and repo operations, in which the Bank mitigates counterparty credit risk through ISDA contracts with CSA, the coverage of market receivables is exclusively made through deposits at the Group itself; hence, wrong-way risk does not apply. In terms of credit default derivatives (CDS or TRS) or other guarantees provided by counterparties, the Bank is also not subject to material wrong-way risk, as the risk covered is not positively correlated with the protection provider.

It should also be noted that, in the ICAAP 2019, this risk was not considered material, within the scope of the assessment carried out.

7. EQUITY EXPOSURES IN THE BANKING BOOK

The Group holds equity exposures in the Banking Book, characterised by stability and with the objective of creating value. The holding of these positions, which include shares and risk capital fund participation units, complies with at least one of the following objectives:

- The development of entities or projects of strategic interest for the Group;
- Generating a return or opportunities for growth of the banking business;
- The development of entities with appreciation potential;
- Making entities with the capacity to recover viable, including namely shares received as payment or by converting credits into capital.

The equity exposures in the Banking Book are initially recognised at fair value, including gains and losses associated with the transactions, and are afterwards valued at their fair value based on the following hierarchy of criteria: market price listed in regulated and active market or, in its absence, based on external valuations made by independent entities, duly recognised, or based on the valuation measurement input from transactions deemed valid between reputable counterparties.

The Group maintains a monitoring process of these positions' fair value.

Changes in the fair value of these equities are registered against fair value changes until they are sold.

Impairment for equity instruments at fair value is not recognized through other comprehensive income, and the respective accumulated gains or losses are recorded in changes in fair value transferred to results carried over at the time of their derecognition. Dividends are recognized in the income statement when the right to receive is attributed.

The equity exposures in the Banking Book are shown in Table 54, as follows:

TABLE 54 – EQUITY EXPOSURES IN THE BANKING BOOK

	(Milhares de euros)							
	Listed shares		Unlisted shares Private equity		Other capital instruments ^(*)		Total	
	31 Dec 19	31 Dec 18	31 Dec 19	31 Dec 18	31 Dec 19	31 Dec 18	31 Dec 19	31 Dec 18
Acquisition cost / Notional amount	42 471	42 744	81 419	58 688			123 890	101 432
Fair value	14 336	19 944	75 640	51 289			89 976	71 233
Market price	14 336	19 944	75 640	51 289			89 976	71 233
Balance sheet value	14 336	19 944	75 640	51 289			89 976	71 233
Gains or losses arising from sales and settlements in the period							24 386	14 587
Total unrealised gains or losses							-33 914	-30 199
Total latent revaluation gains or losses							-33 914	-30 199

Note: Equity issued by the Bank as well as derivatives indexed to those instruments are not included.

(*) Venture capital funds, similar to equity.

(1) Gains or losses arising from sales and settlements in the period: results before taxes.

(2) Total unrealised gains or losses: reports the amount of the fair value reserves in this portfolio on the reporting dates and, therefore, it does not incorporate eventual impairments or goodwill related to the respective securities; corresponds to potential accounting capital gains/losses for this portfolio, to be booked to the profit and loss account in case of divestment.

(3) Total latent revaluation gains or losses: difference between the fair value and the acquisition cost of the securities in the portfolio on the reporting dates. Reflects the total gains/losses underlying the shares of the Investment Portfolio; however, part of the unrealised losses may have already been recognised, via results or reserves (namely by impairment or goodwill).

Within the scope of the approval by Banco de Portugal for the use of IRB methodologies, the Group used the simple risk weight method to compute own funds requirements for the equity in the Banking Book held by Group entities headquartered in Portugal and Poland. The own funds requirements for other operations and countries are still determined using the standardised approach.

The simple risk weight method applies 290% and 370% weights to exposures in listed and unlisted stocks, respectively, and may apply a lower weight (190%) to risk exposures resulting from shareholdings in unlisted companies included in portfolios that are sufficiently diversified. The significant exposures held over financial institutions and insurance companies that are not deducted to own funds are risk weighted at 250%.

The risk positions and risk weighted assets for equity exposures in the Banking Book are presented in Table 55.

TABLE 55 – EQUITY EXPOSURES

	(Thousand euros)			
	Risk positions		Risk weighted assets	
	31 Dec 19	31 Dec 18	31 Dec 19	31 Dec 18
STANDARDISED APPROACH	38 652	29 457	94 899	71 919
IRB APPROACH ⁽¹⁾	124 649	155 346	449 704	559 367
Listed shares	14 372	19 265	41 678	55 867
Unlisted shares	110 277	136 081	408 027	503 500
EQUITY EXPOSURES SUBJECT TO RISK WEIGHTING	285 009	331 649	712 522	670 757
TOTAL	448 310	516 451	1 257 125	1 302 043

⁽¹⁾ Simple risk weight approach.

8. SECURITISATION OPERATIONS

8.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2019, the Group had five ongoing credit securitisation transactions originated by the operation in Portugal. Three are traditional securitisation transactions and the other two are synthetic securitisation transactions.

Since 1998, the Group has regularly carried out securitisation transactions supported on portfolios of different types of assets and pursuing different goals, based on market conditions and opportunities and on the Group's interests and needs at each moment.

It should be noted that, until 2007, all the transactions made were placed in the market with institutional investors. Taking advantage of the conditions of a favourable market framework, this group of transactions – involving mortgage loans, car loans, consumer loans and companies' loans – was carried out with the purpose of supplementing the financing of the Group's business and, under certain circumstances, to promote a more efficient management of the Bank's balance sheet, particularly its equity. The type of investors that participated in these transactions has revealed to be diverse and complementary to the base of investors resulting from the Bank's direct funding transactions in the capital markets. In December 2019, three of these transactions were still outstanding.

After 2007 and until 2012, market conditions to place this kind of transactions deteriorated significantly or even ceased to exist during a long time period, and so it was impossible to set up new securitisations. Consequently, the Bank began retaining in its books the totality of the bonds issued within the scope of each credit securitisation transaction (from the senior tranche to the first loss tranche). To maximise liquidity, the Bank used the senior tranche of each transaction as eligible collateral under refinancing transactions with the Eurosystem. Securitisations carried out in this context were fully redeemed as the Bank's liquidity position improved. In December 2019, the Bank held in its portfolio only portions of little relevance of market transactions, which were placed on the market and were still underway.

Taking advantage of improved market conditions and in particular the appetite for risk originated in Portugal, the Bank carried out, in 2013 and 2014, two synthetic securitisations, which embodied the hedge of a significant portion of its short, medium and long-term corporate loan portfolio (Caravela SME No. 3) and of its leasing portfolio (Caravela SME No. 4). These transactions were aimed at achieving an effective transfer of risk to specialised institutional investors, resulting in a reduction of the risk weighted assets associated with those portfolios.

As an investor, the Group does not hold, and given its profile and investment policy is not expected to hold, any significant position in securitisation transactions. In any case, pursuant to article 449 f), the Bank has a broad risk management and controlling operation, based on models established across a wide range of credit products, including monitoring credit and market risks of securitisation positions.

In this context and being a Bank with IRB methodology approved by the regulator for securitisation positions, the provisions of Part III, Title II, Chapter 5 are observed, with emphasis on the risk weights resulting from articles 261 and 262 of the CRR, thus sustaining an adequate level of own funds. On the other hand, the book value reflects at each moment the market risk component of the security, allowing an adequate assessment of the risk return profile of the underlying asset. Any changes in the risk of these positions are thus subject to rigorous monitoring with reflection not only on the level of own funds but also on the Bank's results. Such changes are also considered and monitored under stress testing scenarios.

Currently, under the terms of article 449 (g) of the CRR, given the insignificance of risks involved, there is no specific hedging or personal protection transaction to reduce the risk of securitization positions held. The specific need for hedging will always depend on the level of risk and of the amounts involved, as this analysis and follow-up is carried out on a case-by-case basis. The same would apply to eventual re-securitisation transactions (which were not held by the Bank at 31/12/2019 or 31/12/2018).

It should also be referred that the entity of the Group that acts as Originator (BCP, in all the active transactions) also intervenes as Servicer and, usually, as Transaction Manager.

The main features of the securitisation transactions of assets originated by the Group, namely in terms of its goal, form and level of involvement, the existence or not of a significant risk transfer in each transaction and of the securitised values and in debt, for active transactions as at 31 December 2019, are summarised in Table 56.

TABLE 56 – DESCRIPTION OF SECURITISATION OPERATIONS

MAGELLAN No. 1	
Identification of the securitisation operation	Magellan Mortgages No. 1 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
	Credit lender
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	18 December 2001
Legal maturity	15 December 2036
Step-up clause (date)	15 December 2008
Revolving (years)	N.A
Securitized assets (in million euros)	1,000.0
Significant credit risk transfer ⁽¹⁾	No
MAGELLAN No. 3	
Identification of the securitisation operation	Magellan Mortgages No. 3 Limited
Initial objective of the securitisation operation	Securing funding and risk management ⁽²⁾
Form of the securitisation operation	Traditional securitisation
	Credit lender
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	30 June 2005
Legal maturity	15 May 2058
Step-up clause (date)	15 August 2012
Revolving (years)	N.A
Securitized assets (in million euros)	1,500.0
Significant credit risk transfer ⁽¹⁾	No
MAGELLAN No. 4	
Identification of the securitisation operation	Magellan Mortgages No. 4 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
	Credit lender
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	13 July 2006
Legal maturity	20 July 2059
Step-up clause (date)	20 July 2015
Revolving (years)	N.A
Securitized assets (in million euros)	1,500.0
Significant credit risk transfer ⁽¹⁾	No

CARAVELA SME No.3	
Identification of the securitisation operation	Caravela SME No. 3
Initial objective of the securitisation operation	Reduction of the RWAs associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Manager of the assigned credits
	Counterparty of the Credit Default Swap
Start date	28 June 2013
Legal maturity	25 March 2036
Step-up clause (date)	N.A.
Revolving (years)	4 years
Securitised assets (in million euros)	2,383.0
Significant credit risk transfer ⁽¹⁾	Yes

CARAVELA SME No.4	
Identification of the securitisation operation	Caravela SME No. 4
Initial objective of the securitisation operation	Reduction of the RWAs associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Manager of the assigned credits
	Counterparty of the Credit Default Swap
Start date	5 June 2014
Legal maturity	25 September 2043
Step-up clause (date)	N.A.
Revolving (years)	5 years
Securitised assets (in million euros)	1,000.0
Significant credit risk transfer ⁽¹⁾	Yes

⁽¹⁾ For regulatory purposes.

⁽²⁾ The Class A Notes of this operation, in December 31 2019, could be pledged by the Bank as collateral within the Eurosystem in the scope of its financing operations.

The main features of the asset securitisation operations originated in the Group at the end of 2019 and 2018 are summarised in Table 57.

TABLE 57 - MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS

	Traditional					
	Magellan 1		Magellan 3		Magellan 4	
	31 dec 2019	31 dec 2018	31 dec 2019	31 dec 2019	31 dec 2018	31 dec 2019
INFORMATION ON THE TRANSACTIONS						
Amounts in debt (in million euros)						
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION	63	79	292	63	79	292
'Implicit support' situations						
Assets assigned (per institution)/Securitised assets (total) (%)	N.A.	Sim*	N.A.	N.A.	Sim*	N.A.
Initial gains/Value of first loss positions held	2%	2%	7%	2%	2%	7%

N.A.- Not applicable

* During 2010, the bank repurchased 82.4% of Magellan No. 3 residual note. This transaction has been accomplished at fair market value (30 million euros) but has been considered as an implicit support situation for regulatory purposes.

	Synthetic			
	Caravela SME 3		Caravela SME 4	
	31 dec 2019	31 dec 2018	31 dec 2019	31 dec 2018
INFORMATION ON THE TRANSACTIONS				
Amounts in debt (in million euros)				
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION	2 383	1 678	1 000	1 174
'Implicit support' situations				
Assets assigned (per institution)/Securitised assets (total) (%)	N.A.	N.A.		
Initial gains/Value of first loss positions held	59%	45%	25%	31%

N.A.- Not applicable

8.2. GROUP ACCOUNTING POLICIES

The Group fully consolidates Special Purpose Entities (SPE) resulting from securitisation operations originated in Group entities and resulting from credit assignments operations, when the relation with such entities indicates that the Group controls their activities, regardless of the shareholding owned by it. Besides these SPE resulting from securitisation operations and from credit assignments operations, no additional SPE's have been consolidated considering that they do not meet the criteria established on SIC 12 as described below.

The assessment of the existence of control is made based on the criteria defined by SIC 12, analysed as follows:

- The SPE's activities are being mainly carried out in favour of the Group, according to its specific business needs, so that the Group benefits from the operation of the SPE;
- The Group has the power to decide to obtain most of the benefits of the SPE's activities, or, by establishing auto-pilot mechanisms, the entity delegated such decision-making powers;
- The Group has the right to obtain most of the benefits of the SPE's activities and is therefore exposed to the SPE's underlying risks;
- The Group holds most residual or property risks of the SPE or its assets, so as to benefit from its activities.

In order to determine if an SPE is controlled, it is assessed if the Group is exposed to the risks and benefits of the activities of the SPE and if it has the decision-making powers in that SPE. The decision on whether an SPE must be consolidated by the Group requires the use of premises and estimates to verify the residual gains and losses and determine who holds most of those gains and losses. Other assumptions and estimates could result in differences in the consolidation perimeter of the Group, with a direct impact on results.

Within the scope of the application of such policy, the accounting consolidation perimeter included the SPE resulting from the traditional securitisation operation Magellan no. 3. On the other hand, the Group did not consolidate into its accounts the SPEs that also resulted from the traditional securitisation operations Magellan no. 1 and 4.

Regarding these SPE, not recognised in the balance sheet, it was verified that the associated risks and benefits were substantially transferred, since the Group does not hold securities issued by the SPE in question with exposure to most residual risks, nor is it in any other manner exposed to the performance of the credit portfolios.

The Group has two operations in progress which form structures of synthetic securitization. Caravela SME No. 3, associated to a corporate loan portfolio, mostly small and medium sized enterprises (SMEs) or individual entrepreneurs and Caravela SME No. 4, which involves a pool of leasing contracts to companies and sole-partnerships.

In both operations, the Bank hired a Credit Default Swap (CDS) with a SPV, buying by this way the protection for the total portfolio referred. Both cases, the synthetic securitizations, the same CDS, the risk of the respective portfolios were divided in 3 classes: senior, mezzanine and equity. The mezzanine and part of the equity (20%) were placed in the market through an SPV, and the subscription by investors, the Credit Linked Notes (CLSs). The Bank retained the senior risk and part of the equity remaining (80%). The product of the CLNs issue was invested by the SPV in a deposit which total collateral the responsibilities in the presence of the Bank, in accordance of the CDS.

