

MARKET DISCIPLINE REPORT 2021



Millennium
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MARKET DISCIPLINE REPORT 2021

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

2021 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



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Introduction

The “2021 Market Discipline Report” is comprised within the requisites for the provision of information foreseen in Pillar III of the Capital Accord, complementing the 2021 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 VIII of the Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26th of June 2013, the Capital Requirements Regulation (CRR), whose objective is to give market participants precise and complete information about the risk profile of institutions.

Further disclosure guidance and standard formats have been provided by Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and Commission Implementing Regulation (EU) 2021/763 of 23 April. Additional information deemed relevant for the evaluation of the Bank’s risk profile and capital adequacy on a consolidated basis has also been incorporated in the “2021 Market Discipline Report”.

The reference date of the information presented in this report is the 31st of December 2021.

1. 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 “2021 Market Discipline Report”, in compliance with the provisions of the CRD IV/CRR.

II. The 2021 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 431º to 455º and 492º of the CRR under the requirements of the Pillar III.

IV. 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 2021 Annual Report that was discussed, and subject approved in the General Meeting of Shareholders that took place on 4th of May 2022.

V. Concerning the information presented in the “2021 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 432º of the CRR was omitted; and
- Commits to timely disclose any significant alterations that may occur in the financial year subsequent to the one this report relates to.

Lisbon, 27th of June 2022

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

2. Key metrics

The following table provides key regulatory metrics and ratios, comprising own funds, RWAs, capital ratios, additional requirements based on SREP, capital buffers requirements, leverage ratio, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

TABLE 1 – TEMPLATE EU KM1 – KEY METRICS TEMPLATE

(Thousand euros)

		a	b	c	d	e
		Dec 21	Sep 21	Jun 21	Mar 21	Dec 20
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	5,372,775	5,488,073	5,527,100	5,554,919	5,657,289
2	Tier 1 capital	5,882,041	6,020,713	6,062,830	6,085,091	6,193,989
3	Total capital	7,212,799	7,050,932	7,084,591	7,074,374	7,212,252
Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	45,932,529	46,733,444	47,378,823	45,883,408	46,413,048
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	11.70%	11.74%	11.67%	12.11%	12.19%
6	Tier 1 ratio (%)	12.81%	12.88%	12.80%	13.26%	13.35%
7	Total capital ratio (%)	15.70%	15.09%	14.95%	15.42%	15.54%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional CET1 SREP requirements (%)	2.25%	2.25%	2.25%	2.25%	2.25%
EU 7b	Additional AT1 SREP requirements (%)	1.27%	1.27%	1.27%	1.27%	1.27%
EU 7c	Additional T2 SREP requirements (%)	1.69%	1.69%	1.69%	1.69%	1.69%
EU 7d	Total SREP own funds requirements (%)	10.25%	10.25%	10.25%	10.25%	10.25%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	0.56%	0.56%	0.56%	0.56%	0.56%
11	Combined buffer requirement (%)	3.06%	3.06%	3.06%	3.06%	3.06%
EU 11a	Overall capital requirements (%)	13.31%	13.31%	13.31%	13.31%	13.31%
12	CET1 available after meeting the total SREP own funds requirements (%)	2,724,478	2,793,598	2,795,415	2,907,446	2,979,257
Leverage ratio						
13	Leverage ratio total exposure measure	99,785,900	98,067,244	98,284,027	96,065,793	92,784,123
14	Leverage ratio	5.89%	6.14%	6.17%	6.33%	6.68%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)						
EU 14a	Additional CET1 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14b	Additional AT1 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14c	Additional T2 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14d	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 14e	Applicable leverage buffer	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14f	Overall leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio (*)						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	21,896,644	20,806,858	20,009,083	18,929,038	17,807,157
EU 16a	Cash outflows - Total weighted value	12,351,345	12,835,107	13,091,662	13,273,405	13,194,991
EU 16b	Cash inflows - Total weighted value	4,239,083	4,767,220	5,101,297	5,357,025	5,524,305
16	Total net cash outflows (adjusted value)	8,112,262	8,067,887	7,990,365	7,916,380	7,670,686
17	Liquidity coverage ratio (%)	270%	258%	251%	239%	232%
Net Stable Funding Ratio (**)						
18	Total available stable funding	79,036,420	77,861,527	77,827,228	75,988,842	73,315,665
19	Total required stable funding	52,727,456	53,012,613	52,763,348	52,744,553	52,263,787
20	NSFR ratio (%)	150%	147%	148%	144%	140%

* Liquidity coverage ratio is the average, using the end-of-month observations over the last twelve months at each quarter

** NSFR on periods T-1 to T-4 calculated according to BCBS standards

3. Scope of application

3.1. Identification of Banco Comercial Português, S.A.

Banco Comercial Português, S.A. is a public traded company with share capital open to public investment, 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 419527602/3.

The share capital of the Bank, on 31 December 2021 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.

3.2. 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 "5. Capital adequacy". As of 31 December 2021, 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.

The entities included in the consolidation perimeter of BCP Group as at 31 December 2021 are described in the following Table, 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 EU LI3 - OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Full consolidation	Method of regulatory consolidation			Deducted	Description of the entity
			Proportional consolidation	Equity method	Neither consolidated nor deducted		
Banco ActivoBank, S.A.	Full consolidation	X					Banking
Bank Millennium, S.A.	Full consolidation	X					Banking
BCP África, S.G.P.S., Lda.	Full consolidation	X					Holding company
BCP Capital - Sociedade de Capital de Risco, S.A.	Full consolidation	X					Venture capital
BCP International B.V.	Full consolidation	X					Holding company
BCP Finance Bank, Ltd.	Full consolidation	X					Banking
BCP Finance Company	Full consolidation	X					Financeira
BIM - Banco Internacional de Mozambique, S.A.	Full consolidation	X					Banking
Millennium bcp Bank & Trust ⁽¹⁾	Full consolidation	X					Banking
Millennium BCP - Escritório de Representações e Serviços, Ltda.	Full consolidation	X					Financial services
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full consolidation	X					Holding company
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Full consolidation	X					Investment fund management
Monumental Residence - Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full consolidation				(1)		Real estate management
Millennium bcp - Prestação de Serviços, A.C.E.	Full consolidation	X					Services
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Full consolidation	X					E-commerce
Millennium Bank Hipoteczny S.A.	Full consolidation	X					Banking
Millennium Dom Maklerski S.A.	Full consolidation	X					Brokerage services
Millennium Goodie Sp. z o.o.	Full consolidation	X					Consultant and services
Millennium Leasing Sp. z o.o.	Full consolidation	X					Leasing
Millennium Service Sp. z o.o	Full consolidation	X					Services
Millennium Telecommunication Sp. z o.o.	Full consolidation	X					Brokerage services
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Full consolidation	X					Investment fund management
Piast Expert Sp. z o.o.	Full consolidation	X					Marketing services
Millennium Financial Services, Sp.z o.o.	Full consolidation	X					Services

⁽¹⁾ In liquidation process

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of regulatory consolidation			Neither consolidated nor deducted	Deducted	Description of the entity
		Full consolidation	Proportional consolidation	Equity method			
MULTI24, Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full consolidation				(1)		Real estate management
Bichorro - Empreendimentos Turísticos e Imobiliários S.A.	Full consolidation				(4)		Real estate company
Finalgarve - Sociedade de Promoção Imobiliária Turística, S.A.	Full consolidation				(4)		Real estate company
Fiparso - Sociedade Imobiliária Lda.	Full consolidation				(4)		Real estate company
Fundo de Investimento Imobiliário Imosotto Acumulação	Full consolidation				(1)		Real estate investment fund
Fundo de Investimento Imobiliário Imorenda	Full consolidation				(1)		Real estate investment fund
Fundo Especial de Investimento Imobiliário Oceânico II	Full consolidation				(1)		Real estate investment fund
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full consolidation				(1)		Real estate investment fund
Millennium Fundo de Capitalização - Fundo de Capital de Risco	Full consolidation				(1)		Venture capital fund
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Fundial- Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Fundipar - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Domus Capital - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Predicapital - Fundo Especial de Investimento Imobiliário Fechado	Full consolidation				(1)		Real estate investment fund
Banco Millennium Atlântico, S.A.	Equity Method					(3)	Banking
Banque BCP, S.A.S.	Equity Method					(3)	Banking
Exporsado - Trade and industry of sea products, Lda.	Equity Method				(2)		Trade and industry of sea products
Lubuskie Fabryki Mebli S.A.	Equity Method				(2)		Furniture manufacturer
SIBS, S.G.P.S., S.A.	Equity Method					(3)	Banking services
UNICRE - Instituição Financeira de Crédito, S.A.	Equity Method					(3)	Credit cards
Webspectator Corporation	Equity Method				(2)		Services de publicidade digital
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity Method					(3)	Holding company
SIM - Seguradora Internacional de Mozambique, S.A.R.L.	Equity Method					(3)	Insurance
Magellan Mortgages No.3 Limited	Full consolidation	X					Special Purpose Entity (SPE)

(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).

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 “11.2 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 (Consolidation – Special Purpose Entities).

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 2021, the accounting values determined under the scope of regulatory consolidation are distributed according to the regulatory risk categories presented in Table 3:

TABLE 3 – TEMPLATE EU LI1 - DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

(Thousand euros)

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Carrying values of items Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
ASSETS							
Cash and deposits at Central Banks	7,796,299	7,796,299	7,796,299				
Loans and advances to credit institutions repayable on demand	361,786	358,080	359,504				
Loans and advances to credit institutions	453,213	453,213	435,229			11,712	
Loans and advances to customers	63,177,597	63,187,421	62,314,018		1,269,945	127,968	59,704
Securities and derivatives	15,384,808	15,680,768	13,693,230	616,801	101	710,203	107,953
Non-current assets held for sale	780,514	577,800	577,800				
Investment property	2,870	0					
Other tangible assets	600,721	537,279	537,279				
Goodwill and intangible assets	256,213	255,752					255,752
Current tax assets	17,283	17,275	17,695				
Deferred tax assets	2,688,216	2,682,535	2,293,948				388,587
Other assets	1,385,292	1,379,027	1,126,629				249,280
Total assets	92,904,812	92,925,449	89,151,630	616,801	1,270,046	849,883	1,061,276
LIABILITIES							
Financial liabilities at amortised cost							
Resources from credit institutions	8,896,074	8,896,074					
Resources from customers	69,560,227	69,585,634			375,662		
Non subordinated debt securities issued	2,188,363	2,188,363		46,626			
Subordinated debt	1,394,780	1,394,780					
Financial liabilities at fair value through profit or loss							
Financial liabilities held for trading	231,241	231,241			225,816		
Financial liabilities at fair value through profit or loss	1,581,778	1,581,778			1,207,765		
Hedging derivatives	377,206	377,206			363,525		
Non-current liabilities held for sale	0	0					
Provisions	458,744	456,911					
Current tax liabilities	20,427	20,427					
Deferred tax liabilities	16,932	16,932					
Other liabilities	1,116,983	1,141,100					
Total liabilities	85,842,755	85,890,446		46,626	2,172,768		

The difference between columns a) and b) – carrying values as reported in published financial statements and carrying values under scope of regulatory consolidation, respectively – is immaterial. Additionally, the sum of carrying amounts under the regulatory frameworks can be higher than the one reported in column a), as some asset types are subject to capital requirements in more than one regulatory framework.

The following table shows a reconciliation between the carrying values in financial statements and the exposure considered for regulatory purposes. The starting point of this table is the carrying values in financial statements reported in template LI1 (please see note 1 below) and through the detail of relevant differences the exposure amount, as reported in COREP, is reached. Exception only for Market Risk, as for this framework there is EAD definition.

TABLE 4 – TEMPLATE EU LI2 - MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

Thousand euros)

	a	b	c	d	e
	Total	Credit risk framework	Items subject to CCR framework	Securitisation framework	Market risk framework
1 Assets carrying value amount under the scope of regulatory consolidation (as per template LI1) (a)	91,888,360	89,151,630	616,801	1,270,046	849,883
2 Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	46,626	-	46,626	-	-
3 Total net amount under the regulatory scope of consolidation	91,841,734	89,151,630	570,176	1,270,046	849,883
4 Off-balance-sheet amounts (b)	15,761,698	6,015,431	-	-	-
5 Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7 Differences due to consideration of provisions	1,316,503	1,316,503	-	-	-
8 Differences due to the use of credit risk mitigation techniques (CRMs)	(434,952)	(131,766)	(55,952)	(247,235)	-
9 Differences due to credit conversion factors	(9,746,267)	-	-	-	-
10 Differences due to Securitisation with risk transfer	1,022,710	1,022,710	-	-	-
11 Other differences	(130,223)	(130,223)	-	-	-
12 Exposure amounts considered for regulatory purposes	99,631,203	97,244,286	514,224	1,022,811	849,883

- a) The total of line 1 does not match with Template EU LI1. Assets subjected to market risk and deducted to own funds are not considered.
- b) The total amount of line 4 does not match with the remaining items since, according to the filling rules, the total amount refers to the original position net of provisions and the item "Credit Risk framework" contains the exposure value after CCF application
- c) Provisions related to IRB on-balance exposures are considered in EAD
- d) Value refers to "Total", according to note (2)
- e) EAD reported in each of the frameworks, except for market risk since there is no EAD concept in regulatory reporting.

4. Risk management objectives and policies

The BCP Group develops its activity aiming to maintain a moderate and sustainable risk profile, with a solid reputation in the market and with comfortable levels of capital and liquidity adequate to the managed business portfolio, always with the objective of strengthening the confidence of its clients, customers, markets, and regulators.

To achieve this objective, the Bank has implemented internal control and risk management systems and a prudent risk appetite structure, in line with the pursued business model and the Bank's profile and strategy. Improvements are continuous and permanently introduced to ensure constant alignment with the dynamics of markets, the economy, and regulations.

4.1. Risk culture

The Group has risk management policies and procedures, embodied in a vast set of risk manuals that define the rules to be observed within the scope of the risk management function and which contribute to the strengthening of an established risk culture in line with the risk appetite statement (RAS) defined by the Board of Directors, supported by the involvement of Management and Senior Management and present in the day-to-day activities of the Bank, framing the internal attitudes and behaviours related to the conscience of risk, risk taking and management and implementation of controls appropriate to business processes and activities concerning rentability and sustainability objectives, respecting social and environmental goals.

The structure of the Group and the Bank is based on the principle of segregation of functions not to harm the interactions between the organic units and the internal control functions, bearing in mind that possible situations of potential conflict of interest are previously identified, minimized and subject to a careful and independent monitoring, in order to guarantee the autonomy and independence of the internal control units.

The Bank's internal regulatory framework establishes detailed rules and standards of conduct, defines efficient business, risk and operating processes and the appropriate competencies for their execution. The internal regulatory framework is subject to constant update considering, particularly, the legal and regulatory dynamics issues and internal self-assessment exercises. The rules that make up the internal regulatory framework are reviewed at least every two years, ensuring its permanent updating and constant search for operational excellence, the maintenance of high ethical standards and an adequate governance model. The existence of a Code of Conduct approved by the Board of Directors that guides proper conduct and ethical values at all levels of the organization, prohibiting practices that may inadvertently provide incentives or temptations to inappropriate activities shall be highlighted.

Regarding remuneration policies, the Bank's effort is to define policies capable of attracting and retaining the best talents and, at the same time, defending the Bank's reputation and long-term objectives, discouraging the focus exclusively on goals and short-term results.

Still within the scope of strengthening the risk culture, it is worth mentioning the periodic training of risk and compliance to employees, including e-learning actions under the coordination of the Millennium Banking Academy.

4.2. Risk strategy

The Bank has in place a Risk Strategy which is formally reviewed and approved at least once a year, ensuring its alignment with the planning and budgeting process. The definition of the Group's Risk Strategy integrates the conclusions of the risk identification process, the results of the assessment of the adequacy of the internal capital and liquidity and influences the Group's strategic business options by defining the main lines of action to be developed to control, mitigate or eliminate the material risks to which the Group's activity is subject in the medium term. The objective of the Risk Strategy is not to eliminate or avoid risks, but to assume acceptable risks and promote proper management fostering the achievement of the strategic and operational objectives of the BCP Group.

The Risk Strategy is reviewed in coordination with the risk appetite statement update, focuses on the material risks identified by the Bank and is formally approved by the Board of Directors by proposal and opinion by the Risk Assessment Committee and the Executive Committee.

4.3. Internal control

The internal control system governance model encompasses the organizational structure, the lines of reporting and levels of authority, the set of lines of responsibilities and processes, that result from the applicable laws and regulations, as well as the Bank's by-laws and internal regulations, to ensure a prudent and effective management of the Bank and adequate checks and balances.