Regarding the Magellan No.3 included in the consolidation perimeter, if it is determined that the control exercised by the Group over their activities has ceased, namely pursuant to the sale of the most subordinated securities issued by them, the SPE will no longer be consolidated. In this case, since the law determines that the management of loans granted remains within the group, their registry in the off-balance sheet will be maintained.

At the moment of the assignment of the assets associated with securitisation operations, the Group registers a gain or a loss in the income statement if the SPE is not consolidated from the beginning, corresponding to the difference between the sale value of the assets and their accounting value. In the other cases, if the SPE is consolidated, there are no gains or losses in the initial moment.

If while an operation is active, whose SPE is consolidated, the Group sells part or all the securities held, it will register a gain or loss that: (i) if the need to consolidate the SPE remains, it will be associated with the sale of the securities issued, being incorporated in liabilities as a premium or discount and accrued according to the effective rate until maturity or, (ii) if the SPE is not consolidated with due grounds, will result from the sale of the assets, which will be derecognised, and the sale will be recognised in the consolidated income statements.

8.3. OWN FUNDS REQUIREMENTS

On 31 December 2019 and 2018, the Group held securitisation positions both as an investor and as an originator entity. For some of the securitisation positions as an originator there was no significant credit risk transfer, according to the criteria defined in the CRR, articles 243 and 244, Section 2, Chapter 5, Title II, Part III and, therefore, the own funds requirements were determined as if these securitisations had not occurred.

The computation of the own fund's requirements of the securitisation operations by the end of 2019 and 2018 was made according to Section 3, Chapter 5, Title II, Part III of the CRR.

For the securitisation positions held as an investor, with an external rating attributed by an ECAI, a ratings-based method was used, in accordance to article 261, Sub-Section 4, Section 3, Chapter 5, Title II, Part III of the CRR and using the mapping between external ratings and credit quality grades that is defined in prudential regulations and Guidelines. The exposures without external rating were subject to a 1,250% weight.

The ECAI used in 2019 to compute the own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

For the securitisation positions held as an originator, the supervisory formula method was used, in accordance to article 262, Sub-Section 4, Section 3, Chapter 5, Title II, Part III of the CRR.

The risk weighted assets for securitisation operations computed according to the IRB approach, at the end of 2019 and 2018, are shown in Tables 58 and 59.

TABLE 58 - SECURITISATION OPERATIONS: IRB APPROACH (TRADITIONAL)

(Thousand euros)									
Traditional securitisations	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value	Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%				Risk weighted assets		
			Amounts deducted from own funds (-)	Internal ratings approach		1250%		31 Dec 19	31 Dec 18
				12% - 18%	100%	Position subject to notation	Position not subject to notation		
TOTAL EXPOSURES (=A+B+C)	5 218						1 874	1 946	
A - LENDER ENTITY: TOTAL EXPOSURES									
B - INVESTOR: TOTAL EXPOSURES	5 218	5 117	5 117			101	1 874	1 946	
B.1 - Balance sheet items	5 218	5 117	5 117			101	1 874	1 946	
Most senior	5 117	5 117	5 117				542	614	
Mezzanine									
First loss	101					101	1 332	1 332	
B.2 - Off-balance sheet items and derivatives									
C - SPONSOR: TOTAL EXPOSURES									

TABLE 59 - SECURITISATION OPERATIONS: IRB APPROACH (SYNTHETIC)

(Thousand euros)						
Synthetic securitisations	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value	Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%		Risk weighted assets	
		Amounts deducted from own funds (-)	Regulatory formula approach	Average risk weight (%)	31 Dec 19	31 Dec 18
TOTAL EXPOSURES (=A+B+C)	1 947 057	1 685 460	1 685 460	17%	256 791	282 127
A - LENDER ENTITY: TOTAL EXPOSURES	1 947 057	1 685 460	1 685 460	17%	256 791	282 127
A.1 - Balance sheet items	1 685 460	1 423 863	1 423 863	16%	204 472	227 217
Most senior	1 415 432	1 415 432	1 415 432	9%	99 080	131 152
Mezzanine	259 489					
First loss	10 539	8 431	8 431	1139%	105 392	96 066
A.2 - Off-balance sheet items and derivatives	261 597	261 597	261 597	21%	52 319	54 910
A.3 - Early amortisation						
B - INVESTOR: TOTAL EXPOSURES						
C - SPONSOR: TOTAL EXPOSURES						

On 31 December 2019 and 2018 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.

9. MARKET RISKS (TRADING BOOK)

The Trading Book is composed of positions held with the purpose of obtaining short-term gains, via sales or revaluations. These positions are actively managed and rigorously and frequently evaluated.

In a letter dated 30 April 2009, Banco de Portugal authorised the Group to use the internal models approach to compute own funds requirements in terms of generic market risk of the Trading Book.

This authorisation encompassed all the sub-portfolios of the Trading Book that are part of the perimeter that is centrally managed from Portugal, which includes all the trading operations related with financial markets and products, namely those carried out by Banco Comercial Português, S.A..

Thus, as at 31 December 2019 and 2018, own funds requirements for generic market risks of the Group's Trading Book were calculated in accordance with the internal models approach for generic risk, within the universe of entities centrally managed from Portugal. For the remaining entities, the own funds requirements were calculated in accordance with the standardised approach.

MARKET RISKS	
Generic risk over debt instruments and equity securities	Internal Model
FX risk	Internal Model
Commodities risk and specific risk over debt instruments and equity securities	Standardised Approach

The Bank uses a standardised approach for specific risk and does not have a correlation trading portfolio (CPT). Hence, incremental risk capital charges, migration risk or specific risk measurement for the CTP do not apply.

The RWA and own funds requirements for market risks, as at 31/12/2019 and 30/06/2019 and calculated through the Standardised Approach are shown in the following tables.

TABLE 60 – TEMPLATE 34 / MR1 - MARKET RISK UNDER THE STANDARDISED APPROACH

31/12/2019

(Thousand euros)

	RWA	Capital requirements
OUTRIGHT PRODUCTS		
Interest rate risk (general and specific)	66 220	5 298
Equity risk (general and specific)	551	44
Foreign exchange risk	371 521	29 722
Commodity risk	447	36
OPTIONS		
Simplified approach		
Delta-plus method		
Scenario approach		
SECURITISATION (SPECIFIC RISK)		
TOTAL	438 740	35 099

30/06/2019

(Thousand euros)

	RWA	Capital requirements
OUTRIGHT PRODUCTS		
Interest rate risk (general and specific)	41 921	3 354
Equity risk (general and specific)	1 440	115
Foreign exchange risk	378 227	30 258
Commodity risk	369	30
OPTIONS		
Simplified approach		
Delta-plus method		
Scenario approach		
SECURITISATION (SPECIFIC RISK)		
TOTAL	421 957	33 757

9.1. CALCULATION METHODOLOGIES

The calculation of own funds requirements for generic market risk, via the standardised approach, was based on the following methodologies, according to the specific type of financial instrument:

- Debt instruments: in this portfolio, capital requirements for generic market risk were calculated according to the maturity-based method – in accordance with Article 339 of Section 2 of Chapter 2, Title IV, Part III CRR and the treatment of positions referred to in Section 1 of the same chapter.
- Capital instruments: for this portfolio, own funds requirements for generic market risk were calculated in accordance with the methodology described in Section 3, Chapter 2, Title IV, Part III of the CRR.

In addition, for the application purposes of the internal models approach, the Group applies a VaR methodology to measure generic market risk – including interest rate risk, foreign exchange risk and equity risk – for all sub-portfolios covered by the previously mentioned authorisation for internal modelling.

The valuation procedures are established in terms of the potential negative impact of market conditions, in both normal and stressful circumstances, on the Trading Book of the Group's business units.

As already mentioned, with respect to risk measurement models used in the Group, the Bank is authorized to use the internal models approach in assessing the generic market risk capital requirements of the trading sub-portfolios that are part of Portugal's centrally managed perimeter (by Banco Comercial Portugues, SA). With reference to December 31, 2019, the capital requirements calculated by internal model corresponded to 55% of the total requirements of the Group.

The methodology used to measure market risk is the Value-at-Risk (VaR), which indicates the maximum losses that can occur in the portfolios, with a certain level of confidence and time horizon. The VaR calculation considers a time horizon of ten business days and a significance level of 99%.

This methodology is widely used in the market and has the advantage of summarizing, in a single metric, the inherent risks of the trading activity, considering the relationships between all of them, providing an estimate of the Trading Book losses as a result of changes in the stock markets' prices, interest rates, FX rates and commodities' prices. In addition, for some positions, other risks are considered, such as credit spreads' risk, base risk, volatility risk and correlation risk.

The daily VaR is determined by calculating the impact, on the current value of the portfolio, of the historical changes of last years' risk factors, with a daily update of the observation window. As of December 31, 2019, the Bank did not apply any weighting system to the seniority of historical variations. The holding period is modelled through multiplying the 1-day VaR by the square root of 10.

In accordance with the implemented methodology, the Bank carries out a total revaluation, using the logarithmic returns of the risk factors; for interest rates, the logarithmic returns of the discount factors are used.

As a complement, other metrics are used for the remaining types of risk, namely, a non-linear risk measure that incorporates the options' risk not covered in the VaR model, with a confidence interval of 99%, and a measure defined by the standard methodology in the VaR model for commodities' risk. These measures are integrated into the market risk indicator with the conservative assumption of perfect correlation between the different types of risk (worst-case scenario).

In what concerns the capital requirements calculation, the VaR amount measured is increased by the amount measured for SVaR (stressed VaR). For both the VaR and the SVaR, pursuant to Article 366 of the CRR, a regulatory multiplier is additionally applied.

The SVaR calculation process consists of calculating historical VaR, with a confidence interval of 99%, based on the daily variations of market prices during a stress period of 12 consecutive months. The analysis to define the stress period is carried out weekly and may lead to a review of the period to be considered as the one that maximizes the VaR of the portfolio at the time of analysis. As of December 31, 2019, the stress period considered was between 26/04/2011 and 25/04/2012.

The SVaR calculation is based on the same methodology and structure used for the VaR, the only difference being the historical period used. Regarding the process of determining the holding period, this also results from multiplying the 1-day VaR by the square root of 10.

Table 61 shows the main VaR and SVaR statistics, calculated in accordance to the approved internal model methods, exclusively for the universe of entities managed centrally from Portugal, on 31/12/2019 and 30/06/2018:

TABLE 61 – TEMPLATE 37 / EU MR3 – IMA VALUES FOR TRADING PORTFOLIOS

31/12/2019		(Thousand euros)
VaR (10 day 99%)		
Maximum value		5 056
Average value		2 067
Minimum value		814
Period end		1 885
SVaR (10 day 99%)		
Maximum value		16 024
Average value		11 663
Minimum value		9 457
Period end		15 945
IRC (99,9%)		
Maximum value		
Average value		
Minimum value		
Period end		
COMPREHENSIVE RISK CAPITAL CHARGE (99.9%)		
Maximum value		
Average value		
Minimum value		
Period end		
30/06/2019		
		(Thousand euros)
VaR (10 day 99%)		
Maximum value		5 419
Average value		3 131
Minimum value		1 760
Period end		4 998
SVaR (10 day 99%)		
Maximum value		13 049
Average value		9 809
Minimum value		8 092
Period end		12 030
IRC (99,9%)		
Maximum value		
Average value		
Minimum value		
Period end		
COMPREHENSIVE RISK CAPITAL CHARGE (99.9%)		
Maximum value		
Average value		
Minimum value		
Period end		

Own funds requirements for specific market risk continued to be calculated in accordance with the standardised approach, including those of the sub-Trading Books regarding which Banco de Portugal authorised the use of the internal models approach to calculate the generic market risk, as previously mentioned.

These requirements were determined, for all the positions of the Group's Trading Book, pursuant to Sub-Section 1, Section 2, Chapter 2, Title IV, Part III and article 342 of Section 3, Chapter 2, Title IV, Part III of the CRR, according to the type of financial instruments at stake (debt instruments or capital instruments, respectively).

In 2019, the average value of stressed VaR, for the Trading Portfolio, was EUR 11.66 million. Regarding the value of this metric on 31 December 2019, the amount determined was EUR 15, 95 million.

9.2. STRESS TESTS ON THE TRADING BOOK

Besides calculating the VaR and aiming at identifying the concentration of risks not captured by that metric and to assess other possible losses, the Group continually tests a wide set of stress scenarios on the Trading Book, analysing the results of those stress tests.

Table 625 summarises the results of these tests on the Group's global Trading Book on 31 December 2018, indicating that the exposure to the various risk factors is limited and that the main risk to take into account, under the standard scenarios tested, is an increase in interest rates, especially when accompanied by an increase in the slope of the yield curve.

TABLE 62 - STRESS TESTS OVER THE TRADING BOOK

(Thousand euros)

STANDARD SCENARIOS (tested as at 31/12/2018)	Negative result scenario	Result
Parallel shift of the yield curve by +/- 100 bps	-100 bps	-10 285
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	-25 bps	-1 713
4 combinations of the previous 2 scenarios	-100 bps and +25 bps	-11 820
	-100 bps and -25 bps	-8 713
Variation in the main stock market indices by +/- 30%	-30%	-399
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	+10%, +25%	-5 508
Parallel shift of the yield curve by +/- 100 bps	-20 bps	-1 202
NON-STANDARD SCENARIOS (tested as at 31/12/2018)	Negative result scenario	Result
Widening/narrowing of the bid-ask spread	Widening	-4 284
Significant vertices ⁽¹⁾	VaR w/ diversification	-10 122
	VaR w/o diversification	-10 088
Historical scenarios ⁽²⁾	06/Oct/2008	-5 818
	18/jul/2011	-11 752

⁽¹⁾ Scenarios in which the more adverse variations of the last seven years, relative to the portfolio's five most significant risk factors, are applied to the current portfolio.

⁽²⁾ Scenarios in which past extreme markets variations are applied to the current portfolio; in this case, the significant dates refer to the 2008 financial crisis and the Eurozone Sovereign Debt crisis in 2011.

9.3. BACKTESTING OF THE INTERNAL MODELS APPROACH

The Group carries out backtests of the internal models approach results, in relation to the theoretical results obtained by the target portfolio of the calculation, unchanged between two consecutive working days and revaluated at market prices of the second day. In parallel, the Group has a complementary process to verify the results of the model in relation to the actual results obtained, excluding the effects of operations carried out via intermediation.

The evaluation of the financial assets and liabilities included in the Trading Book is carried out by the Office for Valuation and Monitoring of Models, that is totally independent from the negotiation of those assets, and the control of the evaluations. The evaluation and control procedures are documented in the Group's internal regulations. The segregation between position-taking and position-evaluation duties is also contemplated at the level of information technology systems that intervene in the global process involving the management, evaluation, settlement and accounting of operations.

In what concerns the ex-post verification of the model's results, the number of excesses registered in 2019 and 2018, relative to the global Trading Book of companies centrally managed from Portugal, for which Banco de Portugal has approved the use of the internal models approach to compute generic risk capital requirements, is shown in Table 63.

TABLE 63 - BACKTESTING OF THE VAR APPROACH APPLIED IN MARKET RISK CALCULATION

Year	Result	
	Positive	Negative
2018	0	3
2019 ^(*)	0	3

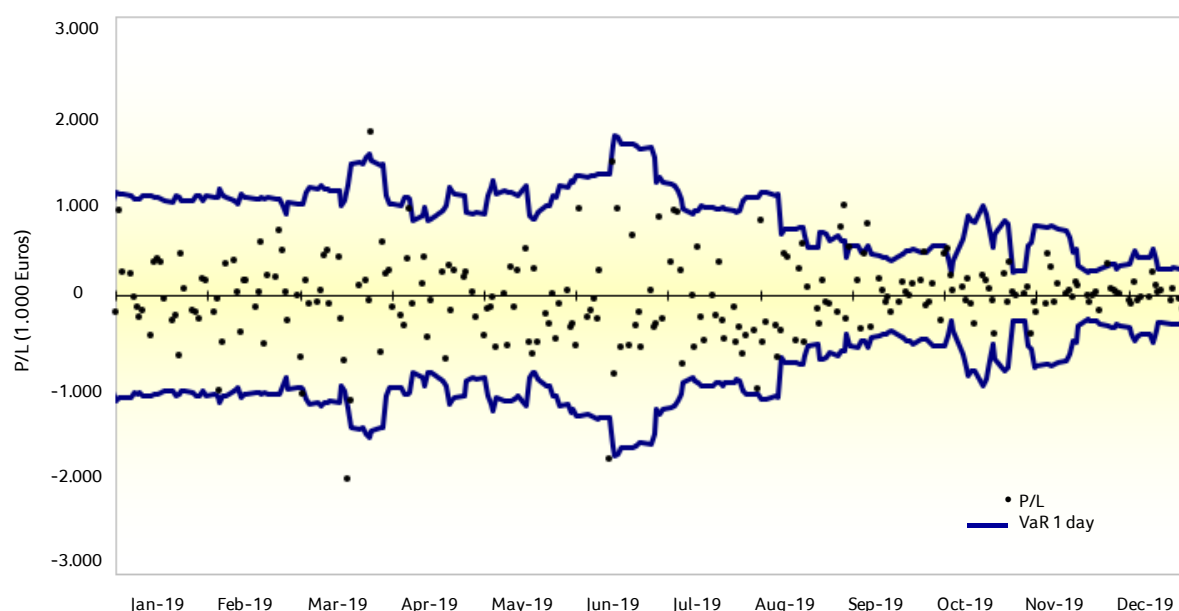
(*) In 2019, two "excesses" were also considered, resulting from unavailability of data to determine the model's results

Note: The model used for the purpose of a posteriori verification is focused on the excesses occurred in both sides of the distribution and the expected number of excesses, according to the significance level applied, is 5 per year (2% x 250 annual observations).

The accuracy of the model used to estimate generic risk is monitored on a daily basis by the backtesting process that compares the risk values computed on a given day (VaR) with the (theoretical) result of applying the following day's market rates to those exposures.

The following charts show the results of the hypothetical and real backtesting, for the Trading Book centrally managed from Portugal, in 2019.

GRAPH 1 – HYPOTHETICAL VAR BACKTESTING (TRADING BOOK)



In 2019, five excesses of value (negative) were observed over the hypothetical results predicted by the model, which represents a frequency of 1.9% in 257 days of observations. This result is in line with the theoretical value of expected bilateral excesses, so the model is considered adequate.

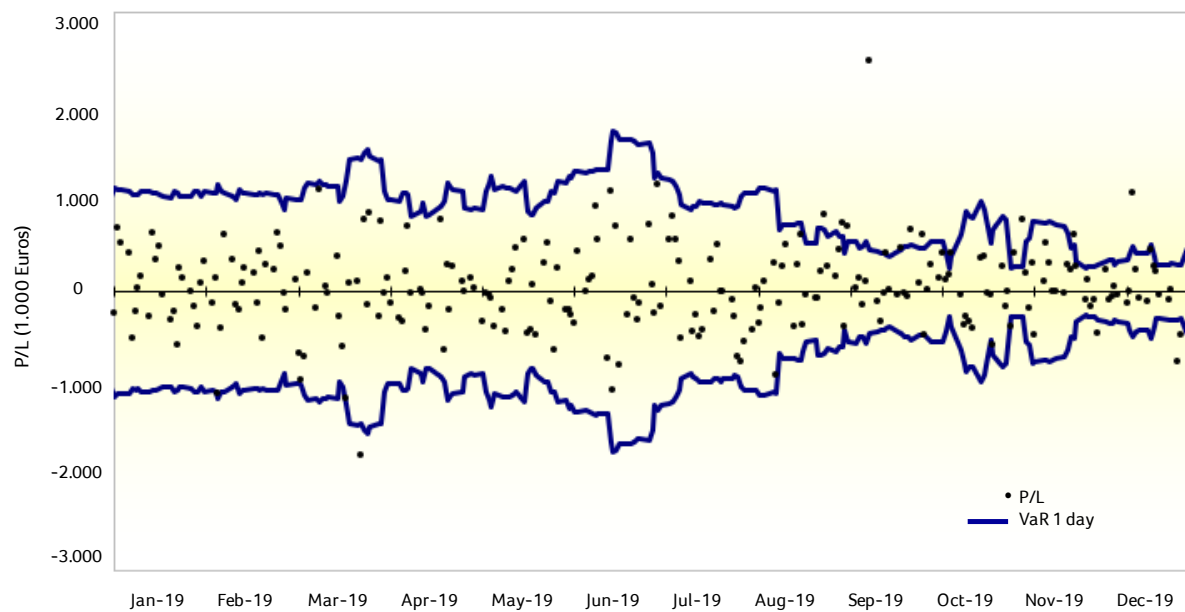
GRAPH 2 – REAL VaR BACKTESTING (TRADING BOOK)

Table 64 A presents the detailed results of the daily hypothetical backtesting of the Trading Book centrally managed from Portugal in 2019. An excess occurs when the return registered for the portfolio is higher (in absolute value) than the theoretical result of the VaR model.

Table 64 B presents the detailed results of the daily real backtesting of the Trading Book centrally managed from Portugal in 2019. An excess occurs when the real return registered for the portfolio is higher (in absolute value) than the theoretical result of the VaR model.

10-days VaR with 99% unilateral confidence level; theoretical result obtained in the ex-post VaR model validation process (daily result scaled for 10 days through the square root of time).

TABLE 64 A – TEMPLATE 38 / EU MR4 (I) - HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2019

(Thousand euros)

Date	VaR	Hypothetical result	Date	VaR	Hypothetical result		Date	VaR	Hypothetical result	Date	VaR	Hypothetical result	Date	VaR	Hypothetical result	Date	VaR	Hypothetical result
2019-1-2	1,120	-185	2019-3-6	996	-1,057	(1)	2019-5-10	1,093	-550	2019-7-12	936	-732	2019-9-13	442	-347	2019-11-15	718	132
2019-1-3	1,100	920	2019-3-7	1,106	165		2019-5-13	1,127	22	2019-7-15	882	8	2019-9-16	433	187	2019-11-18	699	14
2019-1-4	1,088	260	2019-3-8	1,165	-96		2019-5-14	1,121	-541	2019-7-16	913	-551	2019-9-17	419	60	2019-11-19	626	65
2019-1-7	1,086	242	2019-3-11	1,149	-75		2019-5-15	1,121	299	2019-7-17	922	529	2019-9-18	414	-78	2019-11-20	475	-13
2019-1-8	1,043	-16	2019-3-12	1,180	60		2019-5-16	1,101	-131	2019-7-18	968	-231	2019-9-19	391	-14	2019-11-21	505	149
2019-1-9	1,048	-122	2019-3-13	1,153	428		2019-5-17	1,082	272	2019-7-19	959	-488	2019-9-20	378	-170	2019-11-22	324	109
2019-1-10	1,040	-236	2019-3-14	1,148	492		2019-5-20	1,178	511	2019-7-22	957	-2	2019-9-23	424	-63	2019-11-25	257	11
2019-1-11	1,072	-165	2019-3-15	1,133	-94		2019-5-21	870	-505	2019-7-23	937	-220	2019-9-24	454	137	2019-11-26	272	-69
2019-1-14	1,077	-420	2019-3-18	1,137	418		2019-5-22	826	-634	2019-7-24	929	367	2019-9-25	487	45	2019-11-27	271	-4
2019-1-15	1,062	353	2019-3-19	961	-243		2019-5-23	827	280	2019-7-25	959	-274	2019-9-26	479	-6	2019-11-28	270	40
2019-1-16	1,061	400	2019-3-20	1,018	-703		2019-5-24	891	-505	2019-7-26	939	-462	2019-9-27	512	123	2019-11-29	297	-163
2019-1-17	1,045	353	2019-3-21	1,192	-1,976	(2)	2019-5-27	964	-190	2019-7-29	922	-129	2019-9-30	469	164	2019-12-2	318	347
2019-1-18	1,015	-26	2019-3-22	1,413	-1,133		2019-5-28	965	-310	2019-7-30	899	-509	2019-10-1	469	468	2019-12-3	341	75
2019-1-21	1,011	-276	2019-3-25	1,434	106		2019-5-29	1,074	24	2019-7-31	913	-338	2019-10-2	465	-109	2019-12-4	340	53
2019-1-22	1,076	-209	2019-3-26	1,421	N/A	(3)	2019-5-30	1,067	-458	2019-8-1	1,016	-628	2019-10-3	507	-71	2019-12-5	296	41
2019-1-23	1,061	-637	2019-3-27	1,487	157		2019-5-31	1,176	-94	2019-8-2	1,064	-422	2019-10-4	540	125	2019-12-6	320	21
2019-1-24	1,021	445	2019-3-28	1,520	-58		2019-6-3	1,166	50	2019-8-5	1,051	-370	2019-10-7	541	-266	2019-12-9	343	-47
2019-1-25	1,028	77	2019-3-29	1,450	1,766		2019-6-4	1,244	-347	2019-8-6	1,052	-999	2019-10-8	535	449	2019-12-10	405	-92
2019-1-28	1,031	-166	2019-4-1	1,406	-616		2019-6-5	1,221	-301	2019-8-7	1,113	801	2019-10-9	422	506	2019-12-11	484	148
2019-1-29	1,082	-178	2019-4-2	1,419	577		2019-6-6	1,285	-531	2019-8-8	1,118	-496	2019-10-10	260	215	2019-12-12	421	-58
2019-1-30	1,077	-247	2019-4-3	1,082	239		2019-6-7	1,295	942	2019-8-9	1,109	-280	2019-10-11	379	54	2019-12-13	410	-20
2019-1-31	1,025	182	2019-4-4	990	271		2019-6-10	1,276	-239	2019-8-12	1,082	-314	2019-10-14	617	93	2019-12-16	407	-21
2019-2-1	1,070	156	2019-4-5	992	-122		2019-6-11	1,291	-168	2019-8-13	1,090	-667	2019-10-15	771	-59	2019-12-17	497	260
2019-2-4	1,062	-179	2019-4-8	977	-215		2019-6-12	1,300	-36	2019-8-14	666	-373	2019-10-16	863	178	2019-12-18	370	109
2019-2-5	1,066	-39	2019-4-9	1,054	-316		2019-6-13	1,319	-242	2019-8-15	721	447	2019-10-17	804	-81	2019-12-19	287	29
2019-2-6	1,145	-1,013	2019-4-10	1,062	391		2019-6-14	1,313	263	2019-8-16	711	405	2019-10-18	799	-300	2019-12-20	291	53
2019-2-7	1,074	-499	2019-4-11	1,039	930		2019-6-17	1,304	-1,757 (4)	2019-8-19	711	-486	2019-10-21	963	214	2019-12-23	296	-47
2019-2-8	1,066	340	2019-4-12	816	-94		2019-6-18	1,611	1,431	2019-8-20	737	289	2019-10-22	886	171	2019-12-24	301	66
2019-2-11	1,025	378	2019-4-15	869	128		2019-6-19	1,714	-842	2019-8-21	732	559	2019-10-23	698	73	2019-12-26	296	-27
2019-2-12	985	47	2019-4-16	960	422		2019-6-20	1,702	937	2019-8-22	648	-496	2019-10-24	526	-57	2019-12-27	286	-146
2019-2-13	1,095	-399	2019-4-17	815	-451		2019-6-21	1,631	-554	2019-8-23	531	94	2019-10-25	673	-408	2019-12-30	523	-16
2019-2-14	1,057	172	2019-4-18	821	-60		2019-6-24	1,632	-537	2019-8-26	523	-139	2019-10-28	800	242	2019-12-31	596	446
2019-2-15	1,055	164	2019-4-22	907	248		2019-6-25	1,630	650	2019-8-27	685	-306	2019-10-29	768	-61			
2019-2-18	1,043	-122	2019-4-23	965	-684		2019-6-26	1,610	-328	2019-8-28	683	157	2019-10-30	587	357			
2019-2-19	1,038	36	2019-4-24	1,161	325		2019-6-27	1,575	-177	2019-8-29	664	-78	2019-10-31	260	37			
2019-2-20	1,056	577	2019-4-25	1,133	-165		2019-6-28	1,581	-554	2019-8-30	600	-91	2019-11-1	271	N/A	(3)		
2019-2-21	1,035	-511	2019-4-26	1,093	279		2019-7-1	1,599	53	2019-9-2	652	-178	2019-11-4	270	14			
2019-2-22	1,057	211	2019-4-29	1,070	198		2019-7-2	1,483	-336	2019-9-3	585	729	2019-11-5	534	88			
2019-2-25	1,047	194	2019-4-30	904	254		2019-7-3	1,224	-297	2019-9-4	598	962	2019-11-6	577	-411			
2019-2-26	1,048	696	2019-5-2	879	36		2019-7-4	1,272	841	2019-9-5	412	-246	2019-11-7	763	-76			
2019-2-27	963	494	2019-5-3	903	-230		2019-7-5	1,217	-247	2019-9-6	536	520	2019-11-8	750	-171			
2019-2-28	873	33	2019-5-6	882	-432		2019-7-8	1,199	367	2019-9-9	547	166	2019-11-11	735	-87			
2019-3-1	1,000	-270	2019-5-7	1,071	-137		2019-7-9	1,188	918	2019-9-10	476	-359	2019-11-12	738	458			
2019-3-4	989	10	2019-5-8	1,170	-128		2019-7-10	1,126	895	2019-9-11	478	454	2019-11-13	747	303			
2019-3-5	986	-662	2019-5-9	1,232	-22		2019-7-11	1,048	268	2019-9-12	546	775	2019-11-14	738	-71			

(1) Decrease of 6 bp in German bond rates (9-10 year terms) and 5 bp decrease in Euro Swap rates (3 to 5 year terms).