The governance model promotes a conduct and risk culture across all the areas of the Bank, which is materialized in an overarching set of principles, strategies, policies, systems and functions.

The Board of Directors promotes a strong governance and internal control culture, embedded in all levels of the organization, and based on high standards of ethical behaviour, with rules established in the Code of Conduct, available in the Bank's site.

The Board of Directors provides the Bank's governance, guidance and oversight and sets the broad strategies and major policies of the organization, approves the overall organizational structure, and has the ultimate responsibility for ensuring that adequate governance and internal controls system are established and maintained, being supported in this function by the Audit Committee.

The Audit Committee plays a central role in the development of a governance culture and an internal control system with a direct relation with the Board of Directors, the Bank's internal control units and the external auditors.

For its part, the Risk Assessment Committee advises and supports the Board of Directors in defining the risk appetite and general, current, and future risk strategy, as well as monitoring the respective execution, being also responsible for the assessment the adequacy of the risk management function.

The current management of the Bank is delegated in the Executive Committee. This Committee established different specialized commissions, with the participation of two or more Executive Directors, and first line Managers who directly report to them.

The organizational structure of the Group is based on the principle of the segregation of functions between the business units and internal control functions, aiming that any situations of potential conflict of interests are identified in advance, minimized and subject to careful and independent monitoring.

The internal control system includes a set of principles, strategies, policies, systems, processes, rules, and procedures established in the Group aimed at ensuring:

- Efficient and profitable performance of the activity, in the medium and long-term, ensuring the effective use of the assets and resources, the business continuity and survival of the Group, namely through an adequate management and control of the activity risks, through a prudent and correct assessment of assets and liabilities, as well as through the implementation of mechanisms for prevention and protection against errors and fraud.
- The existence of financial and managerial information, which is complete, pertinent, reliable, and timely, to support decision-making and control processes, both at an internal and external level.
- Observance of the applicable legal and regulatory provisions issued by the Supervision Authorities, including those relative to the prevention of money laundering and financing of terrorism, as well as professional and ethical codes of conduct, standards and practices, internal and statutory rules, guidelines of the Basel Banking Supervisory Committee and European Banking Authority (EBA), so as to preserve the image and reputation of the institution before its Customers, Shareholders, Employees and Supervisors.
- An effective Risk Management Function (RMF) with well-defined processes to identify, manage, monitor, and report the risks that the Group is exposed.
- A Compliance Function ensuring the alignment with legal, regulatory, and statutory requirements, and with internal rules, including rules of conduct and relationship with Clients, Investors, Supervisors' Entities, and others, which rules are established in a Code of Conduct.
- An Internal Audit Function ensuring the effectiveness and consistency of the internal control processes and mechanisms.
- The alignment of subsidiaries operating model with the organizational and managerial principles defined by the Bank, as the consolidating Entity.
- The adoption of sound sustainability principles, namely regarding Environmental, Social and Governance (ESG) factors, and its coherence with the Group's activity.
- The good image and reputation of the Bank towards its stakeholders.

To achieve these objectives, the internal control system is based on the compliance function, the risk management function and internal audit function. The Heads of these three divisions are appointed by the Bank's Board of Directors, by proposal of the Committee for Nominations and Remunerations.

The internal control system is based on:

- A control environment supported by high integrity and honesty standards, promoting a strict compliance with the laws and regulations, by the effective enforcement of a 'check and balance' system, including adequate segregation of duties, with the objective of preventing conflicts of interest, and by process based operational management models and control activities, that allow for clear identification of the implemented controls and the assessment of their efficiency.

- A solid risk management system, aimed at the identification, evaluation, follow-up, and control of all risks which might influence the Group's activities.
- An efficient information and communication system, designed to guarantee the collection, processing and transmission of relevant, encompassing, and consistent data, within a timeframe and manner that allows for an effective and timely management and control of the institution's activity and risks.
- An effective monitoring and correction process, implemented with a view to ensuring the adequacy and effectiveness of the actual internal control system over time, to immediately identify any flaws (defined as the group of existing, potential, or real defects, or opportunities for the introduction of improvements that will strengthen the internal control system), and ensuring the triggering of corrective action.
- Strict compliance with all the legal and regulatory provisions by the Group's Employees in general, and by the people who hold senior or managerial positions, including members of the management bodies.
- A governance model that defines that the business areas are responsible for risk taking, ensuring the effective monitoring, control and management of the risks assumed, and supporting the independent review of the risk levels incurred as compliant with the approval Risk Appetite Framework.

The internal control system is consistently applied across all Group entities, supported on group codes issued by BCP defining global policies, principles, and rules, considering, and complying with local, legal or regulatory requirements of the countries where operations are based.

4.4. Principle of the 3 lines of defense

The Bank's internal control system is based on the "Three Lines of Defense Model", aiming to ensure:

- A clear accountability of the business areas for the respective assumption of risks.
- The effective monitoring, control and management of the risks assumed.
- An independent evaluation, to be reported to the Board of Directors, to the Executive Committee, Audit Committee and Risk Assessment Committee of the levels of risk assumed, their compliance with the Risk Appetite Framework in place and the effectiveness of the established internal control systems.

The business lines, as the first line of defense, take risks and are responsible for their operational management directly and on a permanent basis. For that purpose, business lines have appropriate processes and controls in place that aim to ensure that risks are identified, analysed, measured, monitored, managed, reported and kept within the limits of the institution's risk appetite and that the business activities comply with the external and internal requirements.

The risk management function and the compliance function form the second line of defense.

The risk management function facilitates the implementation of a sound risk management framework throughout the institution and has responsibility for further identifying, monitoring, analysing, measuring, managing, and reporting on risks and forming a holistic view on all risks on an individual and consolidated basis. It challenges and assists in the implementation of risk management measures by the business lines to ensure that the process and controls in place at the first line of defense are properly designed and are effective.

The compliance function monitors the Bank's compliance with legal, regulatory, and internal policies requirements, including the reputational defense of the Bank, comprising, among others, the prevention of financial crime activities. It provides advice on compliance matters to the management body and establishes policies and processes to manage compliance risks and to ensure an overall compliance culture within the Bank.

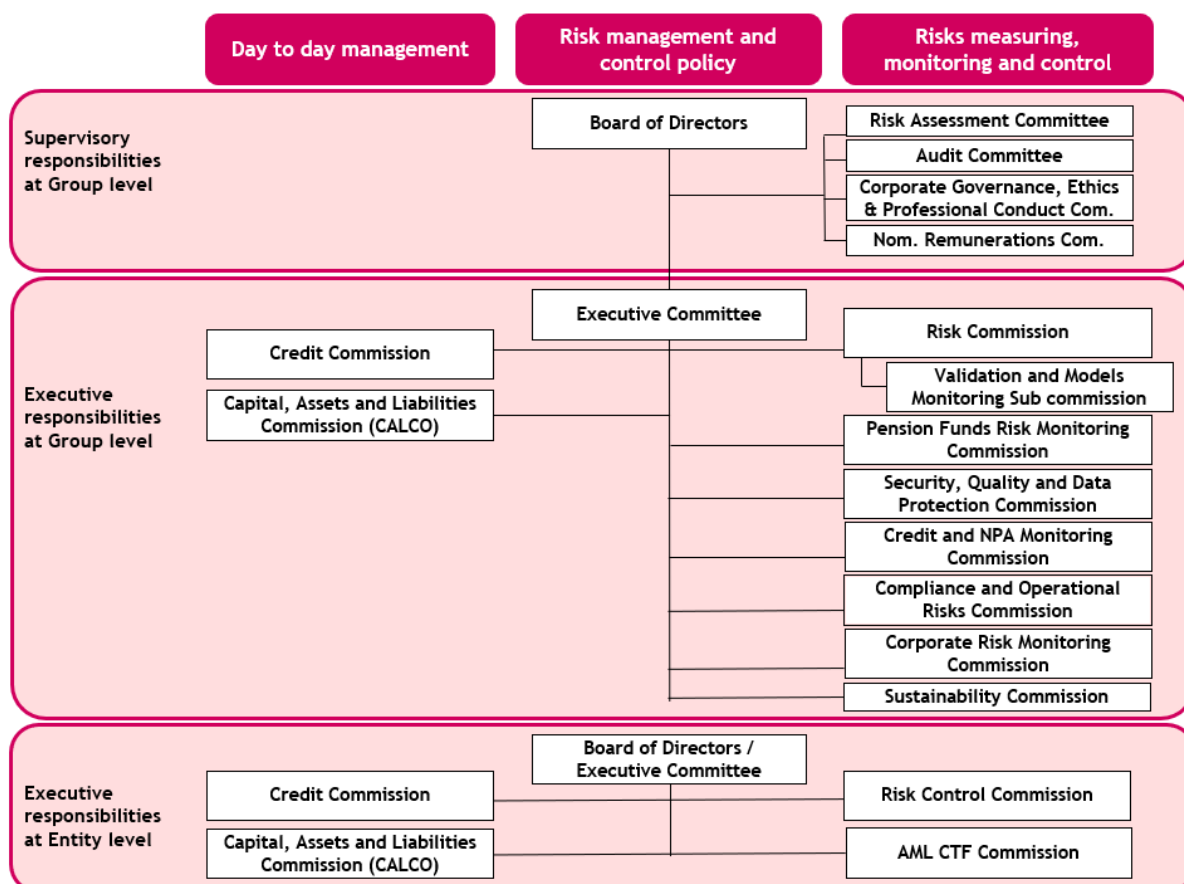
Both the risk management function and the compliance function intervene to ensure the improvement and strengthening of internal control and risk management systems interacting with the first line of defense whenever necessary.

The internal audit function, as the third line of defense, conducts risk-based audits and reviews the internal governance arrangements, processes, and mechanisms to ascertain that they are sound and effective, implemented and consistently applied, to assess the suitability and efficiency of the organizational culture, of the risk management process, of the internal control system and of the governance models in place. The internal audit function performs its tasks fully independently of the other lines of defense.

4.5. Risk management structure and governance

The following figure illustrates the process of risk management's Governance, as at 31st December 2021, exerted through various organizational bodies and units with specific responsibilities in risk management or internal supervision:

TABLE 5 – RMS GOVERNANCE MODEL



The number of positions held by the executive and non-executive members of the Board of Directors and the Supervisory Board (Audit Committee) of the Bank complies with the provisions of article 33 of the Legal Framework for Credit Institutions and Financial Companies (LFCIFC), and according to the assessments made, it was concluded that each of the members showed availability and dedicated to the exercise of their functions the necessary and proportional time to the importance of the matters to be dealt with, assessed in light of their interest to the Bank.

The identification of the positions held by the executive and non-executive members of the Board of Directors and the Supervisory Board, simultaneously in other companies, inside and outside the group, and other relevant activities, is indicated on page 754 and following of the 2021 Annual Report, available on the Bank's website.

At the General Meeting held in May 2018, the internal policy for selecting and assessing the suitability of the members of the management and supervisory bodies was approved. Since then, regulatory changes have undergone successive developments, through regulations, standards and guidelines of European scope, such as the European Banking Authority Guidelines on institutions internal governance (EBA/GL/2021/05 of July 02) and on the assessment of the suitability of the members of the management and supervisory bodies (EBA/GL/2021/06 of July 02), as well as Banco de Portugal Notice no. 3/2020. In view of these regulatory changes and their relevance in terms of suitability assessment, it has proved necessary to review and adapt the internal policy for selecting and assessing the suitability of members of the management and supervisory bodies. Accordingly, at the General Meeting held on May 04, 2022, the internal policy for the selection and suitability assessment of the members of the Board of Directors and Supervisory Board was approved, of which the general principles, individual and collective suitability assessment, suitability requirements, training, diversity, and succession plan stand out.

The internal Policy for selecting and assessing the Suitability of members of the management and supervisory bodies is available on the Bank's institutional website, namely in the section 'Governance - Corporate Governance Report'.

BCP has a Group Code according to which all Group entities must promote diversity among the members of the management body, to ensure a wide range of qualities and skills of members of the management body, with a view to obtaining a diversity of perspectives and experiences and favouring independence of opinions and solid decision-making within the management body.

The concern with diversity refers to the following aspects: qualifications and professional background, gender, age, and geographical origin. The Bank complies with the Portuguese legislation in force, namely Law 62/2017, of August 1 that sets forth a balanced representation regime between men and women in the management and supervisory bodies of listed companies, having committed to achieve a target of, at least, one third for gender representation in the management functions.

The diversity policy applied by the company regarding its management bodies is described in page 731 and following of 2021 Annual Report, available on the Bank's website.

The composition, capacities and responsibilities of the management and control bodies that intervene in the risk management governance are the following:

Board of Directors

The ultimate body of the BCP Group's risk management structure is the Board of Directors, which, within the scope of the functions assigned to it by the Bank's statutes, has the leading role in the risk management and control structure. The Board of Directors is responsible for defining the Group's global strategic guidelines and objectives, the profile and risk appetite, promoting the risk culture and risk strategy, reserving for itself the approval of group codes that establish policies, principles, rules and risk limits. The Board of Directors monitors the evolution of metrics and risk indicators translated into the RAS (including the approval of remediation measures in case of breaches to the limits) approves the conclusions of the ICAAP and ILAAP processes and the performance of the Internal Control System.

Risk Assessment Committee

The Risk Assessment Committee, appointed by the BoD, is composed by three to five non-executive Directors and has, among others, the following capacities:

- Evaluate the integrity and adequacy of the Risk Management function.
- Advising the BoD on risk appetite and risk strategy, accompanying and intervening in the definition and review of the Group's Risk Appetite Framework and providing an opinion on its adequacy to the BoD.
- Monitoring the evolution of the RAS metrics, verifying their alignment with the defined thresholds and levels and monitoring the action plans designed to ensure compliance with the established risk limits.
- Advising the BoD on the policies regarding the risks' identification, management and control within the Group, monitoring the global risk levels in order to ensure that those are compatible with the goals, the available financial resources and the approved strategies for the development of the Group's activities.
- Oversee the implementation of the strategies for capital and liquidity management as well as for all other relevant risks to the Group, such as market, credit, operational (including legal, IT and compliance), and reputational risks, in order to assess their adequacy against the approved risk appetite and strategy.
- Monitoring the capital and liquidity planning processes (ICAAP and ILAAP), providing an opinion to the BoD concerning the respective conclusions, as well as analysing and approving the conclusions of the regular follow-up on these processes.
- Monitoring and intervening in the Recovery Plan review, providing an opinion to the BoD on the respective adequacy.

Within the resolution planning, the Risk Assessment Committee approves its annual work plan and monitors its execution.

The Risk Officer has a functionally duty report to this Committee and participates in its meetings, presenting the evolution of the key risk metrics and indicators, as well as all incidences, changes and evolutions relative to the RMSS.

Audit Committee

The BoD's Audit Committee is elected by the Shareholders' General Meeting and is composed by three to five non-executive Directors, mainly independent. Within the competences of this Committee, this Committee has global corporate supervising capabilities - e.g. in what concerns financial information, namely risk levels follow-up - as well as those that are attributed within the Internal Control System, namely:

- Overseeing the management activity of the Bank;
- Monitoring the suitability and effectiveness of the Bank's organizational culture, governance models and internal control and risk management systems;

- Monitoring the accounting policies and processes adopted by the Bank, the financial reporting process and submit recommendations aimed at ensuring its integrity;
- Overseeing the performance of the Compliance and Internal Audit functions;
- Supervising and controlling the effectiveness of the risk management system, in conjunction with the Risk Assessment Committee; as well as the internal control system in its different aspects and also the internal audit system itself;
- Issuing an opinion in relation to operations of acquisition of goods and services and involving related parties, aiming to avoid conflicts of interests;
- Analysing the information is received through the whistleblowing mechanism as well as the clients claims.
- Monitor the activity of the External Auditor and periodically assess its independence and objectivity in the exercise of its activity.

The Audit Committee holds regular meetings with the Heads of the Audit Division, the Risk Office and the Compliance Office.

The Compliance Officer participates in the meetings of this Committee, presenting the evolution of the monitoring of compliance and compliance risks, as well as all developments and interactions with regulation/supervision in terms of regulatory compliance.

The Risk Officer participates in this Committee's regular meetings, reporting on the evolution of the main indicators and metrics concerning risks and credit impairment, as well as on the implementation status of the recommendations that concern the risk management system, issued within the scope of internal control or by the supervisory/regulatory authorities.

The Head of Audit Division reports regularly to the Audit Committee on interactions and the status of the recommendations of the prudential supervision entities, as well as on the audits carried out on the Bank's processes.

Committee for Corporate Governance, Ethics and Professional Conduct

This Committee, appointed by the Board of Directors, is composed of a minimum of three and a maximum of five non-executive directors.

Amongst other that may be delegated by the Board of Directors, the competences of the Committee for Corporate Governance, Ethics and Professional Conduct include:

- Recommend the adoption by the Board of Directors of policies, that observe the ethical and professional conduct principles and best corporate governance practices.
- Support the Board of Directors and its Committees in the evaluation of the systems that identify and solve conflicts of interest.
- Assess the compliance function, analysing the procedures in place and the identified non-compliances.
- Issue opinions addressed to the Board of Directors on the Code of Conduct and on other documents defining business ethical principles.
- Every time it deems necessary, submit to the Board of Directors a report on the evaluation and monitoring of the structure, ethical and professional conduct principles and corporate governance practices of the Bank and on the company's compliance with the legal, regulatory and supervisory requirements on these issues.
- Issue an opinion for the Board of Directors on the Annual Corporate Governance Report.
- Issue an opinion on the Annual Sustainability Report, concerning issues for which it is responsible.
- Time it deems necessary, submit to the Board of Directors a proposal on the guidelines for the Company's policies, based on a culture identified with the ethical and professional conduct principles targeted at contributing for the pursuit of social responsibility and sustainability goals. Proposing, particularly, guidelines for the social responsibility and sustainability policies of the Company, including, among other, the values and principles for safeguarding the interests of the shareholders, investors and of those interested in the institution and also principles of social charity and environmental protection.
- Issue an opinion on the Group Codes and respective annexes whenever this competence has been delegated to it by the BoD.

Committee for Nominations and Remunerations

This Committee, appointed by the Board of Directors, is composed of a minimum of three and a maximum of five non-executive directors.

The BoD delegates in the Committee for Nominations and Remunerations the monitoring on issues related with human resources, assessment and composition of the Board of Directors and of its Committees, reviewing the Remuneration Policies of the Directors and Employees, including the Key Function Holders (KFH), and monitoring their respective implementation, in accordance with the powers conferred to it by the law and its own Regulations.

Other functions of this Committee:

- Monitor the existence of specific policies related with selection and recruitment, evaluation of performance, promotion and career management, training, and development of competences.
- Elaborate and report to the BoD recommendations on the candidates to members of the Governance and Supervisory bodies of the Bank, ensuring the Fit & Proper assessment process.
- Issue an opinion to the BoD on the Selection, Assessment and Succession policies for members of the Governance and Supervisory bodies and responsible for control functions.
- Prepare and maintain a succession plan for members of the Board of Directors and KFH.

Executive Committee

The Executive Committee is responsible for the daily management of the Bank aiming to pursue the corporate objectives within the risk limits approved and defined by the Board of Directors. Particularly regarding the risk management function, the Executive Committee is responsible for:

- Implement the Bank's general business strategy and main policies, considering the Bank's long-term financial interests and solvency.
- Implement the global risk strategy approved by the BoD and ensure that management devotes sufficient time to risk issues.
- Ensuring an adequate and effective internal governance model and an internal control framework, including a clear organizational structure and independent internal risk management functions.
- Promote the risk culture across the BCP Group, addressing risk awareness and appropriate risk-taking behaviour.
- Promote a corporate culture and values that foster the ethical and responsible behaviour of employees.
- Promote the development, implementation and maintenance of formal processes for obtaining, producing and processing substantive information, appropriate to the size, nature, scope and complexity of the activities carried out, as well as to the institution's risk appetite, which ensure its reliability, integrity, consistency, integrity, validity, timeliness, accessibility and granularity.

The Executive Committee is supported, to carry out its responsibilities, by several management commissions in a wide range of dimensions: Business Activity; Credit Decisions; Risk and Compliance Management; Planning, Costs and Investments; Capital Structure and Liquidity Management; Human Resources Management; Information Technology Security, Data Integrity and Protection and Sustainability. These management commissions can benefit from the presence of one or more internal control function units (Risk Office, Compliance Office and Internal Audit) which ensures timely detection of any potential internal control deficiencies.

The Executive Committee delegates in the Risk Commission, the Compliance and Operations Risk Commission (CORC) and the Security, Data Quality and Data Protection Commission, the mission of monitoring the risks the Group is exposed to as well as the deficiencies identified regarding the internal control system (ICS). These commissions are also responsible for monitoring the adoption of corrective measures and the overall progress of open recommendations. Furthermore, the CORC may also evaluate and propose improvements to be introduced to the internal control system.

Risk Commission

This Commission is appointed by the EC and has the responsibility for defining, at an executive level, the framework and the risk management policies and instruments within the Group, establishing the respective principles, rules, limits and practices for the Group Entities, considering the defined risk thresholds.

The Risk Commission monitors the overall levels of credit, market, liquidity and operational risk, as well as all other risks considered materially relevant for the Group, ensuring that the risk levels are compatible with the goals, available financial resources and strategies that have been approved for the development of the Group's activity. This Commission also validates the compliance of risk management with all the applicable laws and regulations.

The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO), and , optionally, any other Executive Director.

Other members of the Commission are the Risk Officer, the Compliance Officer and the Heads of the following Divisions: Treasury, Markets and International (DTMI), Credit (DCR), Rating (DRAT), Economic Studies, Sustainability and Cryptoassets (DESC) Models Monitoring and Validation Office (GAVM) and Regulatory and Supervision Monitoring Office (GARS). The Head of the Audit Division (DAU) is a permanently invited member of the Risk Commission, without voting rights.

Validation and Monitoring of Models Sub-commission

The Models Monitoring and Validation Sub-Commission monitors the performance and confirms the validity of the rating systems and models used by the Bank within the scope of its risk management functions (e.g. PD, LGD, CCF, market risk and ICAAP) and informs the Risk Commission on their adequacy. Moreover, it presents the model's risk management results and suggests improvement measures to increase the model's performance and adequacy.

The CRO is the chairman of the Sub-commission and other member are the Risk Officer, the head of the GAVM, of DCR, DRAT and of Treasury, Markets and International Division (DTMI), as well as the several Model Owners, responsible for developing and monitoring the risk models of the Bank.

Security, Quality and Data Protection Commission

This Commission is appointed by the EC and has the following capacities and responsibilities:

- Definition of guidelines and approval of the management policies for IT systems, data management and quality, physical security, business continuity and data protection.
- Regular review of the emerging threats and most relevant trends in terms of data security and information technologies, with a particular focus upon cyber-security.
- Analysis of the periodical security incident's reports (regarding systems/data and physical), identifying the appropriate remediation and improvement measures.
- Follow-up of initiatives and projects in the area of systems/data security, physical security and data protection and monitoring of the respective performance metrics.
- Approval of the annual plans for the exercises of security assessment, Disaster Recovery Plan (DRP) and business continuity, and their respective quantitative/qualitative evaluation.

The Commission members are the CRO, the COO and the CRetO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: COFF, ROFF, Information and Technology (DIT), Segments and Network Support (DSAR), and IT Security (DSI), Operations (DO), Logistics and Procurement (DCM) and the Head of the Physical Security and Business Continuity Department (DSFCN), the Data Protection Officer (DPO) and the Chief Data Officer (CDO) are also permanent members of this Commission, along with the Head of DAU (the latter, without voting rights).

Credit and Non-Performing Assets Monitoring Commission

This Commission is appointed by the EC and has the responsibility of monitoring the evolution of credit risk, under various aspects:

- Monitoring of the evolution of the credit exposure and the credit underwriting process.
- Monitoring the evolution of the credit portfolio's quality and of the main performance and risk indicators.
- Monitor the results achieved by the credit monitoring systems.
- Follow-up the counterparty risk and the largest exposures concentration risk.
- Monitoring the impairment evolution and the main cases of individual analysis.
- Assessment of the recovery procedures performance.

- Monitoring the divestment in the foreclosed assets portfolio.
- Follow-up the execution of the operational plans to be developed within the scope of credit at risk and reduction of certain asset classes.

The CEO, the CRO, the CReto and the COO are members of this Commission, as well as, optionally, the CFO. Any other executive Directors may participate in this body's meetings if they deem convenient to do so. The Heads of the following Divisions are also members of this Commission: Risk Office (ROFF), DCR, DRAT, Specialized Monitoring (DAE), Retail Recovery (DRR), Specialized Recovery (DRE), Legal Advisory and Litigation (DAJC), Management Information (DIG), Specialized and Real-Estate Credit (DCEI), Corporate and Business Marketing (DMEN) and Retail Marketing (DMR). The Head of DAU is a permanently invited member of the Risk Commission, without voting rights.

Pension Funds Risk Monitoring Commission

This Commission is appointed by the EC and has the following competences:

- Assessing the performance and risk of the Group's Pension Funds in Portugal;
- Establishing, for these, the appropriate investment policies and hedging strategies.

The Commission members are the CEO, the CFO, the CRO. Any other members of the EC may participate in the Commission's meetings, if they deem convenient to do so. The other Commission's members are the Heads of the following Divisions: ROFF, Research, Planning and ALM (DEPALM), Wealth Management (DWM) and Human Resources (DRH). Representatives of the Pension Funds management entity and of Ocidental Pensões also participate in the Commission's meetings, by invitation and without voting rights.

Compliance and Operational Risks Commission

This Commission is appointed by the EC and has the following capacities and responsibilities, to ensure that the Bank's activity contributes to an adequate culture of risk and internal control:

- Monitoring of the Bank's activities, as well of those of the other Group entities, regularly coordinating and managing the policies and the duties of the Bank and its branches/subsidiaries, in order to ensure the compliance with the legal and internal rulings, the alignment of Group strategies and the definition of priorities in Compliance matters;
- Monitoring of the exposures to operational risks, as well as the implementation status and the effectiveness of the risks mitigation measures and of those that aim at the reinforcement of the internal control environment;
- Monitoring of the operational risks management framework, which encompasses the management of IT and the Outsourcing risks;
- Follow-up of the management and improvement of the Bank's processes, in order to monitor and reduce the level of exposure to compliance and operational risks.

The Commission members are the CEO, the COO and the CRO. Any other members of the EC may participate in the Commission's meetings if they deem convenient to do so. The ActivoBank CEO and the Heads of the following Divisions are also members of the Commission: COFF, ROFF, IT (DIT), Operations (DO), Segments and Network Support (DSAR). The Head of DAU, the AML1 Officer and the managers responsible for the COFF areas that deal with the matters under discussion are also permanently invited members of this Commission, without voting rights.

Corporate Risk Monitoring Commission

This Commission is appointed by the EC and has the following duties and responsibilities:

- Monitor the evolution recorded by the main performing corporate Clients credit exposures, particularly assessing the implications from specific risk factors of each client (sector of activity, prior COVID-19 financial standing, cost structure chain value, etc.), issuing opinions regarding the credit strategy to adopt.
- Follow-up the counterparty risk and the largest exposures concentration risk.

¹ Anti-money laundering.

The members of this committee are: the CEO, CRO, CCorpO and CRetO. Any other members of the EC may participate in the meetings of this Committee, whenever they consider it convenient to do so. Members of this Committee are also primarily responsible for the following directorates: ROFF, DRE, DCR, DRAT and DMEN.

Sustainability Commission

This Commission is responsible for the definition and monitoring of the initiatives that will allow the implementation of the Sustainability Master Plan (SMP) in its strategic components (Environmental, Social and Governance), in compliance with the guidelines of the Plan approved by the Executive Committee.

It has the following duties and responsibilities:

- To assist the EC 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 Sustainability Master Plan in force, as well as other changes or adaptations necessary to meet the defined objectives.
- To follow-up and monitor the progress of approved initiatives, compliance with the respective deadlines and budgets and the evolution of the results achieved, as well as the key performance indicators of the plan's dimensions.

The members of this committee are the CEO (Executive Director responsible for the Sustainability area) and the CRO. Any other members of the EC may participate in the meetings of this Committee, whenever they consider it convenient to do so. Members of this Committee are also primarily responsible for the following directorates: DESC, DRH, COFF, ROFF, DRAT, DMR, DME and Fundação BCP (not entitled to vote).

CALCO

The CALCO - also referred to as the Capital, Assets and Liabilities Management Commission - is responsible for the management of the Group's overall capital, for assets and liabilities management and for the definition of liquidity management strategies at a consolidated level. Specifically, the CALCO is responsible for the structural management of interest rate, structural exchange rate and liquidity risks, including, among others, the following aspects:

- Establishment of management guidelines for assets, liabilities and off-balance sheet items at consolidated level.
- Definition of the capital allocation and risk premium policies.
- Definition of transfer pricing policy, in particular with regard to liquidity premiums.
- Monitoring of the capital and liquidity indicators, of the Recovery Plan indicators and of the execution of the Liquidity Plan.
- Definition of policies and strategies to access wholesale funding markets and definition of the liquidity buffer composition.
- Definition of the investment policy of the Investment Portfolio and monitoring of its performance.
- Definition of the strategy and positioning within the scope of the interest rate risk and structural FX risk management, as well as of the respective policies and limits, taking into account the market conditions at any given moment.

The Group CALCO meets every month and is composed of the following executive Directors: CEO, CFO, CRO and, optionally any other Executive Director. The other members of the Group CALCO are the Risk Officer, the Chief Economist and the Heads of DEPALM, DIG, DTMI, DWM, DMEN and DMR, the responsible for the ALM Department of DEPALM.

Credit Commission

This Commission is appointed by the EC and its functions are to assess and decide on credit granting to Customers of Banco Comercial Português, in accordance with the competences established by internal regulation ('Credit Granting, Monitoring and Recovery'). This commission may also issue advisory opinions on credit proposals from the subsidiary companies of the Group entities.

The members of this Commission are the CEO, the CCorpO, and the CRO (the former only with veto rights). Any other Executive Director may, whenever he/she sees fit, participate in the Commission. Other members are the Heads of the following Divisions: DCR, DAJC, DRAT, Companies Network Coordination, Large Corporates, as well as Level 3 credit managers and, depending on the proposals to be decided upon, the coordination managers of other proposing areas (e.g., Private Banking, Retail, DRR) or members of the subsidiaries' Credit Commissions. The Company's Secretary, the Risk Officer and the Compliance Officer are permanently invited members of this Commission, without voting rights. Other Group Employees may also be invited to participate (without voting rights), if they are relevant for the matters under discussion.

At Subsidiary Companies Level, the local Credit Commission, CALCO, Risk Control Commission and AML/CTF Commission replicate the roles of equivalent commissions at Bcp level.

Risk Office

The Risk Office (ROFF) is the structure unit responsible for the risk control function at Group level, promoting the overall alignment of concepts and procedures concerning risk monitoring and assessment. The ROFF is responsible for informing the Executive Committee, the Committee for Risks Assessment, and the Risk Commission on the general risk level, for proposing measures to improve the control environment and for the implementation of controls which assure compliance with the approved limits. The ROFF has the following functions:

- Supporting the Executive Committee in the establishment of risk management policies and methodologies for the identification, measurement, limitation, monitoring, mitigation and reporting of the different types of risk.
- Promoting the revision of the Group's Risk Appetite and the risk identification process.
- Issuing opinions related with the compatibility of the risk management decisions considering the approved RAS limits and in transactions with related parties.
- Participate in the definition of the risk strategy and decisions related with risk management.
- Issuing opinions on the assumption of significant risks by the Bank and its subsidiaries, ensuring they are properly identified and adequately assessed.
- Coordinating the NPA (non-performing assets) Reduction Plan and of the ICAAP and ILAAP processes.
- Ensuring the existence of a body of rules and procedures, of an effective IT platform and of a database for the robust and complete management of risk.
- Controlling, on an ongoing basis, the evolution of the different risks and compliance with the applicable policies, regulations, and limits.
- Participating in the Internal Control System.
- Preparing information relative to risk management for internal and market disclosure.
- Supporting the works of the following Commissions: Risk, NPA Monitoring, Pension Funds Risk Monitoring, Compliance and Operational Risk.

The Risk Officer is appointed by the BoD, and reports to the CRO of the Group.

Compliance Office

The Compliance Office (COFF) is part of its organizational structure, construed upon "3 lines of defense model". It ensures the compliance function assigned to the "second line of defense", which includes control and regulatory compliance activities, analysing and advising the corporate bodies and the various Divisions of the Bank prior to the making of decisions that may involve the assumption of specific risks which are monitored by the compliance function.

Furthermore, the COFF has also the mission to:

- Verify if the respective regulatory requirements are complied with, as well as the ethical values of the organization, fulfilling all the attributions that are legally conferred on it, ensuring the existence of a culture of internal control, thus contributing to the mitigation of the risk of attribution to the Group Entities of sanctions or significant assets or reputation damages.
- Promoting the preparation, approval, application, verification of compliance and periodic updating of the Code of Conduct.