(2) Decrease of 6 bp in German bond rates (9/10 years).

(3) The failure of the IT systems prevented the correct calculation of the NPV, making it impossible to compare with the NPV with the following day's rates.

(4) Decrease of 8 bp in German bond rates (9-10 year terms) and 7 bp decrease in Euro Swap rates (10 year term).

Note: VaR for 10 days with 99% unilateral confidence level; hypothetical result obtained by an ex-post validation procedure over the VaR model (daily result scaled for 10 days divided by the square root of time).

TABLE 64 B - TEMPLATE 38 / EU MR4 (II) - REAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2019

(Thousand euros)

Date	VaR	Actual result	Date	VaR	Actual result	Date	VaR	Actual result	Date	VaR	Actual result	Date	VaR	Actual result	Date	VaR	Actual result
2019-1-2	1,120	-223	2019-3-6	996	-945	2019-5-10	1,093	-368	2019-7-12	936	-499	2019-9-13	442	2,481	2019-11-15	718	N/A
2019-1-3	1,100	689	2019-3-7	1,106	-700	2019-5-13	1,127	-197	2019-7-15	882	117	2019-9-16	433	-109	2019-11-18	699	-22
2019-1-4	1,088	516	2019-3-8	1,165	201	2019-5-14	1,121	-434	2019-7-16	913	-430	2019-9-17	419	-313	2019-11-19	626	294
2019-1-7	1,086	406	2019-3-11	1,149	-170	2019-5-15	1,121	101	2019-7-17	922	-241	2019-9-18	414	-15	2019-11-20	475	243
2019-1-8	1,043	-494	2019-3-12	1,180	1,091	2019-5-16	1,101	239	2019-7-18	968	-473	2019-9-19	391	422	2019-11-21	505	613
2019-1-9	1,048	-205	2019-3-13	1,153	8,743	2019-5-17	1,082	471	2019-7-19	959	-416	2019-9-20	378	12	2019-11-22	324	270
2019-1-10	1,040	34	2019-3-14	1,148	60	2019-5-20	1,178	557	2019-7-22	957	335	2019-9-23	424	-37	2019-11-25	257	-88
2019-1-11	1,072	164	2019-3-15	1,133	-19	2019-5-21	870	-440	2019-7-23	937	-214	2019-9-24	454	472	2019-11-26	272	133
2019-1-14	1,077	-272	2019-3-18	1,137	384	2019-5-22	826	-411	2019-7-24	929	498	2019-9-25	487	-7	2019-11-27	271	-153
2019-1-15	1,062	631	2019-3-19	961	-260	2019-5-23	827	78	2019-7-25	959	-6	2019-9-26	479	-51	2019-11-28	270	-95
2019-1-16	1,061	344	2019-3-20	1,018	-587	2019-5-24	891	-472	2019-7-26	939	-6	2019-9-27	512	670	2019-11-29	297	-448
2019-1-17	1,045	487	2019-3-21	1,192	-1,153	2019-5-27	964	299	2019-7-29	922	-80	2019-9-30	469	98	2019-12-2	318	238
2019-1-18	1,015	-28	2019-3-22	1,413	97	2019-5-28	965	518	2019-7-30	899	-265	2019-10-1	469	602	2019-12-3	341	-91
2019-1-21	1,011	-301	2019-3-25	1,434	115	2019-5-29	1,074	-107	2019-7-31	913	-706	2019-10-2	465	-461	2019-12-4	340	-50
2019-1-22	1,076	-206	2019-3-26	1,421	-1,749	2019-5-30	1,067	-634	2019-8-1	1,016	-743	2019-10-3	507	25	2019-12-5	296	56
2019-1-23	1,061	-565	2019-3-27	1,487	766	2019-5-31	1,176	251	2019-8-2	1,064	-531	2019-10-4	540	286	2019-12-6	320	-40
2019-1-24	1,021	256	2019-3-28	1,520	-141	2019-6-3	1,166	-186	2019-8-5	1,051	-417	2019-10-7	541	153	2019-12-9	343	-117
2019-1-25	1,028	153	2019-3-29	1,450	847	2019-6-4	1,244	-198	2019-8-6	1,052	47	2019-10-8	535	419	2019-12-10	405	8
2019-1-28	1,031	8	2019-4-1	1,406	-264	2019-6-5	1,221	-251	2019-8-7	1,113	-333	2019-10-9	422	119	2019-12-11	484	1,068
2019-1-29	1,082	-155	2019-4-2	1,419	757	2019-6-6	1,285	-347	2019-8-8	1,118	-172	2019-10-10	260	177	2019-12-12	421	230
2019-1-30	1,077	-380	2019-4-3	1,082	-15	2019-6-7	1,295	439	2019-8-9	1,109	108	2019-10-11	379	410	2019-12-13	410	-61
2019-1-31	1,025	92	2019-4-4	990	151	2019-6-10	1,276	5	2019-8-12	1,082	303	2019-10-14	617	-33	2019-12-16	407	-107
2019-2-1	1,070	318	2019-4-5	992	-117	2019-6-11	1,291	125	2019-8-13	1,090	-886	2019-10-15	771	-359	2019-12-17	497	441
2019-2-4	1,062	-126	2019-4-8	977	-282	2019-6-12	1,300	158	2019-8-14	666	-131	2019-10-16	863	-258	2019-12-18	370	265
2019-2-5	1,066	142	2019-4-9	1,054	-324	2019-6-13	1,319	923	2019-8-15	721	270	2019-10-17	804	-314	2019-12-19	287	226
2019-2-6	1,145	-1,094	2019-4-10	1,062	209	2019-6-14	1,313	559	2019-8-16	711	509	2019-10-18	799	-389	2019-12-20	291	-36
2019-2-7	1,074	-385	2019-4-11	1,039	700	2019-6-17	1,304	-723	2019-8-19	711	-373	2019-10-21	963	365	2019-12-23	296	-96
2019-2-8	1,066	608	2019-4-12	816	-10	2019-6-18	1,611	1,072	2019-8-20	737	283	2019-10-22	886	375	2019-12-24	301	15
2019-2-11	1,025	335	2019-4-15	869	25	2019-6-19	1,714	-1,048	2019-8-21	732	612	2019-10-23	698	-9	2019-12-26	296	-757
2019-2-12	985	-144	2019-4-16	960	-8	2019-6-20	1,702	707	2019-8-22	648	-348	2019-10-24	526	-42	2019-12-27	286	-460
2019-2-13	1,095	-199	2019-4-17	815	-404	2019-6-21	1,631	-787	2019-8-23	531	-36	2019-10-25	673	-576	2019-12-30	523	-210
2019-2-14	1,057	86	2019-4-18	821	-164	2019-6-24	1,632	-254	2019-8-26	523	-73	2019-10-28	800	276	2019-12-31	596	2,932
2019-2-15	1,055	250	2019-4-22	907	767	2019-6-25	1,630	557	2019-8-27	685	-70	2019-10-29	768	-154			
2019-2-18	1,043	193	2019-4-23	965	-621	2019-6-26	1,610	-65	2019-8-28	683	220	2019-10-30	587	0			
2019-2-19	1,038	-119	2019-4-24	1,161	297	2019-6-27	1,575	-306	2019-8-29	664	819	2019-10-31	260	-368			
2019-2-20	1,056	426	2019-4-25	1,133	-203	2019-6-28	1,581	-132	2019-8-30	600	276	2019-11-1	271	408			
2019-2-21	1,035	-503	2019-4-26	1,093	262	2019-7-1	1,599	720	2019-9-2	652	170	2019-11-4	270	766			
2019-2-22	1,057	280	2019-4-29	1,070	109	2019-7-2	1,483	78	2019-9-3	585	446	2019-11-5	534	207			
2019-2-25	1,047	230	2019-4-30	904	-2	2019-7-3	1,224	-230	2019-9-4	598	734	2019-11-6	577	-171			
2019-2-26	1,048	634	2019-5-2	879	150	2019-7-4	1,272	1,144	2019-9-5	412	-383	2019-11-7	763	310			
2019-2-27	963	484	2019-5-3	903	34	2019-7-5	1,217	-160	2019-9-6	536	701	2019-11-8	750	-456			
2019-2-28	873	-18	2019-5-6	882	-323	2019-7-8	1,199	562	2019-9-9	547	34	2019-11-11	735	118			
2019-3-1	1,000	-203	2019-5-7	1,071	-14	2019-7-9	1,188	800	2019-9-10	476	150	2019-11-12	738	518			
2019-3-4	989	128	2019-5-8	1,170	-25	2019-7-10	1,126	566	2019-9-11	478	-142	2019-11-13	747	315			
2019-3-5	986	-658	2019-5-9	1,232	-71	2019-7-11	1,048	330	2019-9-12	546	117	2019-11-14	738	N/A			

(1) Decrease of 6 bp in German bond rates (9-year term) and 6 bp decrease in Euro Swap rates (4 to 20 year terms). (2) Losses in DMA certificates that, although covered by futures, have a basis risk. Increase in the credit spread of Portuguese public debt. (3) Failure of IT systems prevented the calculation of the annual P/L of the 14th day, making it impossible to calculate the daily P/L, since this results from the comparison of the annual P/L of two consecutive days. (4) Losses in foreign exchange positions, in dep. treasury and DMA certificates, which despite being covered by futures have a basis risk. (5) Losses on DMA certificates, which despite being covered by futures have a basis risk. (6) Losses in foreign exchange positions, in dep. treasury and DMA certificates, which despite being covered by futures have a basis risk.

The following tables provide quantitative data on the market risk measurement of the Trading Book using the internal model used (Table 58, with positions at the beginning and end of the last half of 2019) and on the evolution of the respective RWA and capital requirements (Table 59, with positions at the beginning and end of the last quarter).

TABLE 65 – TEMPLATE 35 / EU MR2-A – MARKET RISK UNDER THE IMA

31/12/2019		(Thousand euros)	
		RWA	Capital requirements
VaR (higher of values a) and b))		99 851	7 988
a) Previous day's VaR (Article 365(1) of the CRR (VaRt-1))			1 820
b) Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR			7 988
SVaR (higher of values a) and b))		767 583	61 407
a) Latest SVaR (Article 365(2) of the CRR (SVaRt-1))			17 540
b) Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)			61 407
IRC (higher of values a) and b))			
a) Most recent IRC value (incremental default and migration risks) calculated in accordance with Articles 370° and 371° of the CRR			
b) Average of the number over the preceeding 12 weeks			
COMPREHENSVE RISK MEASURE (higher of values a), b) and c))			
a) Most recent risk number for the correlation trading portfolio (Article 377° do CRR)			
b) Average of the risk number for the correlation trading portfolio over the preceding 12 weeks			
c) 8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338°, n°4 of the CRR)			
OTHER			
TOTAL		867 435	69 395

30/06/2019		(Thousand euros)	
		RWA	Capital requirements
VaR (higher of values a) and b))		181 237	14 499
a) Previous day's VaR (Article 365(1) of the CRR (VaRt-1))			4 998
b) Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR			14 499
SVaR (higher of values a) and b))		545 745	43 660
a) Latest SVaR (Article 365(2) of the CRR (SVaRt-1))			12 030
b) Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)			43 660
IRC (higher of values a) and b))			
a) Most recent IRC value (incremental default and migration risks) calculated in accordance with Articles 370° and 371° of the CRR			
b) Average of the number over the preceeding 12 weeks			
COMPREHENSVE RISK MEASURE (higher of values a), b) and c))			
a) Most recent risk number for the correlation trading portfolio (Article 377° do CRR)			
b) Average of the risk number for the correlation trading portfolio over the preceding 12 weeks			
c) 8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338°, n°4 of the CRR)			
OTHER			
TOTAL		726 982	58 159

TABLE 66 – TEMPLATE 36 / EU MR2-B – RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

31/12/2019							
(Thousand euros)							
	VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWA	Total capital requirements
RWA AT PREVIOUS QUARTER END	129 083	608 917				738 000	59 040
Regulatory adjustment	108 836	477 929				586 765	46 941
RWA at the previous quarter-end (end of the day)	20 247	130 988				151 235	12 099
Movement in risk levels	2 498	88 257				90 755	7 260
Model updates/changes							
Methodology and policy							
Acquisitions and disposals							
Foreign exchange movements							
Other							
RWA at the previous quarter-end (end of the day)	22 745	219 245				241 990	19 359
Regulatory adjustment	77 106	548 338				625 444	50 036
RWA AT THE END OF THE REPORTING PERIOD	99 851	767 583				867 435	69 395

30/06/2019							
(Thousand euros)							
	VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWA	Total capital requirements
RWA AT PREVIOUS QUARTER END	181 237	545 745				726 982	58 159
Regulatory adjustment	118 761	395 369				514 130	41 130
RWA at the previous quarter-end (end of the day)	62 476	150 376				212 852	17 028
Movement in risk levels	-42 229	-19 388				-61 617	-4 929
Model updates/changes							
Methodology and policy							
Acquisitions and disposals							
Foreign exchange movements							
Other							
RWA at the previous quarter-end (end of the day)	20 247	130 988				151 235	12 099
Regulatory adjustment	108 836	477 929				586 765	46 941
RWA AT THE END OF THE REPORTING PERIOD	129 083	608 917				738 000	59 040

10. OPERATIONAL RISK

As at 31 December 2019 and 2018, the Group calculated the own funds requirements for operational risk in accordance with the standard approach, pursuant to the authorisation granted by Banco de Portugal, as previously mentioned.

The computation of the own funds requirements results from the application of a set of weights to the components of gross income that refer to the activity segments, according to the regulatory definitions.

The framework for this calculation is provided by Title III of Regulation (EU) 575/2013 (CRR), also considering additional clarifications received from Banco de Portugal, namely, with respect to the accounting items considered in the determination of the gross income.

10.1. GROSS INCOME

The gross income results from the sum of the net interest income, dividends received (except the income from financial assets with an "almost capital" nature – shareholders' advances), net commissions, profits and losses arising on financial transactions associated to trading operations and other operating income. From these last items, the following are excluded: those that result from the sale of shareholdings and other assets, those with reference to discontinued operations and those resulting from negative consolidation differences. The interest in arrears recovered and expenses, which, on a consolidated basis, is recorded in the reversions of impairment losses item, is also added to the gross income.

Yet, neither the compensations received as a result of insurance contracts nor the revenues from the insurance activity are added to the value of the gross income. Finally, the other operating expenses cannot contribute to the reduction of the gross income value, with exception of the costs resulting from outsourcing provided by external entities to the Group or by entities that are not subject to the provisions of CRR.

The values thus obtained for the above-mentioned items are adjusted by the non-current amounts of the activity that are eventually still included in the gross income.

10.2. OPERATIONAL RISK – STANDARD APPROACH

The own funds requirements calculated in accordance with the standard approach are determined by the average, over the last three years, of the sum of the risk weighted gross income, calculated each year, relative to the activity segments and the risk weights that are defined in article 317 of CRR, whose scope corresponds in general terms to the following:

- Corporate Finance (subject to an 18% weight): underwriting activities and related services, investment analysis and other financial consulting activities;
- Trading and Sales (subject to an 18% weight): dealing on own account and intermediation activities in monetary and financial instrument markets;
- Retail Brokerage (subject to a 12% weight): placement of financial instruments without a firm underwriting and intermediation of orders relative to financial instruments, on behalf of private Customers and small businesses;
- Commercial Banking (subject to a 15% weight): taking deposits and credit and guarantee concession and undertaking other commitments to companies;
- Retail Banking (subject to a 12% weight): taking deposits and credit and guarantee concession and undertaking other commitments to private Customers and small businesses;
- Payment and Settlement (subject to an 18% weight): payment operations and issue and management of means of payment activities;
- Agency Services (subject to a 15% weight): services associated to the safekeeping and administration of financial instruments;
- Asset Management (subject to a 12% weight): investment fund and individual portfolio management activities.

The gross income by activity segments, on a consolidated basis, resulted from the aggregation of the values obtained for the perimeters of Portugal and of each one of the Group's foreign operations, determined based on homogeneous criteria and common to all geographies.

The gross income by activity segments for Portugal and Poland was calculated based on their financial statements, complemented with information collected from their management information systems, whereas for the other foreign operations, accounting information was used. With respect to the subsidiary in Poland, the entire calculation process was conducted locally, taking into consideration that it is an operation with a diversified activity, which requires the contribution of own management information systems. On the other hand, the remaining foreign subsidiaries, which have a standardised activity concentrated in the Retail segment, were treated centrally.

The gross income segmentation of the activity in Portugal and Poland was based on information by business segments,

produced for the purposes of internal management and market disclosure. In a first phase, the business segments and operational risk segments that present the greatest perimeter similarities were identified. Subsequently, the necessary transfers between the various segments, of zero sum, were carried out, to achieve a perimeter in line with what is required for the purposes of operational risk, in each segment.

In addition, the calculation of the gross income by activity segments for the Group's foreign operations, excluding Poland, was based on the financial statements of each subsidiary, as previously mentioned. Bearing in mind that these subsidiaries develop a retail activity, they were allocated, in a first phase, to the Retail Banking segment, with exception of the values recorded in the profits and losses arising on financial transactions item, which, by its nature, are immediately placed in the Trading and Sales segment, and subsequently the transfers for achieving a segmentation in line with the defined perimeter for the gross income are carried out. On 31 December 2019, this calculation was carried out for the operations of Switzerland, Mozambique and of Millennium bcp Bank & Trust, with registered office in the Cayman Islands, in addition to Bank ActivoBank, which, although it develops its activity in Portugal, verifies the same assumptions and, thus, follows the same methodology.

Having concluded these procedures and the consolidation of the Group's activities, the segmented gross income was obtained in conformity with the requirements defined for the purposes of operational risk, to which the calculation methodology and the previously mentioned weights were applied, and the respective capital requirements were obtained.

As at 31 December 2019, the Group reported around 325 million euros of own funds requirements for operational risk, having reported 290 million euros as at 31 December 2018, computed with the data presented on Table 67.

TABLE 67 - GROSS INCOME FOR OPERATIONAL RISK

Segments	(Thousand euros)		
	Gross Income figures for the relevant indicator		
	2019	2018	2017
1. BASIC INDICATOR APPROACH			
2. STANDARD APPROACH	2 462 222	2 309 531	2 503 407
- Corporate finance	20 267	17 941	10 757
- Trading and sales	201 032	93 915	244 627
- Retail brokerage	22 599	19 428	15 596
- Commercial banking	532 714	522 738	566 581
- Retail banking	1 550 628	1 545 984	1 533 620
- Payment and settlement	82 104	79 583	82 735
- Agency services	23 373	15 963	36 643
- Asset management	29 506	13 980	12 849
3. ADVANCED MEASUREMENT APPROACH	-	-	-

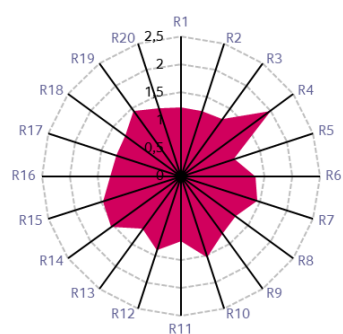
10.3. OPERATIONAL RISK MANAGEMENT

Operational risk management is based on an end-to-end process structure, defined for each of the Group's subsidiaries, and the responsibility for their management was given to process owners, who must: characterise operational losses captured within their processes; carry out the Risk Self-Assessment (RSA); identify and implement the appropriate measures to mitigate exposures, contributing to reinforce internal control; and monitor key risk indicators (KRI).

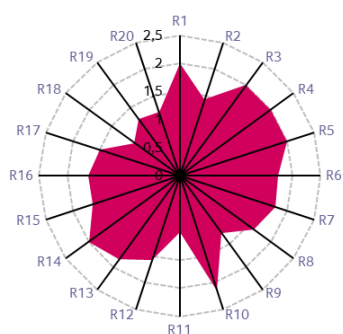
The following graphs show the results of the latest RSA made in Portugal, Poland and Mozambique in terms of the average score of each of the 20 risk sub-types defined for operational risk within the set of processes assessed. The outside border represents a 2.5 score on a scale of 1 (less serious) to 5 (most serious).

GRAPH 3 – RISKS SELF-ASSESSMENT RESULTS

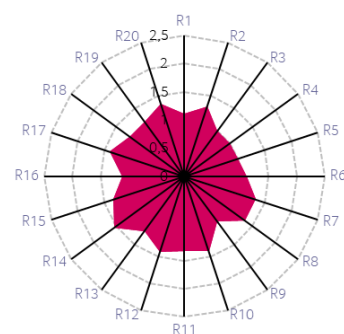
PORTUGAL



POLÓNIA



MOÇAMBIQUE



R1 Internal fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safety regulations
R5 Discrimination over employees
R6 Loss of key staff
R7 Hardware and Software problems

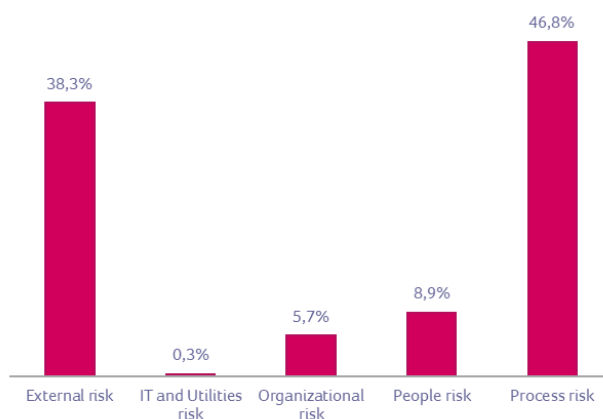
R8 Problems related to telecom services & lines
R9 Systems security
R10 Transaction, capture, execution & maintenance
R11 Monitoring and reporting errors
R12 Customer related errors
R13 Product flaws/errors
R14 External fraud and theft

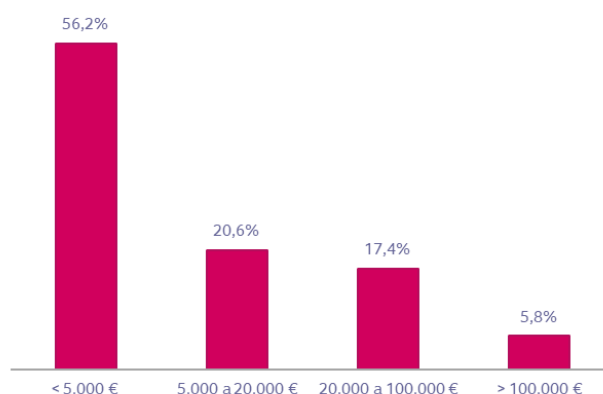
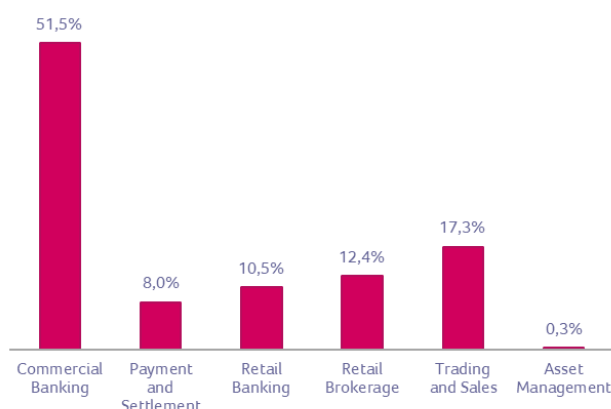
R15 Property and disasters risks
R16 Regulatory and tax risks
R17 Inappropriate market and business risks
R18 Project Risks
R19 Outsourcing related problems
R20 Other third parties' related problems

The operational losses identified are registered in the Group's operational risk application and connected with the respective process, being assessed and characterised in accordance to their nature. When applicable, a mitigation action is associated with each loss event.

The following graphs feature the profile of accumulated operational losses in 2019.

GRAPH 4 – LOSS AMOUNT DISTRIBUTION, BY CAUSE



GRAPH 5 – LOSS AMOUNT DISTRIBUTION, BY AMOUNT RANGE**GRAPH 6 – LOSS AMOUNT DISTRIBUTION, BY BUSINESS SEGMENT**

A set of KRI is used by the Group's various operations to monitor the processes risks. These KRI are management instruments represented by metrics that aim at the identification of changes in risk profiles and in controls effectiveness, so as to act preventively and avoid turning potential risk situations into actual losses. Within the processes management, a set of performance and control indicators is also used (Key Performance Indicators and Key Control Indicators) contributing to the detection of risks, even though it is more oriented towards the assessment of operating efficiency.

The Scenario Analysis is an exercise in which all of the macro process owners participate, as well as the heads of selected Divisions, aiming at the impact assessment of extreme and relevant events - potential risks of high severity (low frequency/high impact) – even if this type of events has never occurred at the Bank. The results of this exercise are integrated in the losses estimation model that was developed for the ICAAP and this data is also used for risk management and mitigation, thus contributing to the reinforcement of the internal control environment.

In 2019, the usual activities of operational risk management continued to be carried out by the various intervenient, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as the reporting duties' tasks, both to the Group management bodies and within the regulatory scope.

In addition, the Bank's mobilization to reinvent the banking experience, based on new technologies, presents significant challenges in operational risk management, with highlights on: strengthening the security of digital banking channels, strengthening the mechanisms for prevention and detection of potential fraud, the responsible management of personal data and the fulfillment of the legally prescribed information duties in selling through digital banking channels.

Among the actions carried out in 2019 with the aim of strengthening the mechanisms for controlling and measuring

operational risks, the following should be highlighted:

- Strengthening of the conflicts of interest monitoring and the follow-up of the outsourcing contracts considered to be critical;
- Inclusion of new RAS metrics related to operational risk, in order to monitor digital channels;
- Reinforcement of the quality validation rules for regulatory reports related to Operational Risk;
- Review of the operational RSA methodology in order to include quantitative aspects that are monitored by the Compliance Office.

In parallel, the Group continued to strengthen and improve its business continuity management throughout 2019, with a focus on the updating of existing strategies, procedures and documentation, conducting regular business recovery, technological recovery and crisis management exercises in order to improve its emergency response capacity, in articulation with all the teams involved in its different phases.

This area aims at ensuring the continuity of the business activities (or business support activities) in case of catastrophe or major contingency and is addressed by the Group through two distinct but complementary aspects:

- The Disaster Recovery Plan, for communication systems and infrastructures; and
- The Business Continuity Plan, for people, premises and equipment required for the minimum support of selected processes, deemed critical.

It should be noted that the management of this specific operational risk area is designed, promoted and coordinated across the Group by a specific structure unit.

In addition, the Group maintains an insurance contracting policy as an instrument to mitigate potential financial impacts associated with the occurrence of operational risks, by transferring, partially or in full, the risks pertaining to assets, people or liabilities before third parties.

The proposals for new insurances are submitted by the process owners, within the scope of the operational risk management powers regarding their processes, or presented by the heads of areas or structure units, being analysed by the Compliance and Operational Risks Commission and subject to a decision by the EC.

11. INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk derived from the Banking Book operations is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated balance sheet, reflecting the potential economic value loss that may occur as a result of adverse changes to interest rates.

The Banking Book includes all the positions not included in the Trading Book, namely, the positions resulting from institutional funding operations and from money markets, commercial and structural operations and the securities of the Investment Portfolio, as well as the operations carried out within the scope of the Group's assets and liabilities structural management (ALM).

The changes in market interest rates have an impact over the Group's net interest income, both in a short-term and in a medium/long-term perspective. The main risk factors are the repricing mismatch of the portfolio positions (repricing risk) and the changes in the level of the market interest rates (yield curve risk). In addition – although with less relevant impacts – there is the risk of having unequal variations in different indexes with the same repricing period (basis risk).