- Ensure compliance with the regulatory framework on the prevention and fight against money laundering and terrorism financing (hereinafter “AML/CTF”).
- Participate in the definition of policies and procedures related with Conflicts of Interest and transactions with Related Parties, following-up their implementation and effective application.
- Ensure the management and controls adequacy of the whistleblowing process.
- Provide support to the International Entities in the development of their activities, seeking to normalise their action principles, systems and processes, in compliance with local regulatory specifications.

The Compliance Office reports to the Executive Committee, through the CRO, with a functional reporting duty to the Audit Committee to allow the assessment and oversight of the internal control system, there being no restriction or conditioning to direct interactions, on their own initiative or at their request, with non-executive bodies or board members.

As a second line of defense structure responsible for compliance risk, for the risks associated with money laundering and the financing of terrorism, with conduct and market abuse, with conflict of interests and for other risks of an operational nature, the COFF issues decisions, with binding force for its recipients, aiming at the legal and regulatory compliance of the various business and business support areas.

The functions attributed to the COFF are exercised in accordance with the law or with other applicable normative source, as well as by the Bank's corporate bodies, and the performance of the Compliance Office should be based on a risk approach, at the level of the business, Customers and transactions, allowing the identification, assessment, monitoring and control of compliance risks that may influence the strategy, reputation and objectives defined for the Bank.

Within the scope of opinions and the associated analyses produced at request of several Group areas and Divisions, the COFF:

- Identifies and evaluates the various types of risks – either concerning in what refers to products and services approval process, corporate processes and conflicts of interest;
- Issues proposals for the correction of processes and risks mitigation;
- Permanently analyses the general supervisory environment and, in general, provides specialised support in matters of control and regulatory compliance.

Within the scope of its specific functions, the COFF also ensures an assessment and intervention in what concerns:

- The control and monitoring of compliance risks;
- The Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT);
- The mitigation of reputation risk at all Group entities, aiming at the alignment of concepts, practices and goals in these matters.

In compliance with the Principle of Coherence of the Group's internal control, the 1st responsible for the Compliance Officer of BCP is also responsible for the follow-up and monitoring of the compliance activities and Policies at Group level, highlighting the follow-up and monitoring of the AML/CFT risk through the International AML/CFT Committees, with the participation of the management and Compliance Bodies of the local units.

The COFF is also responsible for coordinating the process of structuring, drafting and approving the annual self-assessment reports on the effectiveness of the organisational culture and the governance and internal control systems, both individual and consolidated, and on the ML/FT prevention system to be submitted to the Bank of Portugal and the Securities Market Commission, under the terms of the respective Notices and Regulations, and as well for the preparation and submission of reports to the management body, at least once a year, identifying the compliance flaws verified and the recommendations issued for their correction.

The COFF fosters, intervenes and actively participates in the training policy of Employees, namely, through training actions in Compliance, for the entire universe of the Group, maintaining a large knowledge repository for matters of its competence, namely, in what concerns the AML/CFT.

Audit Division

The Audit Division (DAU) provides functions of the third line of defense, under the scope called "Model of the 3 lines of defense" and is responsible for assessing the adequacy and effectiveness of the risk management process, the internal control system and the governance models. DAU performs its function on a permanent and independent basis and in accordance with the internationally accepted principles and best practices of internal auditing, carrying out internal audit inspections to assess the systems and processes of internal control and risk management which can give rise to recommendations aimed at to improve its efficiency and effectiveness.

The main functions of the DAU in the scope of risk management are to ensure that:

- The Risks are properly identified and managed and that the controls implemented are correct, adequate and proportional to the Bank's risks.
- The Bank's internal capital assessment system is adequate in terms of the risk exposure level.
- Transactions are recorded correctly in the systems of the Bank, and the operational and financial information is true, appropriate, material, accurate, reliable and timely.
- The Employees perform their duties in accordance with internal policies, codes of conduct, rules and procedures and with the legislation and other applicable regulations.
- The goods and services necessary for the Bank's activity are purchased economically, are used efficiently and are properly protected.
- The Legal and regulatory provisions with a significant impact on the organization are recognized, properly assimilated, and integrated into the operational processes.
- The Bank's governance model is adequate, effective, and efficient.

Envisaging a total independence with the first and second lines of defence, the responsible for the Internal Audit reports to the Board of Directors, through the Chairman of the Board of Directors and functionally to the Audit Committee.

4.6. Risk management

4.6.1. 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. The reassessment is carried out quarterly within the scope of ICAAP monitoring process, 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 established 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).

The RAS - as the primary set of indicators that render and materialise the risk appetite - is one of the guiding vectors of the Group's "Risk Strategy".

Based on the RAS, several lines of action are established, to be developed by different organizational units of the Group, to address the mitigation or control of all material risks identified within the risks' identification and assessment process. These lines of action formally constitute the Group's Risk Strategy. Hence, the RAS and the Risk Strategy are inseparable and central elements of the Group's risk management, both aiming to control and mitigate risks classified within the risks' identification process.

The risk appetite framework - which includes the identification of material risks, the RAS and the Risk Strategy and is reviewed at least once a year or whenever the risks' monitoring so advises (e.g. conclusion that there are new material risks) - provides a reference framework for the permanent monitoring of risks affecting the business and business support activities developed, for the monitoring of all variables, indicators and respective limits that are derived from RAS. Therefore, the permanent follow-up based on this structure is the result of a strong link between the risk management framework thus defined and the great diversity of methods and indicators applicable to the various activities carried out, this link being essential for the performance of the Group's risk management.

In addition, there is an interaction, in both ways, between the definition of the Group's risk appetite structure and its business objectives, represented in the business planning and budgeting. Thus, the risk appetite structure conditions the definition of the business objectives, since the business plan as to respect the risk limits established by the Board of Directors.

In its turn, the business objectives and risk appetite structures are the foundations for all activities and lines of business carried out, also setting out the global controls on the Group's financial strength, such as the stress tests and the internal processes to assess capital (ICAAP) and liquidity adequacy (ILAAP) as well as the recovery plan and the activities in the scope of the resolution planning.

In 2021, the focus of risk management activities was maintained on the continuous improvement of the Group's risk control environment, in addition to the permanent monitoring of the risk levels incurred in relation to the RAS tolerance limits – both at consolidated level and for each geography in which the Group operates – ensuring, at the same time, full compliance with regulatory and supervisory requirements and updating the internal regulations structure that is appropriate for risk management and control.

4.6.2. Main developments and accomplishments in 2021

In 2021, the Risk Management Function maintained focused on the continuous improvement of the Group's risk control environment, and on the permanent monitoring of the risk levels incurred in relation to the RAS tolerance limits, ensuring, at the same time, full compliance with regulatory and supervisory requirements and updating the internal regulations structure that is appropriate for risk management and control.

The most relevant activities developed during 2021 were, synthetically, as follows:

- Continuous improvement of the internal governance model, management, measurement and risk control at Group level, with special focus on strengthening credit risk monitoring;
- Implementation of an action plan for identifying and measuring credit risk in the context of the COVID-19 pandemic including operational measures to adequately respond to the impacts arising from the pandemic outbreak:
 - Development and deepening of the customer follow-up model in the pandemic context aiming to adequately respond to its impacts, namely to the end of the State support measures for companies and individuals. The approach defined by the Bank in this context involved setting up Task Forces to assess and monitor customer credit exposures and define and implement strategies suited to each specific case, which implied the segmentation of the entire Bank's loan portfolio, with the allocation of selected customers for follow-up to the different created areas for this purpose.
 - Extension of the scope of the Credit and Non-Productive Assets Monitoring Committee to monitor the credit portfolio;
 - Ensure dedicated reports for monitoring the credit portfolio in pandemic context;
- Focus on improving the effectiveness of the internal control system;
- Monitoring the compliance level with risk limits, in particular the RAS, at the level of the Group and the main geographies;
- Reinforcement of the supervision and support for the BCP Group's subsidiaries;
- Completion of the ICAAP and ILAAP annual reports, and their ongoing monitoring ensuring the Group's capital adequacy and liquidity on a continuous basis, and participation in other Bank planning processes such as the Strategic Plan, Funding and Capital Plan and Recovery and Resolution Plan;
- Organization of the annual risk identification process (Risk Identification Process, “RIP”) at the Group level and conclusion of the risk appetite and risk strategy revision processes for 2022;
- Implementation of the provisions and reporting system for backstop provisioning for non-performing operations;
- Update of the goals of the NPA/NPE reduction plan for the period 2021-2023;
- Continuation of the implementation of the EBA guidelines on credit origination and monitoring;
- Pursuit of the sustainability master plan for integration of ESG issues into the Bank's risk management framework and monitoring its implementation within the scope of the Bank's RAS;
- Continued redevelopment of the internal IRB models, reflecting the new definition of default and the ECB and EBA guidelines regarding the estimation of PD and LGD models, with submission to the ECB for approval of the respective applications for material changes;

- Continuous improvement of the liquidity and funding risk management and control systems at the Group level, including: the annual review of the internal liquidity stress test framework, improvements on the computation of the consolidated LCR and computation of the consolidated NSFR according to the new EBA standard, improvements of the liquidity risk management framework at Banco Internacional de Moçambique and at Bank Millennium in Poland and building a liquidity management framework in the context of resolution planning;
- Completion of the project for the revision of interest rate risk in the banking book's monitoring and control framework in line with the most regulatory guidelines in this area;
- Participation in the EBA stress testing exercise with reference to December 2020, covering prospective scenarios (baseline and adverse) for the period 2021-2023;
- Preparation of the ECB climate stress test exercise (to be held in the 1st half of 2022);
- Provision of the requirements for the integrated report to the Single Resolution Board, scheduled to start in 2023;
- Reinforcement of market risk monitoring and control processes and continuation of the FRTB implementation project - Fundamental Review of the Trading Book;
- Continuous improvement of the quality of the data supporting the Group's risk management decisions, and in the upgrade of the Risk Office's technological platform;
- Conducting the annual exercise of operational risks' self-assessment, with the presentation of the results and conclusions to the management bodies;
- Execution of the Scenario Analysis exercise within the scope of operational risk (estimation of losses for events with very low probability and high impact) and global update and review of the internal statistical model for estimating maximum annual operational losses;
- Continued monitoring of outsourcing risk in conjunction with the respective contract managers;
- Monitoring of several Supervisory Entities' On-Site Inspections.

In 2021, the compliance function maintained its focus on the continuous improvement of the Group's compliance risk control environment, ensuring, full fulfilment with regulatory and supervisory requirements and updating the internal regulations structure that is appropriate for compliance risk management and control.

The most relevant activities and initiatives developed during 2021 were, as follows:

- In the context of AML/CFT, the compliance action, based on a risk-based approach, included operations filtering, a process that ensured compliance with sanctions and embargoes regimes enacted by the competent national and supranational authorities, their monitoring, aiming to detect and prevent potentially irregular situations, but also the substantive and formal pre-validation process of opening and maintaining entities and accounts and credit operations. This functional perimeter, based on dedicated technological solutions, also envisage the definition and management of risk models based on the evolution of the various variables competing for the establishment of scorings to be applied to operations. Also noteworthy is the development of new, more efficient solutions, based on automation processes for the analysis of risk factors inherent to new account openings and transaction screening.
- Launch, on the Millenniumbcp and ActivoBank Apps, of a process that facilitates the collection and updating of Customers' personal information, namely the information defined in the regulatory framework.
- In relation to the onboarding AML/CFT risk, it is important to highlight the strengthening of control over segments and jurisdictions involved in business relations.
- Reinforcement and specialization continuation of the COFF teams within the scope of AML/CFT in its various dimension.
- Updating the Anti-Money Laundering and Counter Financing of Terrorism Policy, mainly with the aim of formalising the implementation of the EBA Guidelines AML/CFT risk assessment and due diligence measures (EBA/GL/2021/02).
- Reinforcement and specialization continuation of the COFF teams within the scope of AML/CFT in its various dimensions.
- Issuance of the 2020 Anti-Money Laundering and Terrorism Financing Report to the Supervisory Entities.
- Maintenance and optimization of work processes so that they can adequately respond to the operational challenges posed by the COVID 19 pandemic continued, ensuring the scrutiny and decision on Customer operations service level, as well as all internal controls and other functions of the COFF's responsibility.

- Following the publication, on 15th July 2020, by Banco de Portugal, of Notice 3/2020 (Notice), referring to the adequacy and effectiveness of the organizational culture, governance and internal control systems, which has a significant impact on issues directly related to compliance risks, the COFF prepared a plan of initiatives with the objective of aligning the organization and internal practices with the Notice, ensuring full compliance with all requirements. Of the initiatives undertaken in the first half of 2021, we highlight:
 - Changes of the management and supervisory bodies and delegated committees internal regulations;
 - Group's Code of Conduct update, highlighting changes, among others, on topics such as personal data protection, gifts, conflict of interests and irregularities reports, and a new section dedicated to non-discrimination and prohibition of harassment was introduced;
 - Code of Conduct training, applicable to all Employees and Outsourcers, with a completeness level around 100%;
 - Issue, in February and December, of the two annual self-assessment reports on the effectiveness of the organizational culture, governance and internal control systems, for Banco de Portugal (covering both the Group and its various Companies) and for CMVM (only Portugal);
 - Updating the internal regulations related with Notice themes, from which we highlight the cases of the governance and internal control system, the Policy for the Prevention and Management of Conflicts of Interest, fit and proper assessment and succession planning for members of the management bodies and other key function holders and the whistleblowing communication policy, which includes updating the communication process resulting from the implementation of a new channel that ensures the source's anonymity;
 - Training session, by telematic means, dedicated to the impact of the Notice on the Bank's governance, culture and internal control issues, directed mainly at the second and third line of defense functions;
 - Updating of the regulations governing the competencies and functions of the COFF;
 - Code of Conduct training, applicable to all Employees and Outsourcers, with a completeness level above 90%;
- Within the scope of internal communication, the following important initiatives should be highlighted: in compliance with Article 63 of the Notice, regarding the systematization of information, the COFF has ensured that the information on the matters set out in the Annex to the Notice was made available in an integrated and up-to-date manner, in a format accessible to all employees, as well as communication initiatives, on the Bank's internal portal, about the Notice importance and the nature of its main issues.
- Execution of the 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 other risks of compliance and regulatory compliance.
- Controls strengthening regarding the risk of market abuse.
- Controls strengthening on regulatory requirements compliance regarding advertising campaigns.
- Regarding the Group's activities, the strengthening of the risks monitoring of the various operations remains a priority, ensuring the monitoring of the AML/CFT risk through the International AML/CFT Committees, with the participation of management bodies and compliance function of the International Entities, aiming to assess and monitor the specific compliance risk factors of each geography, as well as the existing business segments in each operation.
- Development of joint COFF projects with teams of subsidiaries and branches abroad in order to analyse and improve the effectiveness of existing controls for mitigating the main risks in the area of AML/CFT.
- Regarding training, there was also a significant reinforcement of actions in compliance matters in the first half, with special emphasis, in addition to the above-mentioned Code of Conduct, to the new AML/CFT training, already considering the changes arising from the entry into force of Law No. 58/2020.

4.6.3. 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 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 Division 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 almost 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.

During 2021 the Bank maintained procedures to monitor the potential impacts of the COVID-19 pandemic crisis, following up on the measures already implemented during 2020.

Specialized customer monitoring in the context of the pandemic COVID-19

Alongside the support to customers, making available and implementing swiftly the support measures approved, namely by the Government and the EBA, and embodied in the public and private moratoria and the COVID lines, the Bank adjusted its credit portfolio management and monitoring processes to the new reality arising from the pandemic, namely in what concerns the assessment of its potential impacts on the risk profile of the different portfolios/segments of exposure.

Therefore, in order to identify, assess and monitor the impact in terms of credit risk arising from the COVID 19 pandemic crisis in a comprehensive and transversal way, the Bank implemented a specific approach with the objective of identifying and closely monitoring the customers potentially most affected by the pandemic, anticipating possible difficulties in complying with their responsibilities and defining credit and performance strategies adjusted to the specificities of each specific customer/group of customers, with a view to both maintaining support to customers considered viable and mitigating credit risk.

This approach involved a segmentation of customers according to a set of risk criteria approved (customer risk grade, activity sector, existence of warning signs, exposure size, etc.), its allocation to monitoring units/structures set up specifically for this purpose, which rely on the experience and knowledge of employees assigned to areas traditionally allocated to the credit risk management (Credit Division, Rating Division, Corporate Recovery Division and Retail Recovery Division), as follows:

- “Comité de Acompanhamento de Risco Empresas” (CARE): Monitors economic groups/companies with greater exposure to the Bank and/or with a risk profile considered more vulnerable in the context of the pandemic.

Regular monitoring with the intervention of the Credit Division and the Rating Division in coordination with the commercial area that follows the customers, involving the request of frequent and recurring information regarding the evolution of the business with the objective of monitoring as much as possible in a timely manner the evolution of its economic and financial situation.