In order to identify the exposure of the Group's Banking Book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of the contracts available in the systems' databases and the respective expected cash flows are projected in accordance with their repricing dates. Hence, this provides an assessment of the impact on the Group's economic value that would result from several alternative scenarios involving changes in market interest rate curves.

The Commercial and Structural areas' risk positions that are not specifically hedged against the market are transferred, through internal operations, to the Funding areas and/or CALCO and, from then on, they are incorporated in the respective portfolios. As such, they are daily evaluated through the VaR methodology.

The fundamental assumptions used in this analysis are documented in internal regulations and consist, essentially, on one hand, in definitions about interest rate repricing maturities (for items for which there is no defined repricing date) and, on the other hand, in certain expected behaviours concerning early repayments.

In 2019, for items for which there are no defined repricing dates, the following assumptions of repricing terms were applied:

- Nostro and Vostro Accounts: assumption of repricing in 1 month;
- Demand deposits at central banks: assumption of repricing in 1 month;
- Roll-over credit/Current accounts and overdrafts: assumption of 40% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 15% in 60 months;
- Roll-over credit/Credit cards: assumption of 50% repricing in 12 months, 15% in 24 months, 15% in 36 months, 10% in 48 months and 10% in 60 months;
- Roll-over credit/Factoring: assumption of 45% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 10% in 60 months;
- Non-interest bearing demand deposits and other deposits (in Euros): assumption of 15% repricing in 12 months, 10% in 24 months, 10% in 36 months, 10% in 48 months and 55% in 60 months;
- Non-interest bearing demand deposits and other deposits (in other currencies): assumption of 20% repricing in 12 months, 20% in 24 months, 10% in 36 months, 10% in 48 months and 40% in 60 months.
- Interest earning demand deposits: assumption of 50% repricing in 1 month, 40% in 3 months and 10% in 6 months.

Stress tests are carried out for the Banking Book by applying standard shocks of parallel shifts of the yield curve. Also, stress tests are carried out for all Group positions for which interest rate risk is a relevant component, by considering different macroeconomic scenarios that contemplate several variables of analysis.

Stress tests are carried out every six months, with the aim of assessing the impact of extreme situations that cannot be measured through VaR and BPV analyses (Basis Point Value – analysis of positive and negative impacts as a result of interest rate variations).

The macroeconomic scenarios are designed based on the economic situation and on the impact that may result from changes in the main risk analysis variables – namely, on traded assets prices, interest rates, exchange rates, default probabilities and the recovery rates of non-performing loans.

Table 68 illustrates the impacts on the shareholders' equity of the Group, as at 31 December 2019 and 2018, in amount and percentage, as a result of +200 and –200 basis points shocks in interest rates.

TABLE 68 - SENSITIVITY ANALYSIS TO THE INTEREST RATE RISK IN THE BANKING BOOK

(Thousand euros)

		31 Dec 19	31 Dec 18
Value	+200 bp	-9 487	269 590
	-200 bp	117 026	-29 473
% Shareholders' equity ⁽¹⁾	+200 bp	0.1%	3.9%
	-200 bp	1.7%	-0.4%

⁽¹⁾ Shareholders' equity exclude hybrid products accounted in Equity but not eligible for CET1 capital.

On both end-of-years, the range of shocks considered in this analysis (parallel variations of interest rate curves of +/- 200 bps) reflects, as in previous years, a relevant asymmetry of impacts over the economic value of the Group. This is due to the assumption of a minimum of 0 (zero) interest rate and due to the different impacts verified over the portfolio for the several repricing terms (resulting in different effective impacts occurring under the two scenarios).

12. LIQUIDITY RISK

12.1. LIQUIDITY RISK MANAGEMENT AND ASSESSMENT

LIQUIDITY MANAGEMENT

The liquidity management of the BCP Group is coordinated at the consolidated level, in accordance with the principles and methodologies defined at the Group level. The Consolidated Liquidity Plan, an integral part of the annual budget and planning process, is the main instrument used in pursuing this objective.

The Group's liquidity management policy aims to limit interdependence between the various entities that comprise it. Accordingly, each geography must maintain and guarantee autonomy with regard to the management of its financing needs, maintaining its own liquidity buffers appropriate to the size and risk profile of the respective operation, so as not to depend on other entities of the Group.

The BCP Group's business model is based on retail banking, through which it has ensured a stable liquidity position, whose resilience has been tested favorably, namely in 2011, in situations of stress in the financial market resulting from the adoption of the Financial Assistance for Portugal.

Since then, in order to reduce the risk profile of the Bank's financing structure and increase its resilience, strategic priorities have been redefined, initially involving the sale of non-strategic assets, which was followed by a deleveraging process. As a result, there was a significant decrease in the commercial gap and a strengthening of stable sources of financing, mainly from customers, reducing the Bank's dependence on market funding and the ECB.

LIQUIDITY RISK ASSESSMENT

The Group's liquidity risk assessment is based on the calculation and analysis of the regulatory indicators defined by the supervisory authorities, as well as other internal, short-term and structural metrics, for which exposure limits are monitored and reviewed regularly.

In structural terms, the Group's Risk Appetite Statement (RAS) defines, from a consolidated perspective, a set of structural liquidity indicators and respective limits, which are then broken down by the limits applicable to each entity. Internal limits are typically more stringent than regulatory ones, ensuring prudent liquidity risk management.

The evolution of wholesale funding, the LCR (Liquidity Coverage Ratio), the credit ratio on deposits and assets eligible for discount available on the ECB and other central banks are monitored at least weekly.

Daily, the main entities monitor short-term liquidity indicators.

Concomitantly, the Group's liquidity position is regularly analyzed, identifying the factors that justify deviations from the consolidated Liquidity Plan and by entity. This analysis is submitted to CALCO, which, when applicable, decides the appropriate measures to maintain adequate financing conditions. In addition, the Risk Committee is responsible for controlling exposure to liquidity risk.

In order to avoid the appearance of a liquidity crisis or to act immediately if it materializes, CALCO presents the results of the Early Warning Signals system of the Liquidity Contingency Plan monthly, with a score that summarizes several indicators that monitor the evolution of liquidity risk factors.

The control of liquidity risk is further reinforced by periodic stress tests, carried out to assess the Bank's risk profile and to ensure that the Group and each of its subsidiaries fulfill their short-term obligations in various crisis scenarios. These tests are also used to support the liquidity contingency plan and decision-making on the subject, including periodic measurement of capacity counterbalancing measures set out in the Recovery Plan.

12.2. MANAGEMENT MODEL

The Group's liquidity management is coordinated at the level of the BCP Group under the responsibility of CALCO, consolidating a comprehensive view of the Group's liquidity position, both from a short-term and structural perspective, and promoting conditions for efficient access to financial markets.

The BCP Group's Liquidity Plan, prepared on a consolidated basis for the Group and individually for the main entities, aims to ensure the alignment of the expected evolution of incoming and outgoing liquidity flows resulting from commercial and corporate objectives with prudent treasury management and maintenance of adequate liquidity levels, respecting the regulatory risk limits and those defined internally in the Group's RAS and in the Corporate RAS, created at the end of 2019 to promote greater alignment in the monitoring of risk appetite in all entities of the BCP Group and along the main risk-taking dimensions.

Liquidity management is carried out by local units autonomously, aiming at their self-sufficiency and guaranteeing

independence in relation to the other units of the Group.

The liquidity risk management and assessment methodologies described in 12.1. and the refinement of the government model dealt with succinctly in this section are continually reassessed in the Annual Liquidity Adequacy Assessment Process (ILAAP), which is materialized annually in a document prepared in accordance with the guidelines of the European Banking Authority and the European Central Bank, representing the Group's self-assessment of liquidity and risk management strategy and practices.

The ILAAP is, therefore, a key component of the Group's risk management structure and consists of a coherent set of principles, policies, procedures and structures in order to ensure that the Group adequately manages liquidity risk within the limits defined in RAS at the consolidated level and for each entity. The improvement opportunities identified at ILAAP give rise to detailed action plans, in order to guarantee a permanent adaptation of the liquidity risk management methodologies and governance to the challenges faced by the Group and the pursuit of best practices. ILAAP systematically deals with the main components of liquidity management and the respective risks according to the following structure:

Liquidity and funding risk management:

Definition of the procedures, responsibilities, methodologies and rules employed by the Group to address liquidity and funding risk management.

Funding strategy:

Assessment of the Group's policies and procedures regarding its ability to fund its liquidity needs.

Liquidity buffer and collateral management:

Documentation of the Bank's practices concerning the management of assets and of liquid assets that are eligible as collateral in refinancing operations with central banks.

Cost benefit allocation mechanism:

Assessment of the Bank's approach for liquidity transfer pricing.

Intraday liquidity risk management:

Presentation of the Bank's methodology for managing intraday liquidity risk, as well as of the mechanism that allow to obtain supporting and root-cause information for registered incidents related to obligations that were not met in a timely manner.

Regulatory indicators monitoring:

Alignment of the regulatory requirements defined by the supervision with the Group's current liquidity management requirements and monitoring of its adequacy, through internal limits developed from common and transversal concepts to the Group.

Liquidity stress testing:

Execution of liquidity stress tests on a regular basis.

Contingency funding plan:

Presentation of the lines of responsibility for designing, monitoring and executing the Contingency Funding Plan along with the methodologies for the early detection of tension situations and an assessment of the adjustment measures feasibility.

12.3. REGULATORY REQUIREMENTS AND ILAAP

In the scope of the new prudential information requirements that is subject, the BCP Group has been monitoring the application and compliance with the new regulatory framework requirements, not only through the participation on study exercises promoted by the Basel Committee (QIS – Quantitative Impact Study) and reporting exercises performed within the European supervision, through the SSM – Single Supervisory Mechanism (STE – short-term exercise), but also through the regular reports on liquidity (via COREP – the Common reporting Framework).

Within liquidity risk management, it should be noted, the application of the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, from 2016 onwards in what concerns the liquidity coverage requirement.

The Supervisory Review and Evaluation Process (SREP), regarding the Internal Liquidity Adequacy Assessment Process (ILAAP), together with the Internal Capital Adequacy Assessment Process (ICAAP), are key evaluation instruments for risk

management, and for determining internal liquidity and capital needs, respectively.

Within the scope of the ILAAP, the bank analyses a vast set of qualitative and quantitative information, aiming at defining a liquidity risk management framework for the Group, in accordance with the respective profile and aligned with the European Banking Authority guidelines and with the Single Supervisory Mechanism expectations. The ILAAP methodology already mentioned (at section 12.2) is shared, to a large extent, with the liquidity risk management that the Group has been developing over the last years. In this context, the ILAAP exercise considers specific features of the Group, such as business model, governance, implemented controls and its monitoring, dimension, complexity, market constraints, and local regulatory duties of each geography.



During the first half of 2019, the ECB's Banking Supervision conducted the Sensivity Analysis of Liquidity Risk - Stress Test 2019 (LiST 2019) to assess banks' ability to withstand idiosyncratic hypothetical liquidity shocks.

In the case of the BCP Group, liquidity reserves were considered adequate to offset the simulated liquidity loss scenarios. In addition, the quality and timeliness of the response to questions raised by the ECB during the quality assurance phase of the exercise were positively assessed.

The LiST results were used by the supervisory teams in the 2019 supervision review and evaluation (SREP) processes.

12.4. BALANCE SHEET INDICATORS

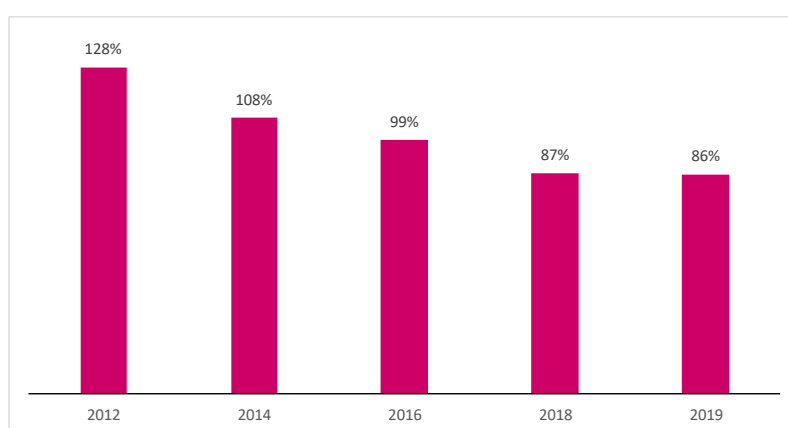
The main evolutions regarding the Group's liquidity situation in 2019 were the following:

- Reduction of 2.3 billion euros in net wholesale financing needs, attributable to the reduction of 2.7 billion euros in the Portuguese operation and the 393 million euros increase in Bank Millennium, in this case mainly due to the acquisition of the Euro Bank SA. In Portugal, the variation was due to the impact, in decreasing order of materiality of the factors, to the reduction of the commercial gap and investments in sovereign debt, to the means released by the activity, to the sale of assets and to the reduction of the corporate securities portfolio.
- From the perspective of the financing structure, a reduction in the liquidity needs of the operation in Portugal, reflected in the decreases in net indebtedness to the ECB (2.4 billion euros, to 283 million euros), indebtedness in money market instruments (1.25 billion euros, divided between the interbank market and repos, in this case for zero balance) in return for the reinforcement by a total of 850 million euros of medium-term financing eligible for MREL, already provided for in the Group's Liquidity Plan. Thus, in January, BCP placed an Additional Tier 1 issue in the amount of 400 million euros, having returned to the market in September, with a new issue of 450 million euros of subordinated debt securities eligible as own funds. Tier 2 level, an operation placed in a very diverse group of European institutional investors. Bank Millennium, in turn, issued subordinated bonds in the amount of PLN 830 million with a view to strengthening its financial structure for the acquisition of Euro Bank. S.A, also assuming long-term liabilities originating from that entity in the amount of 878 million zlotys. The total amount of debt placed by the Group on the market at the end of 2019 amounts to 2.6 billion euros. The medium-long-term funding component was further strengthened by increasing the balance of bank loans in the amount of 131 million euros, to 1.9 billion euros, divided between Bank Millennium (89 million euros) and BCP (EUR 42 million).
- The value of collateralized borrowings with the ECB remained at 4.0 billion euros, corresponding to the balance of targeted longer-term refinancing operations, called TLTRO, which will mature in 2020. Net debt to the ECB, which deducts from liquidity the liquidity deposited with Banco de Portugal, another liquidity denominated in

euros in excess of the minimum cash reserves and interest receivable associated with TLTRO, reached the lowest value since the Bank resorted to financing with of that central bank, amounting to the aforementioned amount of 283 million euros, 2.4 billion euros less than last year.