The conclusions of this analysis are then presented to a monitoring committee specifically created for this purpose, which includes members of the Executive Committee and several areas of the Bank, which met throughout 2021 about twice a month.

- Task Force DCR: Monitoring of economic groups/corporate clients with exposures levels lower than CARE, having the support of the Credit Division and representatives of the commercial areas.

The credit strategies and proposed action measures for customers monitored by this area are analysed and agreed between branches/sales networks and the credit teams of the Credit Division.

- Task Force DRE: Monitoring of economic groups/corporate clients in a segment lower than CARE and Task Force DCR in terms of exposure with the Bank.

Considering the monitoring of a larger number of clients and of smaller size, the approach is more standardised.

For each of the clients analysed in these special structures, an action strategy is approved. The set of strategies is pre-defined, common to all three structures and its implementation is regularly monitored.

- DRR Model: Follows the retail segment as far as individuals and small-sized companies within this segment are concerned.

Given the number of customers involved, it is in this monitoring area that the approach is more standardised, with strategies for approaching customers, analysis, offer of solutions and their implementation being pre-defined.

The main guidelines of the approach followed in this front can be characterised as presented below:

- Global and transversal: Is supported by an analysis of the entire credit portfolio of the Bank, being excluded from the special monitoring only customers with a risk profile not very vulnerable to the current environment or with exposures of a lower size. These customers continue to be monitored according to the regular credit monitoring procedures in place.
- Specialised: The monitoring alternative approaches were defined taking into consideration the specificities of each segment, e.g., CARE.
- Segmented: Prioritisation of contacts with customers based on risk indications in order to gather additional information and agree on appropriate and sustainable financial restructuring solutions in a timely manner.
- Prospective: Definition of predictive models, in order to anticipate potential future defaults, namely regarding portfolios under moratoria, avoiding a reactive approach.
- Standardised: Both in terms of risk models and monitoring, and in terms of credit solutions for which it is possible to identify pre-defined alternatives (retail segments).

- Convenient and innovative: Making the restructuring journey simpler and more convenient for private and corporate customers, both in terms of credit solutions and channels, extending the restructuring offer to the App for consumer credit and housing credit.

Although originally conceived as a response to the need to closely monitor the impacts of the pandemic COVID-19, given its merits, it was decided to evolve this approach into a process that will continue in the future, no longer based on task force structures and applicable to all corporate clients without exception.

A critical component of the evolution of this process is the allocation of credit strategies among pre-established options to all customers, with review periods differentiated according to the strategies in question.

The evolution of the model contemplates the maintenance of the “Comité de Acompanhamento de Risco Empresas” (CARE) to monitor economic groups/corporate customers with larger exposure to the Bank and/or with a risk profile considered more vulnerable, while the monitoring of the remaining companies is based on the structures of the Rating Division and Credit Division.

Macroeconomic scenarios update

In what concerns the customer portfolio subject to collective analysis, in what regards Portugal, the Bank updated the macroeconomic assumptions used in the impairment calculation in the end of December, in both cases based on the three scenarios (Central Scenario, Upside and Downside) prepared by the Bank's Economic Studies Department, which took into account the most recent projections from reference entities.

The same procedure was followed in the Bank's main subsidiaries.

Impairment overlays

To incorporate an additional level of conservatism in the impairment values and in accordance with the guidelines issued by the Supervisors, namely regarding the identification and measurement of credit risk in the context of the COVID-19 pandemic, the Bank recorded additional impairments in relation to those estimated by the models in force to calculate impairment (overlays), which amounted to approximately € 85 million in Portugal and € 12.4 million in Poland.

The approach underlying the calculation of the value of overlays took into consideration several factors considered relevant for an assessment of the potential risk of customers' exposures in an exceptional context resulting from the COVID-19 pandemic, including data already observed in their behaviour and estimated impacts, adopting complementary and distinct criteria in relation to the methodologies in force.

Separate approaches were adopted for calculating the overlays of the corporate and individual segments.

The exercise carried out reflected, in terms of impairment value, the calculation of the estimated impact resulting from potential migrations of customers with higher risk to Stage 2 and Stage 3, based on the various factors considered in the analysis. It should be noted that the most significant impact occurred in the corporate segment.

Risk Grade freeze of clients rated by behavioural models

Assuming a conservative perspective, the Bank identified the customers in moratorium with internal risk rating awarded by behavioural models that at the end of December showed an improvement in the risk level in comparison with the one existing before the moratoria and, for these cases, assumed for purposes of staging criteria and impairment calculation the maintenance of that pre-moratoria risk rating.

This procedure did not imply a change in the internal risk rating attributed by the Bank. The impact of this procedure amounted to 6.7 million euros, in terms of impairment, and to around 310 million euros of On-Balance exposure regarding classification in Stage 2.

Classification of exposures as forborne

Specifically, in what regards the classification of customers as forborne, within the guidelines issued by regulators and supervisors, operations within the scope of the state moratoria (Decree Law 10-J/2020 of 26 March) or the sector moratorium (protocol signed in the context of the APB-Portuguese Banking Association) could be not flagged as forborne. Even so, the Bank decided to adopt a conservative approach, classifying as forborne the operations that benefited from the above-mentioned moratoria and that on the moment of joining the moratorium had more than 30 consecutive days of default above the materiality.

Regarding the classification of other operations as forborne or contractual alterations, the Bank continued to reinforce internal procedures with a view to the strict classification of new operations or modification of operations in progress that are carried out due to financial difficulties of customers.

As presented in section 7.5 ("Exposures Subject to Measures Applied in Response to The Covid-19 Pandemic"), regarding the Bank's support to the economic agents through EBA compliant moratoria, on 31 December 2021 there were no more moratoria in force. The value of exposures at the above date that were subject in the past to moratorium amounted 10.9 billion euros (includes 1.2 billion euros related with the prorogation of State Guaranteed Loans under DL 22C of 19 March 2021), of which 9.4 billion euros in Portugal. Within the exposures subject to moratorium, nearly 5.2 billion euros were in the household's segment (of which 87% related to loans secured by residential property). In the corporate segment, exposures subject to moratorium in respect of non-financial corporations totalled 5.6 billion euros, of which 5.1 billion euros in respect of small and medium sized enterprises.

At the end of 2021, the weight of non-performing clients was 8.7% of the exposures that had been subject to moratorium.

As regards the support measure to the economy in the context of the covid-19 pandemic concerning the credit lines granted under the public guarantee systems introduced in response to the pandemic crisis, at the end of 2021 amounted to 2,836 million euros, almost all of which was destined for Non-Financial Corporations, especially SMEs with 89% of the total. Once again, Portugal's weight in the total is significant, with a share of 91% of the total support in this regard.

4.6.4. 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.
- 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 daily (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 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 business areas subject to Risk Office's opinion.

The Group has in place procedures that aim to ensure the effective control of positions considering the entities' trading strategy, including the monitoring of transaction volume and compliance with expected holding periods.

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.

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. The backtesting is performed using both hypothetical (based on the static portfolio used for the estimation of the VaR and the market variations occurred subsequently) and actual outcomes (using the actual results 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 price 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 2021, 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.

The Risk Office's Market Risks Area is responsible for the following main activities:

- 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.
- Modelling 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 the fair value hierarchy under the terms defined in terms of IFRS 13.
- 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 risk-taking areas, which ensures the autonomy of its management functions, oriented towards a risk profile in accordance with the Group's strategic goals.

4.6.5. 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 indicators² (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 is framed by the 3 lines of defense corporate Governance 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, the Group's subsidiaries have their own process's structure, which is periodically adjusted according to business evolution, 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 defense 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 function (materialised in the Risk Office) and the Compliance function (materialised in the Compliance Office) represent the 2nd Line of Defense and are responsible for implementing the risk policy defined for the Group, proposing and developing approaches for managing this risk, supervising their implementation and challenging the 1st Line of Defense regarding the risk levels incurred. The Internal Audit function embodies the 3rd Line of Defense and supervises the remaining two lines of defense.

² 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.

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 specific controls (Inherent Risk); assessment of the risks exposure of the different processes, considering the influence of the existing specific controls (Residual Risk); and identification of the impact of the improvement opportunities in the reduction of the most significant exposures (Target Risk).

These exercises are based on workshops, attended by the Risk Office and with the participation of the process owners and process managers or questionnaires sent to the process owners to update the results, according to pre-defined updating criteria. Representatives from the Internal Audit (3rd Line of Defense), the Compliance Office, the IT Division, the Business Continuity Area and the Personal Data Protection Office are invited to participate in the RSA workshops.

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 management 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 incorporates an Operational Risk Area that ensures the following main activities:

- plan and carry out the annual Self-Assessment exercise on operational risks in all Bank processes.
- 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.

4.6.6. 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 non-existent funding, 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 liquidity, short-term indicators such as the LCR (Liquidity Coverage Ratio, a regulatory indicator) and the ratio between the buffer available for discount with central banks and customer deposits, and structural indicators such as the loan to deposits ratio and the NSFR (Net Stable Funding Ratio, a regulatory indicator) are monitored in the scope of the “Risk Appetite Statement” of the Group and each subsidiary. These high-level indicators are complemented at the operational level by metrics defined within the Group's liquidity risk management framework and adopted at the level of each of the main subsidiaries. All these indicators are regularly monitored and reported to the Bank's management bodies.

Liquidity risk management also includes the preparation of an annual Consolidated 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 the 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 Risk Commission is responsible for the continuous assessment of the liquidity risk management framework and for controlling the approved limits for exposure to that same risk.

The Risk Office has a Liquidity Risk Area that has the following responsibilities:

- 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.
- support local risk offices in the implementation of the approved methodologies for the entire Group.

4.6.7. Defined benefit pension fund risk

The responsibilities assumed by the BCP Group associated with the Bank's defined benefit Pension Fund are related with the payment of retirement pensions for old age, disability, and survival to its employees.

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. This risk is subject to regular monitoring and follow-up of the respective management by the Pension Fund's Risk Monitoring Committee. This body evaluates and monitors the Fund's performance and risk and is responsible for establishing the appropriate investment policies.

In 2021 the BCP Group Pension Fund had a net performance in commissions of 1.92%.

The evolution of market interest rates in 2021 led to the need to update the discount rate to clear the Fund's liabilities. Thus, the current discount rate was changed from 1.05% in 31st December to 1.45% on June 30, 2021 and to 1.35% on December 31, 2021. On that date, the coverage of the pension fund's liabilities had an excess of around 228 million euros.

4.6.8. 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 is part of the Bank's organizational structure. It ensures the compliance function assigned to the "second line of defense", which includes control and regulatory compliance activities, analysing and advising the corporate bodies and the various Divisions of the Bank prior to the making of decisions that may involve the assumption of specific risks which are monitored by the compliance function.

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 behaviour 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, simplified or enhanced due diligence 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.

The Compliance Office ensures the regulatory compliance of the new products approval policy, including the verification that the duties of informing customers are fulfilled. It also analyses the compliance of internal regulations with the current regulatory and legal framework and issues opinions on situations established in internal policies, such as those concerning related parties and conflicts of interest.

In matters related to regulators, the Compliance Office, with the supervisory entities, monitors inspections in matters of behavioural and prudential supervision, ensuring compliance with various reporting duties. In this context, the role of prevention, control and monitoring of Market Abuse stands out.

It is also the responsibility of the Compliance Office to ensure the consistency of the Document Management Model in the BCP Group, as well as the preparation and review internal documentation.

4.6.9. Environmental and social risks

Within the scope of the approach to environmental and social risks, the Bank created in 2019 the Sustainability Commission, dependent on the Executive Committee, with the objective of assisting this Committee in the integration of the principles of Sustainability (Environmental, Social and Corporate Governance / ESG) in the Bank's decision-making and management processes, to assess and approve the initiatives necessary to implement the actions defined to materialize the strategic dimensions of the Bank's Sustainability Master Plan, as well as other changes or adaptations necessary to meet the defined objectives, follow-up and monitor the progress of the approved initiatives.

In 2021, the Bank created the Economic Research, Sustainability and Cryptoassets Division (DESC), a new unit with enhanced focus on sustainability which reports directly to the CEO, and whose mission in the sustainability context is to propose and put in place global and coherent sustainability and corporate social responsibility policies, which promote the business development with the incorporation of ESG principles, foster the growth of the Bank's reputation, its capacity to add social and environmental value and to comply with the stakeholders' needs and expectations.

Aware of the impact of environmental and social risks on the planet and on its own operations, the Bank defined in its Sustainability Master Plan an approach to the management of environmental and social risks based on three action areas: the integration of ESG risk in the risk management procedures, the identification and classification of customers with greater environmental and social risks and the promotion of awareness of customers in activity sectors of greater exposure to environmental risks.

The Bank has been integrating the environmental and social risks, considering them as important risk drivers impacting several of the risk types assessed in the Bank's risk identification process, and incorporating them in the risk management policies, standards and procedures. The Bank has a yearly process to identify, assess and manage over 60 risk types, which includes ESG factors, with increasing relevance in the Bank's activity, given the densification of the legal and regulatory framework and the deepening of the risk management best practices. The risk management process has been adapted to match the strategic priority given by the Bank to the ESG matters.

The Bank integrated the analysis of environmental risk in the Customer assessment processes for credit granting and project finance, considering the risks associated with the activity sectors and the Customers' ESG performance, implemented ESG risk scoring processes for Large Corporate customers and defined sector financing and investment policies for activity sectors with high exposure to climate environmental risks (positive and negative screening).

The Bank continues to provide products and services that incorporate social principles and respect for the environment and nature and is working on developing a complete and comprehensive offer of ESG financial products and services. The Bank is also aware that the implementation of social and environmental criteria and standards in its commercial offer contributes to more effective risk management, reputational value and better quality of products and services available to customers.

The Bank also addresses the needs of investors who value social and environmental risk factors, making Responsible Investment Funds available for subscription, and ESG factors in portfolio composition.

The Bank monitors legal and regulatory initiatives related to climate change as a systemic risk for the financial system, especially the Task Force on Climate Related Disclosures sponsored by the Financial Stability Board and the Principles of Responsible Banking promoted by the UN.

Already in early 2022 the Bank participated in the ECB's climate stress tests exercise in which the mechanisms for monitoring ESG risk factors, including monitoring of regulatory expectations about these, as well as the Group's exposure to activity sectors and collateral typologies potentially more vulnerable to them (e.g. through transition risks or increased physical risks) and the level of relevance activities for the Group's income.

This exercise, which is in the final phase of completion, was successfully carried out by the Group regarding the ability to identify and report all the required information with quality and within all the deadlines provided for these, as well as the state of preparation of the Group for future challenges in this area. In quantitative terms, this exercise demonstrated the Group's reduced exposure to activities and collateral with greater sensitivity to environmental and climatic risk factors.

The Bank is also attentive to the changes that will occur in the prudential and supervisory areas, following the development of criteria and technical standards to be broadly and unequivocally adopted in the market, which foster uniformity and transparency.

More information on environmental and social risks management is available in the BCP Group's Sustainability Report.

4.6.10. Litigation risk in swiss francs portfolio in Poland

Regarding mortgage loans indexed to Swiss francs (CHF) granted by Bank Millennium, there are risks related to verdicts issued by Polish courts in lawsuits against banks (including Bank Millennium) raised by borrowers of FX-indexed mortgage loans, as well as risks related with the possible application of a sector-wide solution, i.e., a solution applied to all contracts (Swiss Franc-denominated/indexed mortgage loans) in the Polish financial sector. The Polish Financial Supervisory Authority suggested a possible sector-wide solution in December 2020, which has, since then, been under consideration by Polish banks.

On 3 October 2019, the Court of Justice of the European Union (CJEU) issued a judgment on Case C-260/18. This judgement has legal interpretations in connection with the preliminary questions formulated by the District Court of Warsaw in the lawsuit against Raiffeisen Bank International AG, relative to CHF-indexed loans.

Since then, the trend of court rulings, that had been mostly favourable to banks, begun to reverse. The CJEU ruling only concerns situations where the national court has previously determined that contract terms are unfair. It is the exclusive competence of national courts to assess, during judicial proceedings, whether a particular term of a contract can be identified as unfair according to the circumstances of the case.

On 29 January 2021, a set of questions was published addressed by the First President of the Supreme Court to the Civil Chamber of the Supreme Court, which may have important consequences in terms of clarifications of relevant aspects of the court rulings and their consequences. The Civil Chamber of the Supreme Court was requested to respond to certain requirements related to FX-indexed mortgage agreements: (i) is it permissible to replace – through legal or customary provisions – the abusive provisions of an agreement which refer to FX exchange rate determination; moreover, (ii) in case of the impossibility of determining the exchange rate of a foreign currency in the indexed/denominated loan agreement – is it possible to keep the agreement in force in its remaining scope; as well as, (iii) if, in case of invalidity of the CHF loan agreement, the theory of equity would be applicable (i.e., does a single claim arise which is equal to the difference between value of claims of bank and the customer), or the theory of two conditions (separate claims for the bank and for the client that should be dealt with separately). The Supreme Court was also requested to comment on (iv) the determination of the moment from which the limitation period should start counting in case of a claim being filed by a lending bank for repayment of borrowed amounts and, (v) whether banks and consumers may receive remuneration on their pecuniary claims on the other party arising from the contract.

On 11 May, the Civil Chamber of the Supreme Court requested opinions on Swiss franc mortgage loans from five institutions, including the National Bank of Poland, the Polish Financial Supervision Authority, the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman.

The positions of the Commissioner for Human Rights, the Children's Rights Ombudsman and the Financial Ombudsman are in general favourable to consumers, while the National Bank of Poland and the Polish Financial Supervision Authority present a more balanced position, including fair principles of treatment of FX mortgage borrowers vis-à-vis PLN mortgage borrowers, as well as balanced economic aspects regarding solutions for the problem that could be considered by the Supreme Court.

In the meeting of the Supreme Court that took place on 2 September 2021, the Court did not address the answers to the submitted questions and no new meeting date is known. Bank Millennium will assess in due time the implications of the decisions of the Supreme Court on the level of provisions for the legal risk.

In August 2021, CJEU was asked for a preliminary ruling (C-520/21) whether, in the event that a loan agreement concluded by a bank and a consumer is deemed invalid from the beginning due to unfair contract terms, the parties, in addition to the reimbursement of the money paid in contracts (bank – loan capital, consumer – instalments, fees, commissions and insurance premiums) and statutory interest for delay from the moment of calling for payment, may also claim any other benefits, including receivables in particular, remuneration, compensation, reimbursement of costs or valorization of the performance.

Notwithstanding the above, there are several questions addressed by Polish courts to the European Court of Justice which may be relevant for the outcome of the court disputes in Poland.

The subject matter questions relate to:

- the possibility of replacing an abusive contractual clause with a dispositive law provision;
- the limitation period of consumer claims concerning reimbursement of benefits made as performance of an agreement which has been declared to be invalid;
- the possibility of declaration by the Court of abusive nature of only part of a contractual provision.

With the scope of settlements between Bank Millennium and borrower following the loan agreement being declared invalid is also connected the legal issue related with the seven-person composition of the Supreme Court (case sign: III CZP 54/21). The date of case review has not been specified yet.

The Supreme Court was also presented with the issue of whether the loan agreement is a mutual agreement in the light of the regulations concerning retention right.

According to current calculations, implementation of a solution whereby loans would be voluntarily converted to PLN as if they had been a PLN loan from the very beginning, bearing interest at an appropriate WIBOR rate, increased by the margin historically employed for such loans, could imply provisions for the losses resulting from conversion of such loans (if all the then existing portfolio would be converted) with a pre-tax impact between 4.390 million PLN (957.70 million euros) to 4.848 million PLN (1.057.61 million euros) (non-audited data). The impacts can significantly change in case of variation of the exchange rate and other various assumptions. Impacts on capital could be partially absorbed and mitigated by the combination of the existing surplus of capital over the current minimum requirements, the reduction of risk-weighted assets and the decrease or elimination of the Pillar 2 buffer.

Due to the complexity and uncertainty regarding the final verdict of these lawsuits, as well as the possible implementation of the solution suggested by the Chairman of KNF, as well as the uncertainty of the awaited Supreme Court or European Court of Justice decisions, it is difficult to accurately estimate the potential impacts of such outcomes and their influence on the date of publication of the Group's financial statements.

4.7. Concise risk appetite statement

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 with 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 which 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 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 29 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 52 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 / Franchise and reputation and Sustainability, directly or indirectly linked to the different objectives' types of the strategic plan, namely: Business growth / Value creation / Asset quality.

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 definitions of the RMS – after an opinion from the BoD's Executive Committee and Risk Assessment Committee.

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.

Breaches to the amber or red zones the initiate an event escalation process from the metric owner (the Division of the Bank responsible for the risk that is associated with the metric) to the Board of Directors, involving the Executive and Risk Assessment Committees and the Risk Office. The RAS breach management follows a process clearly defined in the internal regulations of the Bank. An eventual breach to the risk appetite may require defining a plan to return to acceptable risk level. The decision on launching a mitigation plan is taken by the Executive Committee, challenged by the Risk Assessment Committee, and ratified by the Board of Directors. In case a mitigation plan is approved, the results should be presented regularly for Executive Committee steering. Similar process is implemented at subsidiaries level with reporting of the conclusions to the BCP management bodies.

For the main subsidiaries of the group - Bank Millennium (Poland) and Banco Internacional de Moçambique (Mozambique) 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 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.

4.8. Risk identification and risk taxonomy

The Bank has implemented a regular risk identification process at BCP Group consolidated level and at each Entity level 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 BCP Group's risk identification process is led by BCP's Risk Office and is based on a risk taxonomy, in which the main risk categories (e.g., credit, market, liquidity, operational, etc.) are broken down into a wide range of types of risk to be analysed by the Bank in a self-assessment exercise, to predict the respective impact on the risk profile of the BCP Group or any of its Entities. To this end, materiality thresholds are approved by the Risk Assessment Committee to be used as references for assessing the risks likelihood and impact on solvency or liquidity. Based on this reference framework, the risks considered material for the Group are selected. The results of the risk identification process are approved by the Board of Directors, following a recommendation of the Risk Assessment Committee.

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.

TABLE 6 – RISK TAXONOMY

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, which includes the potential impact of climate related risks, namely the physical and transition risks.
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, which includes the potential impact of climate related risks, namely the physical and transition risks.
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) and the risk arising from the possibility that changes in credit spreads will affect the value of financial instruments or contracts (fair value Banking Book exposures).
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 a liquidity constraints during the daily operations.

Short term cash flow risk	The current or prospective risk to earnings, capital and liquidity arising from the Bank's inability to meet its liabilities when they come due in the short term, which includes the potential impact of climate related risk, namely the physical and transition risks.
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, including the potential impact of climate related risks, namely the physical and transition risks.
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) excluding fair value Banking Book sovereign debt portfolio.
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), which includes the potential impact of climate related risks, namely the physical and transition risks.
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 damages to the Bank's physical assets, caused by accidental or deliberate events such as climate risks, natural disasters, terrorism or vandalism acts, etc.
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 losing documentation), including failed process management and relations with counterparties and vendors (e.g. outsourcing), excluding ICT related risks.
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 the development or the use of any flawed or inappropriately applied models/algorithms, within the scope of pricing or transactions' decision making, internal capital quantification models or business decisions.
Internal fraud	The current or prospective risk to earnings, capital and liquidity arising from internal fraud.
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	IRRBB - Interest rate risk in the Banking Book
Behavioural 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 behavioural 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 behavioural 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, which may also result from potential impact of climate related risks, namely the physical and transition risks.
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
Real estate risk	The current or prospective risk to earnings, capital and liquidity arising from changes in value of firm-owned real estate
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.

The set of risks identified as material risks in the Risk Identification Process of 2021 are disclosed in the Table 20 of this report.

4.9. Reporting and risk measurement systems

The BCP Group has implemented an IT infrastructure – SAS Solution for Risk Management – that includes the Risk Office Data Mart (RODM) and SAS Risk Dimensions that capture the majority of the risk exposure at a Group level.

SAS Solution for Risk Management is a complete end-to-end application for measuring, exploring, managing, regulatory reporting (COREP/FINREP) and ALM (Assets & Liabilities Management), among other objectives. This solution integrates data access, mapping, enrichment, and aggregation with advanced analytics and flexible calculation and reporting, all in an open, extensible, client server framework.

The Risk Office DataMart (RODM) is an information repository that was designed to support the risk analysis and capital calculation. This application allows the collection of specific and relevant information in terms of risk, from all relevant systems of the Group (domestic and international operations).

RODM aggregates and manages several types of information, namely financial, transactions, customer details, ratings, customer limits, collaterals / guarantees.

The data is obtained directly from the Group's IT systems through automated procedures, which regularly stores data into the RODM, corresponding to the Group's position by the end of each month. The procedures for the loading of updated data were designed by the Group's IT Division at the Risk Office's request and involve the feeding of data from the Group's operational systems, concerning transactions, positions or entities (clients and counterparties) registered into those systems.

The information stored in RODM is used to feed the SAS Risk Dimensions, a simulation software that implements advanced methods for credit risk management, performs risk assessment and mitigation of credit risks through an optimized allocation process, calculates the capital requirements for Pillar I and produces sensitivity analysis and feeds into stress tests exercises. This solution also covers liquidity risk and interest rate risk management.

The main outcomes from this system are:

- Assets & Liabilities Management (ALM), including interest rate risk identification and calculation for all balance sheet (and off-balance) interest-sensitive items, and Gap Analysis for liquidity risk control.
- Capital requirements calculation.
- Impairment calculation.
- Regulatory reporting, namely COREP and FINREP.

It also enables Credit risk analysis, monitoring and reporting, such as exposures, risk weighted assets, Non-Performing Loans, concentration risk, impairment and other credit risk indicators that can be aggregated by geography, business line, product, etc.

Data quality is an essential tool for risk information and therefore to a sound and effective risk management. The Bank is implementing the BCBS 239 Project - Governance and Data Quality, which develops permanently processes and enhancements to comply with the principles for effective risk data aggregation and risk reporting, as presented in BCBS 239, the Basel Committee on Banking Supervision (BCBS) Principles for effective risk data aggregation and risk reporting.

The Bank has established an operating model for Data Quality and Governance, based on segregated responsibilities:

- In the first line of defense, roles deal with the Bank's daily operations and, as a result, ensure a proper usage of data and fulfilment of its requirements.
- In the second line of defense, functions aid the first line by monitoring and providing recommendations, such as setting standards, policies, and procedures.
- In the third line of defense, functions are independent from the Governance and Data Quality framework, allowing them to ensure compliance with the BCBS 239 principles and guarantee that the Bank's objectives and strategy are also aligned.

The process is supported by a complete set of internal regulations and procedures detailing the Bank's Data Governance and Quality model, in accordance with the guidelines of the Group Data Officer (CDO), responsible for defining the global principles and rules applicable throughout the Group and published in the form of Group Codes. In addition, the Group CDO is also responsible for monitoring compliance across the group, in coordination with the CDOs of the subsidiaries.

The Governance and Data Quality supervisory functions were incorporated in the Security and Data Quality and Protection Commission.

Data quality metrics were added to the BCP Group RAS and subsidiaries.

The risk management and control information need of the governing bodies are fulfilled by the production of several periodic risk reports, presented to the Committees and Commissions of the Bank. The most high-level reports are the RAS Monitoring Report, presented monthly to the Board of Directors, the Executive Committee and the Risk Assessment Committee and the Key Risk Indicators, covering in detail all material risks of the Bank, presented monthly to the Executive Committee and Risk Assessment Committee.

4.10. 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.

In the following table is shown 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 7 – CALCULATION METHODS AND SCOPE OF APPLICATION

	31 Dec. 21	31 Dec. 20
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 the following exposures: those derived from the SOE rating systems and the simplified rating system and purchased receivables 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.

5. Capital adequacy

5.1. 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 2021, 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 2021 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 March 12, 2020, the European Central Bank announced a set of measures intended to guarantee the continue financing of households and corporates experiencing temporary difficulties, due to the economic effects that are felt worldwide. These supervisory measures aimed to support banks in serving the economy and addressing operational challenges ahead, including the pressure on their staff.

Capital buffers required by the regulator were established with the objective of allowing banks to face adverse shocks. While the European banking sector has built up a significant amount in capital buffers, the ECB has allowed banks to operate temporarily below the capital level defined by Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the systemic buffer (O-SII). Furthermore, several National Supervisory Authorities have reduced or temporarily eliminated the need for the creation of countercyclical buffers (CCyB).

On the scope of the Supervisory Review and Evaluation Process the minimum Own Funds requirements for 2021 were as follows:

TABLE 8 – MINIMUM CAPITAL REQUIREMENTS FROM SREP

(Thousand euros)

31/12/2021

	Minimum required Pillar 1	Additional requirements Pillar 2	Capital conservation buffer	O-SII capital buffer	Total
CET1	4.5%	1.27%	2.500%	0.563%	8.828%
T1	6.0%	1.69%	2.500%	0.563%	10.750%
Total	8.0%	2.25%	2.500%	0.563%	13.313%

The Bank complies with all supervisory requirements and other recommendations in this area.

The consolidated capital ratios, as of 31 December 2021, 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.

5.2. Own funds and capital adequacy on 31 december of 2021 and 2020

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 with the deduction of expected dividends 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, goodwill and other intangible assets, the additional value adjustments required by applying prudent valuation requirements to all assets valued at fair value, adjustments related to minimum commitment with collective investments undertakings and insufficient coverage for non-performing exposures.

Reserves and retained earnings are adjusted by the reversal of unrealised gains and potential 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 minimum amount between the subsidiary capital requirements and the contribution to the Group capital requirements.

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 under SREP as well as the irrevocable payment commitments for the Deposits Guarantee Fund and the Single Resolution Fund and the additional coverage of non-productive exposures are also deducted.

Additional tier 1 comprises preference shares and other hybrid instruments and perpetual bonds representing subordinated debt 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 own funds include 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 artº 473º-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 437º e).

The Group does not qualify as a financial conglomerate; therefore, the capital requirements were not assessed.

The main aggregates of the consolidated own funds and own funds requirements, as of 31 December 2021, 30 September 2021 and December 2020 as well as the respective capital ratios are shown in Table 9:

TABLE 9 - CAPITAL RATIO AND SUMMARY OF THE MAIN AGGREGATES

(Thousand euros)

	Fully implemented			Phased-in		
	Dec 2021	Sep 2021	Dec 2020	Dec 2021	Sep 2021	Dec 2020
OWN FUNDS						
Tier I	5,884,053	5,986,246	6,187,379	5,882,041	6,020,713	6,193,989
of which: Common Equity Tier I	5,375,123	5,454,027	5,651,316	5,372,775	5,488,073	5,657,289
Tier II	1,363,288	1,033,161	1,025,336	1,330,758	1,030,219	1,018,263
Total capital	7,247,340	7,019,407	7,212,715	7,212,799	7,050,932	7,212,252
RWA						
Credit risk and counterparty credit risk	39,740,416	40,232,306	39,912,807	39,810,329	40,311,856	40,003,475
Market risk	1,947,366	2,323,137	2,322,058	1,947,366	2,323,137	2,322,058
Operational risk	4,123,409	4,014,374	4,014,374	4,123,409	4,014,374	4,014,374
Credit Valuation Adjustments (CVA)	51,426	84,077	73,141	51,426	84,077	73,141
Total	45,862,616	46,653,894	46,322,379	45,932,529	46,733,444	46,413,048
CAPITAL RATIOS						
Common Equity Tier I	11.7%	11.7%	12.2%	11.7%	11.7%	12.2%
Tier I	12.8%	12.8%	13.4%	12.8%	12.9%	13.3%
Total capital	15.8%	15.0%	15.6%	15.7%	15.1%	15.5%

Note: The September 2021 ratios do not include the accumulated net income.

The reports CET1 ratio as at 31 December 2021 stood at 11.7%, compared to the 12.2%, reported in the same period of 2020, both phased-in and fully implemented and above the minimum ratios defined on the scope of SREP(1) for the year 2021 (CET1 8.828%, T1 10.750% and Total 13.313%).

The evolution of capital ratios in the period was significantly impacted by the increase in provisioning for legal risks associated with foreign currency loans of Bank Millennium in Poland, as well as by changes in the recognition of non-controlling interests in own funds, partially offset by the good performance of the activity in Portugal. Therefore, the CET1 ratio decreased from the figure presented in the same period of 2020, standing below the bank's medium-term goals, without jeopardizing the prospect of convergence towards such goals.

The table below shows the BCP Group risk weighted assets as at 31/12/21 and 30/06/2021.