- The evolution of liquidity buffers discounted at central banks showed a favorable evolution throughout 2019 in the three main operations of the Group, assuming in any case a very comfortable dimension in relation to the total of customer deposits, a measure internally used by the Group for assess the resilience of the liquidity buffer against a scenario of financial stress.
- In Portugal, the joint evolution of investments in liquidity at Banco de Portugal and the portfolio of eligible assets with the ECB allowed to reinforce the liquidity buffer by 2.5 billion euros compared to the previous year, to 16.8 billion euros euros.
- Although Bank Millennium's liquidity buffer with the Polish central bank decreased by 1.1 billion euros at the end of May, to pay for the acquisition of Euro Bank SA, at the end of the year it had a balance similar to that observed a year earlier (€ 5.1 billion).
- Millennium BIM in Mozambique maintained a strong liquidity position throughout 2019, with the buffer with the central bank registering a reinforcement of 79 million euros compared to 2018, to a total of 800 million euros.
- Liquidity Coverage Ratio (LCR), on a consolidated basis, rose to 216% in December 2019, comfortably above the minimum requirement of 100%, supported by highly liquid asset portfolios in an amount compatible with prudent liquidity management Group's short-term, remaining at identical coverage levels in relation to the same date of the previous year (218%).
- At the same time, the Bank has a strong and stable financing structure, based on customer deposits and complemented by collateralized financing and medium and long-term instruments, which have enabled it to raise its stable financing indicator (Net Stable Funding Ratio or NSFR) on December 31, 2019 to 135% (133% on December 31, 2018).

GRAPH 7 – LTD RATIO EVOLUTION (*)



At the end of December 2019, customer deposits stood at 60,847 million euros, registering an increase of 10.1% compared to 31 December 2018, with the balance sheet resources of Customers reaching 62.607 million euros, gross loans amounted to 54,352 million euros, which represents an increase of 7.2% compared to the end of 2018.

Consequently, the transformation ratio thus evolved from 87% at the end of 2018 to 86% at the end of 2019.

The eligible pool of assets for funding operations in the European Central Bank and other Central Banks, net of haircuts, is detailed as follows:

(*) According to Intruction 16/2004 of Banco de Portugal

TABLE 69 - LIQUID ASSETS INTEGRATED IN COLLATERAL POOLS

	(Thousand euros)	
	31 Dec 19	31 Dec 18
European Central Bank ⁽ⁱ⁾	7 328 153	7 248 348
Other Central Banks	5 888 324	5,608,093
TOTAL	13 216 477	12 856 441

With reference to December 2019:

- the gross amount deducted from the European Central Bank amounted to 4,000 million euros (the same amount as at 31/12/2018);
- the amount deducted from the Bank of Mozambique was 2,426,000 euros (1,275,000 euros on 31/12/2018);
- there were no discounted amounts with other central banks.

The ECB's Monetary Policy Pool, the net borrowing at the ECB and the liquidity buffer were the following at 31/12/2019 and 31/12/2018:

TABLE 70 – LIQUIDITY BUFFER OF THE ECB

	(Thousand euros)	
	31 Dec. 19	31 Dec. 18
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy ⁽ⁱ⁾	7 328 153	7 248 348
Outside the pool of ECB monetary policy	9 731 980	9 664 184
	17 060 132	16 912 532
Net borrowing at the ECB ⁽ⁱⁱ⁾	283 385	2 651 998
LIQUIDITY BUFFER ⁽ⁱⁱⁱ⁾	16 776 747	14 260 534

⁽ⁱ⁾ Corresponds to the amount reported in COLMS (Banco de Portugal application).

⁽ⁱⁱ⁾ Includes, as at December 2018, the value of funding with the ECB net of the interest associated with the negative financing rate applied to the TLTRO (17,954,000 euros), of deposits at the Banco de Portugal and of other liquidity of the Eurosystem (1,227,481,000 euros), plus the minimum cash reserve and the accrued interest (344,053,000 euros).

⁽ⁱⁱⁱ⁾ Collateral eligible for the ECB, after haircuts, less net borrowing at the ECB.

Thus, on December 2019, the liquidity available through the collateral available, plus deposits with Banco de Portugal less the minimum cash reserves and accrued interest, amounted to 16,777 million euros, compared to 14,261 million euros in 31 December 2018.

12.5. REGULATORY INDICATORS

12.5.1. LIQUIDITY COVERAGE RATIO

Basel Committee published in 2014 the definition of the liquidity coverage ratio (LCR - Liquidity Coverage Ratio), having been adopted in early October 2015 the Delegated Act of the European Commission that introduced, in relation to CRD IV / CRR, new metrics and calculation criteria implemented in the European Union. The adoption of the new framework sets a minimum requirement of 100% for this ratio from 1 January 2018.

The BCP Group's LCR ratio was comfortably above the regulatory limit, pointing to 216% at the end of December 2019 (31 December 2018: 218%), supported by highly liquid asset portfolios of a value compatible with prudent management Group's short-term liquidity, as shown in the following table.

^(*) Includes securities issued by SPE concerning securitization operations in which the assets were not derecognised at a consolidated level. Therefore, the respective securities are not recognised in the securities portfolio.

TABLE 71 – LCR DISCLOSURE*

(Million Euros)

	Total unweighted value (average)				Total weighted value (average)			
	31/03/2019	30/06/2019	30/09/2019	31/12/2019	31/03/2019	30/06/2019	30/09/2019	31/12/2019
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets								
1 Total high-quality liquid assets (HQLA)	-	-	-	-	12,340	13,145	14,039	14,722
Cash outflows								
2 Retail deposits and deposits from small business customers, of which:	26,163	27,536	29,090	30,592	2,254	2,218	2,192	2,206
3 Stable deposits	12,290	15,825	19,528	22,351	615	791	976	1,118
4 Less stable deposits	13,872	11,711	9,562	8,242	1,640	1,426	1,216	1,089
5 Unsecured wholesale funding	12,592	12,839	12,960	12,981	5,214	5,284	5,331	5,386
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,874	2,049	2,106	2,170	468	511	525	541
7 Non-operational deposits (all counterparties)	10,705	10,784	10,845	10,794	4,734	4,766	4,797	4,828
8 Unsecured debt	13	6	9	17	13	6	9	17
9 Secured wholesale funding	-	-	-	-	66	73	78	78
10 Additional requirements	8,502	8,759	9,246	10,068	1,114	1,236	1,597	2,105
11 Outflows related to derivative exposures and other collateral requirements	286	398	758	1,245	286	398	758	1,245
12 Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13 Credit and liquidity facilities	8,217	8,360	8,488	8,822	828	838	838	859
14 Other contractual funding obligations	776	781	804	826	774	781	804	826
15 Other contingent funding obligations	5,404	5,648	5,700	5,678	564	817	896	907
16 Total cash outflows	-	-	-	-	9,987	10,408	10,898	11,508
Cash inflows								
17 Secured lending (eg reverse repos)	69	81	85	141	-20	7	7	37
18 Inflows from fully performing exposures	2,770	2,839	2,921	2,960	1,814	1,879	1,951	1,986
19 Other cash inflows	7,069	7,429	7,760	8,165	2,212	2,543	2,858	3,249
EU-19a (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-	-	-	-	-
EU-19b (Excess inflows from a related specialised credit institution)	-	-	-	-	-	-	-	-
20 Total cash inflows	9,908	10,349	10,766	11,266	4,006	4,429	4,816	5,272
EU-20a Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c Inflows Subject to 75% Cap	9,877	10,349	10,766	11,266	4,006	4,429	4,816	5,272
21 Liquidity buffer	-	-	-	-	12,340	13,145	14,039	14,722
22 Total net cash outflows	-	-	-	-	5,981	5,979	6,082	6,236
23 Liquidity coverage ratio (%)	-	-	-	-	206%	220%	231%	237%

(*) Ratio calculated as a simple average of the consolidated LCR, using the end-of-month observations over the last twelve months at each Quarter (EBA/GL/2017/01). The LCR value as at 31 December 2019 stood at 216%.

Concentration of funding and liquidity sources:

Considering that the core business of the BCP Group is based on commercial banking, deposits of retail clients contribute significantly to the funding structure and to the increase of stability. Other deposits made by financial entities and large corporations further contribute to the diversification of the funding structure, increasing the relationship with some counterparties at the operational level. Collateralized resources contribute to the stable funding base, both for longer maturities and collateral quality, namely: TLTRO with the European Central Bank, repurchase agreements, mortgage bond issues and securitizations. Senior debt securities and subordinated debt securities that concur, in part, for regulatory capital, increase the funding sources' level of diversification and a significant risk of financing concentration is not recognised.

Derivative exposures and potential collateral calls:

Derivative transactions carried out by the BCP Group are mainly defined under guarantee agreements that ensure the market risk hedging of these transactions. Group entities include liquidity risk, considering the impacts of an adverse market scenario that leads to changes in the market values of the derivatives, creating additional liquidity needs due to collateral coverage / replacement needs. In the LCR approach, this additional liquidity requirement is determined by the historical observation of the most significant net change in the last 24 months.

Currency mismatch in the LCR:

The BCP Group has a significant amount of funding obtained in zlotys (PLN), mostly obtained by the subsidiary in Poland and representing about 27% of the total funding. The liquidity coverage ratio in PLN is significantly above the required 100%.

Description of the centralization degree of both liquidity management and interaction between Group's units:

The management of the Group's liquidity needs is decentralized by geography, since each subsidiary is self-sufficient and responsible for ensuring the coverage of its liquidity needs, either through its deposit base or through the market mechanisms available in each geography. The BCP Group consolidates the individual liquidity plans for the Group's main entities, ensuring that the expected evolution of inflows and outflows of assets and liabilities resulting from commercial and corporate objectives is aligned with prudent liquidity risk management and adequate liquidity ratios. The liquidity of each of the Group's entities is supervised at a global level, with autonomy to manage liquidity needs, but ensuring internal mechanisms that maximize the efficiency of its management on a consolidated basis, particularly in times of higher stress.

Other items in the LCR calculation that are not captured in the LCR disclosure template but are considered relevant for the Group's liquidity profile:

The BCP Group's financing structure is based on retail deposits considered to be stable in nature, generating a low level of outflows. On the other hand, although wholesale funding presents a lower stability, potentially generating higher outflows, an adequate management of maturity mismatches is carried out. The liquidity buffer is essentially composed of Level 1 assets, based on sovereign public debt.

12.5.2. NET STABLE FUNDING RATIO

The definition of the stable financing ratio (NSFR - Net Stable Funding Ratio) was approved by the Basel Committee in October 2014. The Group presents a stable financing base obtained by the high weight of customer deposits in the funding structure, collateralized financing, medium and long term instruments and a strengthened regulatory capital structure, which adequately supports the stable financing requirements of the medium and long term business model, including tangible and intangible fixed assets, credit to customers and the portfolio of securities that in part it serves the purpose of maintaining a reserve of highly liquid assets to cover liquidity outflows in adverse situations. The NSFR calculated in December 2019 reached 135% (compared to 133% on December 31, 2018).

12.5.3. ENCUMBERED AND UNENCUMBERED ASSETS

Within the scope of the guidance of the European Banking Authority on the disclosure of encumbered assets and unencumbered assets, taking into account the recommendation made by the European Systemic Risk Committee, the following information is presented in accordance with DELEGATED REGULATION (EU) 2017/2295 FROM THE COMMISSION of 4 September 2017 that complements Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to technical regulatory standards for the disclosure of encumbered and unencumbered assets.:

TABLE 72 – ENCUMBERED ASSETS

(Thousand euros)

Assets		2019 ⁽¹⁾						
Encumbered and unencumbered assets	Carrying amount of encumbered asset		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	of which notionally eligible EHQLA and HQLA ⁽²⁾		of which notionally eligible EHQLA and HQLA ⁽²⁾		of which EHQLA and HQLA ⁽²⁾		of which EHQLA and HQLA ⁽²⁾	
Assets of the reporting institution, of which:	10 459 171	1 043 266			70 539 049	16 449 753		
Equity instruments	-	-			86 033	-		
Debt securities	1 137 566	1 043 266	1 136 379	1 042 273	17 762 092	12 773 551	17 764 516	12 774 818
of which: covered bonds	-	-	-	-	-	-	-	-
of which: asset-backed securities	-	-	-	-	-	-	-	-
of which: issued by general governments	765 468	666 166	765 468	666 166	12 312 751	11 902 959	12 319 695	11 905 154
of which: issued by financial corporations	32 938	32 938	32 938	32 938	1 975 150	23 492	1 970 819	23 492
of which: issued by non-financial corporations	336 757	336 757	336 064	336 064	2 726 570	496 101	2 726 817	495 520
Other assets	9 321 605	-			52 690 924	3 676 202		
of which: Loans on demand	-	-			3 430 440	3 130 931		
of which: Loans and advances other than loans on demand	9 061 854	-			41 740 048	-		
of which: Other	259 751	-			7 520 436	545 271		

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.

(2) Disclosure of encumbered and unencumbered assets EHQLA and HQLA is presented in accordance with the liquidity criterion defined in Commission Delegated Regulation (EU) 2015/61, which differs from

Collateral received	2019 ⁽¹⁾			
	Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
	of which notionally eligible EHQLA and HQLA ⁽²⁾		of which EHQLA and HQLA ⁽²⁾	
Collateral received by the reporting institution	-	-	32 476	32 476
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	-	-	32 476	32 476
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	-	-	32 476	32 476
of which: issued by financial corporations	-	-	-	-
of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			3 616 373	3 616 373
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	10 459 171	1 043 266		

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.

(2) Disclosure of encumbered and unencumbered assets EHQLA and HQLA is presented in accordance with the liquidity

Sources of encumbrance	2019 ⁽¹⁾	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	6 768 487	10 056 710

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.

At the end of 2019, and according to the EBA methodology, the total encumbered assets represents 12% of the Group's total balance sheet assets. The encumbered Loans to customers represents 81%, while Debt securities represents 12%.

The encumbered assets are mostly related with the Group's funding operations - namely with the ECB and via REPO operations - through the issuance of mortgage bonds and securitisation programs. The type of assets used as collateral for these financing transactions are different Loans to Customers' portfolios, supporting securitisation programs and

mortgage bonds issues, either placed outside of the Group or intended to reinforce the collateral pool with the ECB and to collateralise REPO operations from the money markets. Another part of the collateralisation of operations of the latter type, as well as financing from the European Investment Bank, is obtained through sovereign debt eligible for central banks, together with bonds issued by public sector companies.