TABLE 10 – TEMPLATE EU OV1 – OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS

(Thousand euros)

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		Dec 21	Jun 21	Dec 21
1	Credit risk (excluding CCR)	39,238,316	39,736,962	3,139,065
2	OF which the standardised approach	13,158,087	13,185,820	1,052,647
3	OF which the foundation IRB (FIRB) approach	775,444	830,878	62,036
4	OF which: slotting approach	775,444	830,878	62,036
EU 4a	OF which: equities under the simple riskweighted approach	1,860,325	1,912,092	148,826
5	OF which the advanced IRB (AIRB) approach	16,360,123	16,552,339	1,308,810
6	Counterparty credit risk – CCR	292,652	474,608	23,412
7	OF which the standardised approach	234,365	350,126	18,749
8	OF which internal model method (IMM)			
EU 8a	OF which exposures to a CCP	6,862	7,644	549
EU 8b	OF which credit valuation adjustment – CVA	51,426	116,664	4,114
9	OF which other CCR	0	174	0
10	Empty set in the EU			
11	Empty set in the EU			
12	Empty set in the EU			
13	Empty set in the EU			
14	Empty set in the EU			
15	Settlement risk	0	0	0
16	Securitisation exposures in the non-trading book (after the cap)	330,786	363,074	26,463
17	OF which SEC-IRBA approach	329,530	361,818	26,362
18	OF which SEC-ERBA (including IAA)	1,256	1,256	101
19	OF which SEC-SA approach			
EU 19a	OF which 1250%/ deduction			
20	Position, foreign exchange and commodities risks (Market risk)	1,947,366	2,789,805	155,789
21	OF which the standardised approach	1,637,117	1,697,009	130,969
22	OF which IMA	310,249	1,092,796	24,820
EU 22a	Large exposures			
23	Operational risk	4,123,409	4,014,374	329,873
EU 23a	OF which basic indicator approach			
EU 23b	OF which standardised approach	4,123,409	4,014,374	329,873
EU 23c	OF which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	2,072,913	2,120,389	165,833
25	Empty set in the EU			
26	Empty set in the EU			
27	Empty set in the EU			
28	Empty set in the EU			
29	Total	45,932,529	47,378,823	3,674,602

The following table presents the full reconciliation of own funds items to audited financial statements as at 31 December 2021, according to the Commission Implementing Regulation (EU) No 1423/2013:

TABLE 11 – RECONCILIATION BETWEEN ACCOUNTING AND REGULATORY CAPITAL

(Thousand euros)

	Dec 2021
1 Share capital	4,725,000
2 Own shares	
3 Share premium	16,471
4 Preference shares	
5 Other capital instruments	400,000
6 Reserves and retained earnings	839,832
7 Net income for the period attributable to Shareholders	138,082
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	6,119,384
8 Non-controlling interests (minority interests)	915,618
TOTAL EQUITY	7,035,002
9 Own shares of CET1 not eligible instruments	-904
10 Preference shares not eligible for CET1	
11 Other capital instruments not eligible for CET1	-400,000
12 Subordinated debt fully subscribed by the Portuguese State eligible for CET1	-19,992
13 Non-controlling interests not eligible for CET1	-464,068
14 Other regulatory adjustments	-777,263
Of which: Intangible assets	-39,139
Of which: Goodwill	-184,990
Of which: Deferred tax assets	-187,468
Of which: Other	-365,665
COMMON EQUITY TIER 1 (CET1)	5,372,775
15 Subordinated debt	400,000
16 CET1 transferred adjustments	109,266
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)	5,882,041
19 Subordinated debt	1,050,000
20 Non-controlling interests eligible for T2	277,007
21 Preference shares eligible for T2	62,551
22 Adjustments with impact in T2, including national filters	-58,800
23 Adjustments that are transferred for T1 for insufficient T2 instruments	
TIER 2 (T2)	1,330,758
OWN FUNDS	7,212,799

Notes:

The sum of items 1, 2, 3 e 9 is equivalent to the item 1 of Template CC1.

Item 6 is equivalent to the sum of items 2 and 3 of Template CC1.

The sum of items 7 e 12 is equivalent to the item 5a of Template CC1.

Item 14 is equivalent to the item 28 of Template CC1.

Item 15 is equivalent to the item 30 of Template CC1.

Item 16 is equivalent to the item 34 of Template CC1.

Item 19 is equivalent to the item 46 of Template CC1.

Item 20 is equivalent to the item 48 of Template CC1.

Item 22 is equivalent to the item 55 of Template CC1.

In accordance with the instructions in the ITS (Implementing Technical Standards) issued by EBA (EBA / ITS / 2020/04), regarding the public disclosure of the information referred to in Titles II and III of part VIII of Regulation (EU) No. 575/2013, we present below the information referred to in Article 437, points a), d), e) and f), of Regulation (EU) No. 575/2013 using the EU CC1 and CC2 templates and detailed information about the main characteristics of the main equity funds instruments of level 1, additional level 1 and level 2, as defined in point 1 (b) of the said article, using the EU CCA template.

TABLE 12 – TEMPLATE EU CC1 –COMPOSITION OF REGULATORY OWN FUNDS AT 31 DECEMBER 2021

(Thousand euros)

	Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1 Capital instruments and the related share premium accounts	4,740,566	
of which: Instrument type 1	4,725,000	37
of which: Instrument type 2		
of which: Instrument type 3		
2 Retained earnings	767,300	41;43
3 Accumulated other comprehensive income (and other reserves)	72,531	41;43
EU-3a Funds for general banking risk		
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-67,511	45
5 Minority interests (amount allowed in consolidated CET1)	519,061	45
EU-5a Independently reviewed interim profits net of any foreseeable charge or dividend	118,090	44
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	6,150,038	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7 Additional value adjustments (negative amount)	-9,053	
8 Intangible assets (net of related tax liability) (negative amount)	-224,130	14;18
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)	-187,475	20
11 Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	164,462	43
12 Negative amounts resulting from the calculation of expected loss amounts		
13 Any increase in equity that results from securitised assets (negative amount)		
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-169	43
15 Defined-benefit pension fund assets (negative amount)	-202,366	21
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-41	
17 Direct, indirect and synthetic holdings of the CET1 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)		
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)		
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)		
20 Empty set in the EU		
EU-20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		
EU-20b of which: qualifying holdings outside the financial sector (negative amount)		
EU-20c of which: securitisation positions (negative amount)		
EU-20d of which: free deliveries (negative amount)		
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)	-35,314	20
22 Amount exceeding the 17.65% threshold (negative amount)	-171,359	
23 of which: 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	-73,157	14
24 Empty set in the EU		
25 of which: deferred tax assets arising from temporary differences	-98,202	20
EU-25a Losses for the current financial year (negative amount)		
EU-25b Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)		
26 Empty set in the EU		
27 Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)		
27a Other regulatory adjustments (including IFRS 9 transitional adjustments when relevant)	-111,819	14,20,21
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	-777,263	
29 Common Equity Tier 1 (CET1) capital	5,372,775	

Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	400,000	40
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 as described in Article 486(3) of CRR		
EU-33a	Amount of qualifying items referred to in Article 494a(1) subject to phase out from AT1		
EU-33b	Amount of qualifying items referred to in Article 494b(1) subject to phase out from AT1		
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	109,266	45
35	of which: instruments issued by subsidiaries subject to phase out	337	45
36	Additional Tier 1 (AT1) capital before regulatory adjustments	509,266	

Additional Tier 1 (AT1) capital: regulatory adjustments

37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		
38	Direct, indirect and synthetic holdings of the AT1 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)		
39	Direct, indirect and synthetic holdings 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)		
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 (net of eligible short positions) (negative amount)		
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)		
42a	Other regulatory adjustments to AT1 capital		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital		
44	Additional Tier 1 (AT1) capital	509,266	
45	Tier 1 capital (T1 = CET1 + AT1)	5,882,041	

Tier 2 (T2) capital: instruments

46	Capital instruments and the related share premium accounts	1,050,000	26
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR		
EU-47a	Amount of qualifying items referred to in Article 494a (2) subject to phase out from T2		
EU-47b	Amount of qualifying items referred to in Article 494b (2) subject to phase out from T2		
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	277,007	26, 45
49	of which: instruments issued by subsidiaries subject to phase out	-12,011	
50	Credit risk adjustments	34,889	
51	Tier 2 (T2) capital before regulatory adjustments	1,361,897	

Tier 2 (T2) capital: regulatory adjustments

52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		
53	Direct, indirect and synthetic 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)		
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)		
54a	Empty set in the EU		
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	5
56	Empty set in the EU		
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)		
56b	Other regulatory adjustments to T2 capital	27,662	
57	Total regulatory adjustments to Tier 2 (T2) capital	-31,138	
58	Tier 2 (T2) capital	1,330,758	
59	Total capital (TC = T1 + T2)	7,212,799	
60	Total risk exposure amount	45,932,529	

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.7%
62	Tier 1 (as a percentage of total risk exposure amount)	12.8%
63	Total capital (as a percentage of total risk exposure amount)	15.7%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with	8.8%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	
67	of which: systemic risk buffer requirement	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.6%
EU-67b	of which: additional capital requirement to address risks other than the risk of excessive leverage	1.3%
68	Common Equity Tier 1 available to meet buffer (as a percentage of risk exposure amount)	7.2%

National minima (if different from Basel III)

69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	

Amounts below the thresholds for deduction (before risk weighting)

72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	55,107
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 below 17.65% thresholds and net of eligible short positions)	354,036
74	Empty set in the EU	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	475,153

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)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	165,589
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	14,371
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	150,225

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)

80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

The table below highlights the difference in the basis of consolidation for accounting and prudential purposes as it compares the carrying values as reported under IFRS with the carrying values under the scope of the regulatory consolidation. References in the last column of the table provide the mapping of regulatory balance sheet items used to calculate regulatory capital. The reference-columns presented below reconcile to the references-columns as presented in the template “EU CC1–Composition of regulatory own funds”.

TABLE 13 –TEMPLATE EU CC2 – RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS

(Thousand euros)

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to Template CC1
		Dec 21	Dec 21	
ASSETS				
1	Cash and deposits at Central Banks	7,796,299	7,796,299	
2	Loans and advances to credit institutions repayable on demand	361,786	358,080	
3	Financial assets at amortised cost			
4	Loans and advances to credit institutions	453,213	453,213	
5	Loans and advances to customers	54,972,401	54,982,225	
	Of which:			
	Subordinated loans		58,800	55
6	Debt instruments	8,205,196	8,205,196	
7	Financial assets at fair value through profit or loss			
8	Financial assets held for trading	931,485	929,972	
9	Financial assets not held for trading mandatorily at fair value through profit or loss	990,938	1,268,946	
10	Financial assets designated at fair value through profit or loss			
11	Financial assets at fair value through other comprehensive income	12,890,988	12,910,802	
12	Assets with repurchase agreement			
13	Hedging derivatives	109,059	109,059	
14	Investments in associated companies	462,338	461,989	
	Of which:			
	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		73,157	23
	Other regulatory adjustments to CET1 capital		24	27a
	Goodwill		34,795	8
15	Non-current assets held for sale	780,514	577,800	
16	Investment property	2,870		
17	Other tangible assets	600,721	537,279	
18	Goodwill and intangible assets	256,213	255,752	
	Of which:			
	Goodwill and intangible assets, excluding software classified as intangible assets not within the scope of article 13a of Regulation 241/2014		189,334	8
19	Current tax assets	17,283	17,275	
20	Deferred tax assets	2,688,216	2,682,535	
	Of which:			
	Deferred tax assets that rely on future profitability excluding those arising from temporary differences		187,475	10
	Arising from temporary differences (amount above 10% threshold)		35,314	21
	Arising from temporary differences (amount above 17.75% threshold)		98,202	25
	Other regulatory adjustments to CET1 capital		1,716	27a
21	Other assets	1,385,292	1,379,027	
	Of which:			
	Defined-benefit pension fund assets		202,366	15
	Single resolution fund		20,953	27a
Total Assets		92,904,812	92,925,449	

LIABILITIES

22	Financial liabilities at amortised cost			
23	Resources from credit institutions	8,896,074	8,896,074	
24	Resources from customers	69,560,227	69,585,634	
25	Non subordinated debt securities issued	2,188,363	2,188,363	
26	Subordinated debt	1,394,780	1,394,780	
	Of which:			
	Capital instruments and the related share premium accounts		1,050,000	46
	Qualifying own funds instruments issued by subsidiaries and held by third parties		131,820	48, 49
27	Financial liabilities at fair value through profit or loss			
28	Financial liabilities held for trading	231,241	231,241	
29	Financial liabilities at fair value			
30	through profit or loss	1,581,777	1,581,777	
31	Hedging derivatives	377,206	377,206	
32	Non-current liabilities held for sale			
33	Provisions	458,744	456,911	
34	Current tax liabilities	20,427	20,427	
35	Deferred tax liabilities	16,932	16,932	
36	Other liabilities	1,116,984	1,141,101	
	Total Liabilities	85,842,755	85,890,446	

EQUITY

37	Share capital	4,725,000	4,725,000	1
38	Share premium	16,471	16,471	1
39	Preference shares			
40	Other equity instruments	400,000	400,000	31
41	Legal and statutory reserves	259,528	259,528	2;3
42	Treasury shares			1
43	Reserves and retained earnings	580,304	580,304	2;3;11;14
44	Net income for the year attributable to Shareholders	138,082	138,082	5a
	Total Equity attributable to Shareholders	6,119,385	6,119,384	
45	Non-controlling interests	942,672	915,618	
	Of which:			
	Amount allowed in consolidated CET1		451,550	4, 5
	Amount allowed in consolidated AT1		109,603	34, 35
	Amount allowed in consolidated T2		133,176	48, 49
	Total Equity	7,062,057	7,035,002	
	Total Liabilities and Equity	92,904,812	92,925,449	

TABLE 14 – TEMPLATE EU CCA – MAIN FEATURES OF OWN FUNDS' INSTRUMENTS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	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 (eg CUSIP, ISIN or Bloomberg identifier for private placement)	PTBCPWOM0034	PTBIT3OM0098	PTBCPGOM0067	PLBIG0000453	PLBIG0000461	PTBCPFOM0043	PTBCP0AM0015
2a Public or private placement	Public placement	Public placement	Public placement	Public placement	Public placement	Public placement	Public placement
3 Governing law(s) of the instrument	English and Portuguese law	English and Portuguese law	English and Portuguese law	Polish law	Polish law	English and Portuguese law	Portuguese law
3a Contractual recognition of write down and conversion powers of resolution authorities	Yes	Yes	Yes	N/A	N/A	Yes	N/A
REGULATORY TREATMENT							
4 Current treatment taking into account, where applicable, transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Additional Tier 1	Common Equity Tier 1
5 Post-transitional CRR rules	Tier 2	Tier 2	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	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7 Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Other Capital Instruments	Ordinary Shares
8 Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	300,000,000	450,000,000	300,000,000	60,309,739	71,510,119	399,999,980	4,724,096
9 Nominal amount of instrument	300,000,000	450,000,000	300,000,000	PLN 700,000,000 (153,498,673)	PLN 830,000,000 (182,005,570)	400,000,000	N/A
9a Issue price	100%	100%	100%	100%	100%	100%	N/A
9b Redemption price	100%	100%	100%	100%	100%	100%	N/A
10 Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Shareholders' equity	Shareholders' equity
11 Original date of issuance	07 December 2017	27 September 2019	17 November 2021	07 December 2017	30 January 2019	31 January 2019	N/A
12 Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Perpetual	No maturity
13 Original maturity date	07 December 2027	27 March 2030	17 May 2032	07 December 2027	30 January 2029	N/A	N/A
14 Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	N/A
15 Optional call date, contingent call dates and redemption amount	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.	27 March 2025. 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.	From 17 November 2026 to 17 May 2027. 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.	08 December 2022. Existence of call option, on each interest payment date, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.	30 January 2024. Existence of call option, on each interest payment date, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.	First date: 31 January 2024. Existence of call option, on each interest payment date, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.	N/A
16 Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	First call date and on each interest payment date thereafter	N/A

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
COUPONS/DIVIDENDS								
17	Fixed or floating dividend/coupon	Fixed (reset)	Fixed (reset)	Fixed (reset)	Floating	Floating	Fixed	Floating
18	Coupon rate and any related index	First 5 years: 4.5%. Refixing at the end of the 5th year: MS 5y rate + Initial Margin (4,267%)	First 5,5 years: 3.871%. Refixing at the end of the 5,5th year: MS 5y rate + Initial Margin (4,231%)	First 5,5 years: 4%. Refixing at the end of the 5,5th year: MS 5y rate + Initial Margin (4,065%)	Wibor 6M + 2,30%	Wibor 6M + 2,30%	MS 5y rate + 941,4 bps First 5 years: Refixing every 5 years. Until 31 January 2019: 9.25%	N/A
19	Existence of a dividend stopper	No	No	No	No	No	No	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	N/A
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	N/A
22	Noncumulative or cumulative	N/A	N/A	N/A	N/A	N/A	Noncumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	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	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	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	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	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	N/A	N/A

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Bank Millennium S.A.	Bank Millennium S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
30 Write-down features	N/A	No	No	N/A	No	Yes	No
31 If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	CET1 ratio below 5.125%	N/A
32 If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	Partial	N/A
33 If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	Permanent or temporary	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	(3)	N/A
34a Type of subordination (only for eligible liabilities)	Contractual	Contractual	Contractual	Contractual	Contractual	Contractual	Legal
34b Ranking of the instrument in normal insolvency proceedings	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Additional Tier 1	Tier 1
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	Tier 2	Additional Tier 1
36 Non-compliant transitioned features	N/A	No	No	N/A	N/A	N/A	Não
37 If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37a Link to the full term and conditions of the instrument (signposting)	PTBCPWOM0034_FT_EMTN-Sr854_180109.pdf (millenniumbcp.pt)	PTBIT3OM0098_Final_Terms_OpTagus_MTN855.PDF (millenniumbcp.pt)	PTBCPGOM0067_MT N858_BCP_Signed_Final_Terms_10122021.pdf (millenniumbcp.pt)	Seria-C-Warunki-Emisji-EBK-C-01122021.pdf (bankmillennium.pl)	NOTA_INFORMACYJNA_Millennium_seriaW.pdf (gpwcatalyst.pl)	FINAL_Offering_Circular_29012019.pdf (millenniumbcp.pt)	N/A

⁽¹⁾ Amount included in the calculation of Bank's Own Funds (phased-in) as of 31 December 2021

⁽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.