On 31 December 2019, the Other assets: Other, in the amount of Euros 7,520,436,000, although not encumbered, are mostly related to the Group's activity, namely, to: investments in associated companies and subsidiaries, tangible assets and investment properties, intangible assets, assets associated with derivatives and current and deferred taxes.

On 31 December 2019, the Group has Euros 12.5 billion BCP Covered Bond Programme ("BCP Programme") with Euros 8.2 billion of covered bonds outstanding. The BCP Programme is backed by a Euros 11.7 billion portfolio of residential mortgages, providing an overcollateralization ("OC") of 42.3% that is above the minimum of 14% currently required by rating agencies. The former BII covered bond programme has been terminated on 28 March 2019.

The Portuguese covered bond legislation ensures covered bond holders the benefit of dual-recourse over the issuer, together with a special preferential claim over the respectively assigned residential mortgage portfolios, with precedence over any other creditors, with covered bond law superseding the general bankruptcy regulation. Residential mortgages in a cover pool are subject to certain eligibility criteria inscribed in the Portuguese covered bond legislation, which include a maximum LTV of 80%, delinquency of no more than 90 days and first lien mortgages (or, if otherwise, all preceding liens being included in the cover pool) over properties located in the EU. BCP Programme documentation limit property location to Portugal.

Annexes

ANNEX 1 – UNIFORM DISCLOSURE OF IFRS9 TRANSITIONAL ARRANGEMENTS

		31 Dec 19	30 Sep 19	30 Jun 19	31 Mar 19
AVAILABLE CAPITAL (AMOUNTS)					
1	Common Equity Tier 1 (CET1) capital	5 428 513	5 453 140	5 442 597	5 294 905
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5 405 558	5 435 300	5 423 337	5 249 441
3	Tier 1 capital	5 932 462	5 958 132	5 944 502	5 779 022
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5 909 199	5 940 013	5 924 953	5 733 251
5	Total capital	6 960 105	7 007 898	6 558 090	6 380 115
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6 938 635	6 991 514	6 540 431	6 335 066
RISK-WEIGHTED ASSETS (AMOUNTS)					
7	Total risk-weighted assets	45 001 614	44 907 715	44 676 264	42 488 394
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	44 932 277	44 847 185	44 616 466	42 415 304
CAPITAL RATIOS					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	12,1%	12,1%	12,2%	12,5%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12,0%	12,1%	12,2%	12,4%
11	Tier 1 (as a percentage of risk exposure amount)	13,2%	13,3%	13,3%	13,6%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,2%	13,2%	13,3%	13,5%
13	Total capital (as a percentage of risk exposure amount)	15,5%	15,6%	14,7%	15,0%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,4%	15,6%	14,7%	14,9%
LEVERAGE RATIO					
15	Leverage ratio total exposure measure	86 268 722	85 691 524	84 843 494	80 974 636
16	Leverage ratio	6,88%	6,95%	7,01%	7,14%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,85%	6,99%	6,99%	7,09%

ANNEX 2 –OWN FUNDS AT 31 DECEMBER 2019 (Own Funds disclosure Template)

(Thousand euros)		Reference to Reg (UE) n.º575/2013	
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES			
1	Capital instruments and the related share premium accounts	4,738,359	26 (1), 27, 28, 29
	of which: instrument type 1	4,741,471	26 (3) da lista EBA
	of which: instrument type 1		26 (3) da lista EBA
	of which: instrument type 1		26 (3) da lista EBA
2	Retained earnings	596,364	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	79,994	26 (1)
3a	Funds for general banking risk		26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1		486 (2)
5	Minority interests (amount allowed in consolidated CET1)	789,478	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	144,312	26 (2)
6	COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	6,348,506	Soma das linhas 1 a 5a
COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS			
7	Additional value adjustments (negative amount)	-14,712	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-294,159	36 (1) (b), 37
9	Empty set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-120,295	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	44,361	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-129,545	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-90	33 (b)
15	Defined-benefit pension fund assets (negative amount)	-10,529	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-33	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) e (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) a (3), 79
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 a 91
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-174,266	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-124,681	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-48,531	36 (1) (i), 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences	-76,150	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)		36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (i)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)
27a	Other adjustments	-109,230	
28	TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1 (CET1)	-933,180	Soma das linhas 7 a 20a, 21, 22 e 25a a 27
29	COMMON EQUITY TIER 1 (CET1) CAPITAL	5,415,326	Linha 6 - linha 28
ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS			
30	Capital instruments and the related share premium accounts	400,000	51, 52
31	of which: classified as equity under applicable accounting standards	400,000	
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1		486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	103,641	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)
36	ADDITIONAL TIER 1 (AT1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	503,640	Soma das linhas 30, 33 e 34
ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58
39	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
42a	Other adjustments AT1		
43	TOTAL REGULATORY ADJUSTMENTS TO ADDITIONAL TIER 1 (AT1) CAPITAL		Soma das linhas 37 a 42
44	ADDITIONAL TIER 1 (AT1) CAPITAL	503,640	Linha 36 - linha 43
45	TIER 1 CAPITAL (T1 = CET1 + AT1)	5,918,966	Soma das linhas 29 e 44
TIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS			

46	Capital instruments and the related share premium accounts	821,704	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2		486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	269,778	87, 88
49	of which: instruments issued by subsidiaries subject to phasing-out		486 (4)
50	Credit risk adjustments		62 (c) & (d)
51	TIER 2 (T2) CAPITAL BEFORE REGULATORY ADJUSTMENTS	1,091,481	
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70 e 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-58,800	66 (d), 69, 79
56	Empty set in the EU		
57	TOTAL REGULATORY ADJUSTMENTS TO TIER 2 (T2) CAPITAL	-58,800	Soma das linhas 52 a 56
58	TIER 2 (T2) CAPITAL	1,032,681	Linha 51 - linha 57
59	TOTAL CAPITAL (TC = T1 + T2)	6,951,648	Soma das linhas 45 e 58
60	TOTAL RISK WEIGHTED ASSETS	44,942,031	
CAPITAL RATIOS AND BUFFERS			
61	COMMON EQUITY TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	12.0%	92 (2) (a)
62	TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	13.2%	92 (2) (b)
63	TOTAL CAPITAL (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	15.5%	92 (2) (c)
64	INSTITUTION-SPECIFIC BUFFER REQUIREMENT (CET1 REQUIREMENT IN ACCORDANCE WITH ARTICLE 92 (1) (A), PLUS CAPITAL CONSERVATION AND COUNTERCYCLICAL BUFFER REQUIREMENTS, PLUS SYSTEMIC RISK BUFFER, PLUS SYSTEMICALLY IMPORTANT INSTITUTION BUFFER EXPRESSED AS A PERCENTAGE OF RISK EXPOSURE AMOUNT)	9.6%	DRFP 128, 129, 130, 131,133
65	OF WHICH: CAPITAL CONSERVATION BUFFER REQUIREMENT	2.5%	
66	OF WHICH: COUNTERCYCLICAL CAPITAL BUFFER REQUIREMENT	0.0%	
67	OF WHICH: SYSTEMIC RISK BUFFER REQUIREMENT		
67a	OF WHICH: GLOBAL SYSTEMICALLY IMPORTANT INSTITUTION (G-SII) OR OTHER SYSTEMICALLY IMPORTANT INSTITUTION (O-SII) BUFFER	0.4%	
68	COMMON EQUITY TIER 1 AVAILABLE TO MEET BUFFERS (AS A PERCENTAGE OF RISK EXPOSURE AMOUNT)	7.57%	DRFP 128
69	[NOT RELEVANT ON EU REGULATIONS]		
70	[NOT RELEVANT ON EU REGULATIONS]		
71	[NOT RELEVANT ON EU REGULATIONS]		
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	40,840	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	371,122	36 (1) (i), 45, 48
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	582,332	36 (1) (c), 38, 48
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	164,651	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	154,569	62
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JANUARY 2013 AND 1 JANUARY 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486(2) e (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486(2) e (5)
82	Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486(3) e (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486(3) e (5)
84	Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486(4) e (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486(4) e (5)

ANNEX 3 – MAIN FEATURES OF OWN FUNDS' INSTRUMENTS**INSTRUMENTS (1) TO (5)**

		(1)	(2)	(3)	(4)	(5)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier	PTBIVXOM0013	PTBCU9OM0028	PTBIVSOM0077	PTBIUGOM0072	PTBIZUOM0053
3	Governing law(s) of the Instrument	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law

REGULATORY TREATMENT

4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (1)	28,373,333	101,111	16,060,611	9,158,333	2,654,167
9	Nominal amount of instrument (2)	114,000,000	14,000,000	64,100,000	35,000,000	26,250,000
9a	Issue price	100%	72.31%	100%	100%	82.55%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	28 March 2011	27 January 2012	1 April 2011	21 April 2011	18 July 2012
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	28 March 2021	13 January 2020	1 April 2021	21 April 2021	2 July 2020
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A

COUPONS/DIVIDENDS

17	Fixed or floating dividend/coupon	Floating	Fixed	Floating	Floating	Fixed
18	Coupon rate and any related index	Euribor 3m + 3.75%	7.01%	Euribor 3m + 3.75%	Euribor 3m + 3.75%	9.00%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	N/A	N/A	N/A	N/A	N/A
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A

		(1)	(2)	(3)	(4)	(5)
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

INSTRUMENTS (6) TO (10)

		(6)	(7)	(8)	(9)	(10)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	BCP Finance Bank, Ltd.	Banco Comercial Português, S.A.
2	Unique identifier	PTBCQJOM0030	PTBIUMOM0082	PTBIZKOM0063	XS0686774752	PTBCPWOM0034
3	Governing law(s) of the Instrument	Portuguese law	Portuguese law	Portuguese law	English law	English and Portuguese law

REGULATORY TREATMENT

4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (1)	741,111	2,635,000	1,416,667	10,563,477	300,000,000
9	Nominal amount of instrument (2)	23,000,000	51,000,000	25,000,000	98,850,000	300,000,000
9a	Issue price	81.52%	83.20%	82.82%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	4 April 2012	12 April 2012	12 April 2012	13 October 2011	7 December 2017
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	28 February 2020	3 April 2020	12 April 2020	13 October 2021	7 December 2027
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	N/A.	Yes
15	Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	N/A.	07 December 2022. Existence of call option, at any moment, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A

COUPONS/DIVIDENDS

17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed (reset)
18	Coupon rate and any related index	9.00%	9.15%	9.00%	13.00%	First 5 years, 4.5%. Refixing at the end of the 5th year: MS 5y rate + Initial Margin (4,267%)
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	N/A	N/A	N/A	N/A	N/A

23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
		(6)	(7)	(8)	(9)	(10)
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred	Senior Debt Non-Preferred
36	Non-compliant transitioned features	No	No	No	No	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

INSTRUMENTS (11) TO (15)

		(11)	(12)	(13)	(14)	(15)
1	Issuer	Banco Comercial Português, S.A.	Bank Millennium, S.A.	Bank Millennium S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier	PTBIT3OM0098	PLBIG0000453	PLBIG0000461	PTBCPFOM0043	PTBCP0AM0015
3	Governing law(s) of the Instrument	English and Portuguese law	Polish law	Polish law	English and Portuguese law	Portuguese law

REGULATORY TREATMENT

4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Additional Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Additional Tier 1	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Other Capital Instruments	Ordinary Shares
8	Amount recognised in regulatory capital (1)	450,000,000	57,711,132	68,428,914	399,999,980	4,721,888
9	Nominal amount of instrument (2)	450,000,000	PLN 700.000.000 (167.640.579)	PLN 830.000.000 (194.725.976)	400,000,000	N/A
9a	Issue price	100%	100%	100%	100%	N/A
9b	Redemption price	100%	100%	100%	100%	N/A
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Shareholders' equity	Shareholders' equity
11	Original date of issuance	27 September 2019	7 December 2017	30 January 2019	31 January 2019	N/A
12	Perpetual or dated	Dated	Dated	Dated	Perpetual	No maturity
13	Original maturity date	27 March 2030	7 December 2027	30 January 2029	N/A	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	N/A

COUPONS/DIVIDENDS

(2) On the Issue date,

⁽³⁾ Always subject to compliance with the regulations in force and with the terms and conditions of the issue, if, at any moment, while the issued bonds are written down, the issuer records a profit, he can, at his exclusive and absolute discretion, decide to increase the nominal value of the bonds by an amount stipulated by him.

ANNEX 4 – GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

		(Thousand euros)											
Country code	Country	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer
		Exposure value for Standardised Approach	Exposure value IRB Approach	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for Standardised Approach	Exposure value IRB Approach	Of which: Trading book exposures	Of which: Securitisation exposures	Of which: Trading book exposures	Total		
DE	Germany	9 846	110 503					8 409			7 525	0.3389%	0.0000%
AO	Angola	77 831	232 582					11 121			23 257	1.0474%	0.0000%
BR	Brazil	9 136	111 395					1 330			1 619	0.0729%	0.0000%
ES	Spain	55 021	224 807					22 272			15 324	0.6901%	0.0000%
US	United States	17 756	123 249					15 411			10 235	0.4610%	0.0000%
FR	France	5 146	357 469					14 282			13 411	0.6040%	0.0000%
KW	Kuwait		104 094					2 642			4 072	0.1834%	0.0000%
LU	Luxembourg	55 512	74 233					4 762			5 547	0.2498%	0.0000%
MO	Macao	76 518	24 430					1 415			209	0.0094%	0.0000%
MZ	Mozambique	469 839	143 249					27 980			23 372	1.0526%	0.0000%
NL	Netherlands	21 694	507 356					17 146			9 670	0.4355%	0.0000%
PL	Poland	9 653 344	7 067 156					654 519			491 463	22.1334%	0.0000%
PT	Portugal	4 921 750	39 976 826	2 239 384			37 497	1 573 445	6	7 499	1 605 136	72.2885%	0.0000%
GB	United Kingdom	39 300	250 784					4 539			4 561	0.2054%	1.0000%
CH	Switzerland	1 806	395 115					5 189			5 055	0.2276%	0.0000%
TOTAL		15 414 498	49 703 248					2 364 462			2 220 456	100.0%	-

ANNEX 5 – CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

Total amount of exposures	45 001 614
Countercyclical capital buffer rate (institution-specific)	0,002053936%
Countercyclical capital buffer (institution-specific)	924

Market Discipline Report 2019

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Banco Comercial Português, S.A.,
Company open to public investment

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