The Prudent Valuation Adjustment based on the methodology defined in the Commission Delegated Regulation (EU) 2016/101 is disclosed below in accordance with Regulation (EU) 2019/876, Article 436 (e) CRR for exposures from the trading book and the non-trading book that are adjusted in accordance with Article 34 and Article 105, a breakdown of the amounts of the constituent elements of an institution's prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and non-trading book positions.

TABLE 15 – TEMPLATE EU PV1: PRUDENT VALUATION ADJUSTMENTS (PVA)

(Thousand euros)

	a	b	c	d	e	EU e1	EU e2	f	g	h
			Risk category			Category level AVA - Valuation uncertainty		Total category level post-diversification		
Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
1 Market price uncertainty										
2 Set not applicable in the EU										
3 Close-out cost										
4 Concentrated positions										
5 Early termination										
6 Model risk										
7 Operational risk										
8 Set not applicable in the EU										
9 Set not applicable in the EU										
10 Future administrative costs										
11 Set not applicable in the EU										
12 Total Additional Valuation Adjustments (AVAs)								9,053		

TABLE 16 – UNIFORM DISCLOSURE OF IFRS9 TRANSITIONAL ARRANGEMENTS

Given that the Bank decided to adopt the option of recognizing the impacts of IFRS9 in stages, in accordance with the provisions of article 473-A of the CRR, the following is a model for comparing own funds, own funds and leverage ratios of institutions with and without the application of the IFRS9 transitional regime or similar expected credit losses, as referred to in the EBA / GL / 2018/01 guidelines, regarding the uniform disclosure of the transitional regime to reduce the impact of the introduction of IFRS 9 on own funds. On the other hand, under the guidelines EBA / GL / 2020/12, the Bank decided not to apply the temporary treatment regime for unrealized gains and losses valued at fair value through other comprehensive income, in accordance with article 468s of CRR.

(Thousand euros)

	Dec 21	Sep 21	Jun 21	Mar 21	Dec 20
AVAILABLE CAPITAL (AMOUNTS)					
1 Common Equity Tier 1 (CET1) capital	5,372,775	5,488,073	5,527,100	5,554,919	5,657,289
2 Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5,293,951	5,460,841	5,490,612	5,522,994	5,642,174
2a CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied					
3 Tier 1 capital	5,882,041	6,020,713	6,062,830	6,085,091	6,193,989
4 Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5,803,217	5,993,416	6,026,020	6,052,776	6,181,374
4a Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied					
5 Total capital	7,212,799	7,050,932	7,084,591	7,074,374	7,212,252
6 Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,154,494	7,027,052	7,049,171	7,043,891	7,209,990
6a Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied					
RISK-WEIGHTED ASSETS (AMOUNTS)					
7 Total risk-weighted assets	45,932,529	46,733,444	47,378,823	45,883,408	46,413,048
8 Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	45,832,830	48,910,203	47,294,744	45,802,312	46,316,405
CAPITAL RATIOS					
9 Common Equity Tier 1 (as a percentage of risk exposure amount)	11.7%	11.7%	11.7%	12.1%	12.2%
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	11.6%	11.2%	11.6%	12.1%	12.2%
10a CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied					
11 Tier 1 (as a percentage of risk exposure amount)	12.8%	12.9%	12.8%	13.3%	13.3%
12 Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.7%	12.3%	12.7%	13.2%	13.3%
12a Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied					
13 Total capital (as a percentage of risk exposure amount)	15.7%	15.1%	15.0%	15.4%	15.5%
14 Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.6%	14.4%	14.9%	15.4%	15.6%
LEVERAGE RATIO					
15 Leverage ratio total exposure measure	99,785,900	98,067,244	98,284,027	96,065,793	92,784,123
16 Leverage ratio	5.89%	6.14%	6.17%	6.33%	6.68%
17 Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.82%	6.11%	6.13%	6.30%	6.67%
17a Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	5.89%	6.14%	6.17%	6.33%	6.68%

The main objective of the countercyclical reserve is to ensure that the Bank has an adequate capital buffer to allow it to absorb unexpected losses in a situation of negative systemic shock, thus not compromising the granting of credit to the real economy. Banco de Portugal is responsible for defining the value of the countercyclical reserve, measured as a percentage of the total amount of exposures (between 0% and 2.5%). Banco de Portugal decided that the percentage of countercyclical capital reserve to be in force in the 4th quarter of 2021 would be 0%, for counterparties domiciled in Portugal. In compliance with the information disclosure requirements provided in Article 440, paragraph 1, point a) of the CRR, table 17 shows the geographic distribution of the credit risk positions relevant for calculating the cyclical reserve of own funds and in the table 18 the determination of the countercyclical reserve for capital requirements (cf. Delegated Regulation (EU) 2015/1555).

TABLE 17- TEMPLATE EU CCYB1 - GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL BUFFER

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m
	General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
010 Breakdown by country:													
AO													
BR													
CH													
DE													
ES													
FR													
GB													
HK													
KW													
LU													
MZ													
NL													
PL	10,118,749	7,485,317				17,604,066	657,619			657,619	8,220,234	28%	0%
PT	5,358,913	47,290,928	460,256		1,022,811	54,132,907	1,659,294	105		26,463 1,685,862	21,073,278	72%	0%
UA													
US													
020 Total	15,477,662	54,776,244	460,256	0	1,022,811	71,736,973	2,316,913	105		26,463 2,343,481	29,293,512		

TABLE 18 – TEMPLATE EU CCYB2 - AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

(Thousand euros)

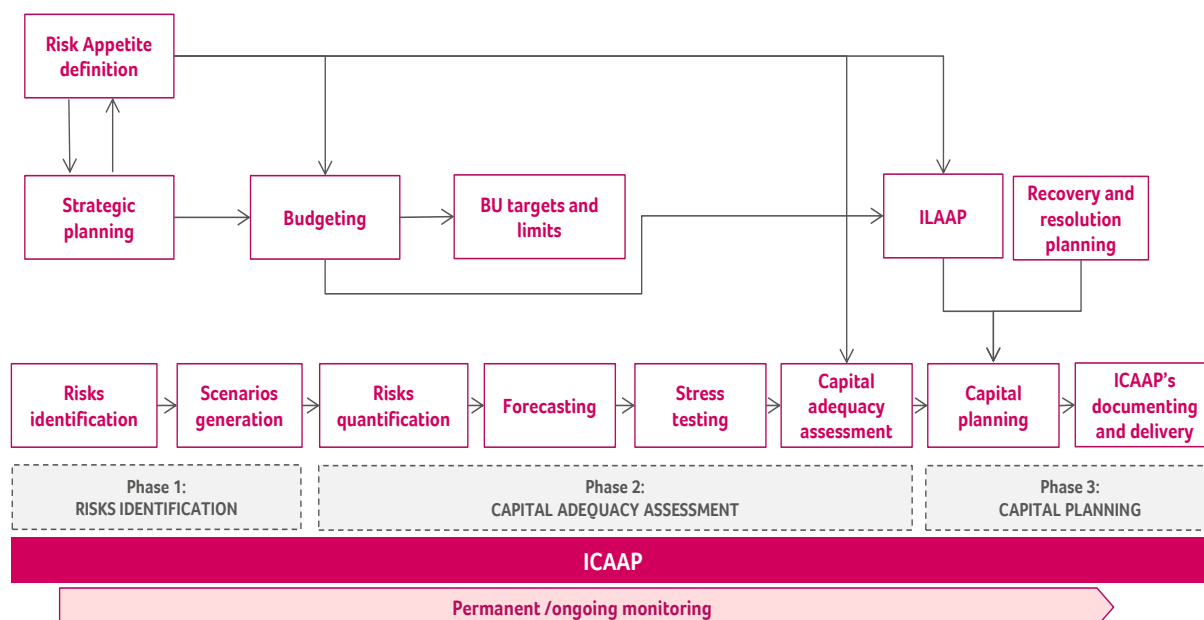
	a
1 Total risk exposure amount	45,932,529
2 Institution specific countercyclical capital buffer rate	0
3 Institution specific countercyclical capital buffer requirement	0

5.4. Internal capital adequacy assessment process (ICAAP)

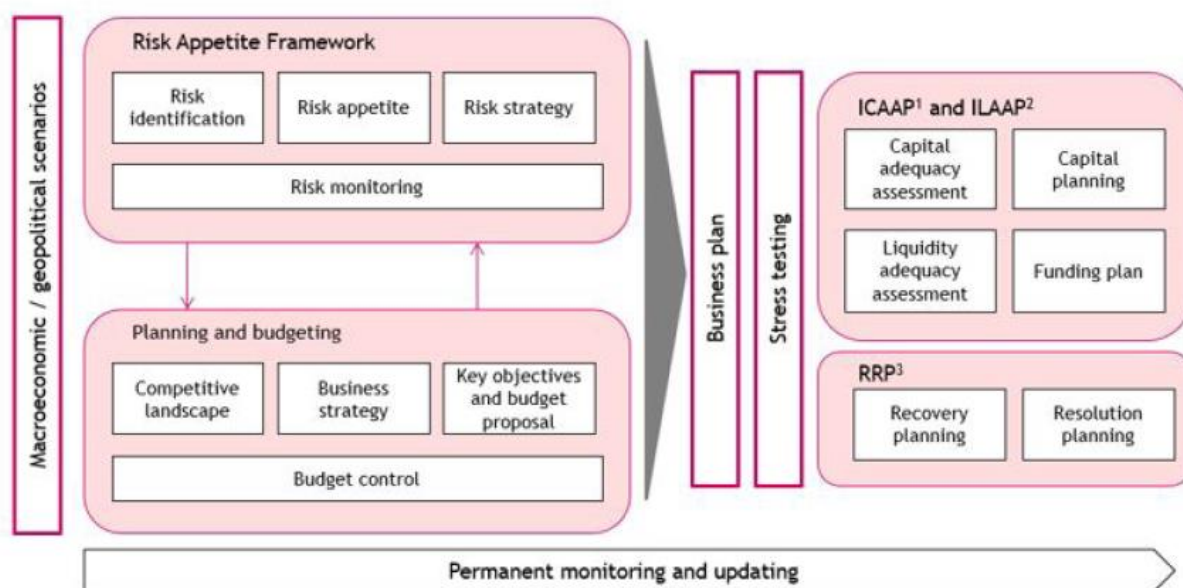
The Bank's internal capital adequacy to cover the level of risks to which the Group's activity is subject is subject to permanent monitoring in the scope of the ICAAP (Internal Capital Adequacy Assessment Process).

The following figure summarizes the process in question:

TABLE 19 – ICAAP PROCESS



(ILAAP - Internal Liquidity Adequacy Assessment Process)



1 Internal Capital Adequacy Assessment Process

2 Internal Liquidity Adequacy Assessment Process

3 Recovery and Resolution Planning

The ICAAP is a key process within the BCP Group's risk management function and is developed under an internal governance model that guarantees the involvement of the Board of Directors (the body responsible for approving the results) and its Risk Assessment Committee, the EC and the top management of the Group, in its various phases.

The results of the ICAAP and the conclusions of its regular monitoring are a key input for the definition of the risk appetite of and of the risk strategy of the BCP Group. 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 starts from a prospective view of the impacts of the materialization of the various risks on the Group's capital (capital requirements), considering the respective scale or dimension, complexity, frequency, probability of occurrence and materiality, having as a backdrop fund the developments projected for the Group's activity in a medium-term time horizon (3 years). The impacts are estimated from a normative and economic perspective and consider different scenarios, including stress scenarios with a severely penalizing evolution of macroeconomic indicators. Through this process, it is possible to test the Group's resilience, checking if the capital levels are adequate to cover the risks to which its activities may be subject. To this end, the different risks are modelled or incorporated within the framework of the Group's stress testing methodology.

The process of identifying the material risks to which the Group's activity is subject (risk identification process) constitutes the first phase of each ICAAP cycle. This process involves the top management of the Bank and the main subsidiaries abroad, following a methodological approach based on an internal taxonomy of risks covering more than 60 different types of risks and defined materiality limits, assessing the importance for the Group's activity of each type of risk, based on the probability of occurrence and the magnitude of the impacts – either before or after the application of risk mitigation measures.

The result of this stage 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 Risk Assessment Committee.

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.

In parallel, 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 Risk Assessment Committee.

In the third phase, the impact of the risks identified on the reference date is modelled, determining the capital requirements for that date. All material risks identified by the Bank are quantified in terms of impact at the level of the RWA, or in results, according to a set of methodologies and internal models, formally approved, documented, validated and audited internally, considering a level of significance aligned with capital requirements under Regulation (EU) 575/2013 (CRR - Capital Requirements Regulation) or Solvency 2 and a time horizon of 1 year (although for the trading portfolio, given the respective nature, the term is less than 1 year). Non-quantifiable or non-material risks are considered through an additional capital buffer. The approval of the methodologies for estimating the impact of risks on the Group's activity is the responsibility of the Risk Committee.

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, even in adverse conditions.

Within the ICAAP with reference 31 of December of 2021, the Group has considered the following risks (as materially relevant ones, after mitigation effects, or considered within the scope of Pillar I):

TABLE 20 – MATERIAL RISKS

Credit risk	Default risk
	Issuer risk
	Securitisation risk
	Sovereign risk
Concentration risk	Geographic 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
Operational risk	External fraud risk
	ICT risk – cyber risk
	ICT risk – data integrity risk
	ICT risk – change risk
	Financial crime risk
	Litigation 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
	Pension fund risk

These risks are modelled 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.

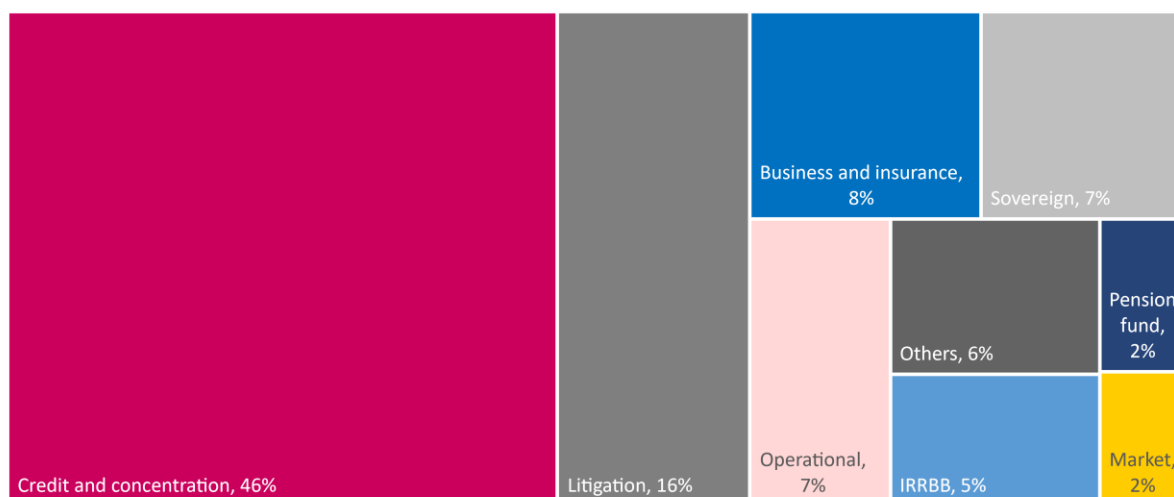
Once the impacts of the various risks on the Group's operating account and balance sheet - in particular, over own funds - have been estimated, the Group is able to assess the adequacy of its risk-absorbing capacity against the expected profile for its activity.

The Group assumes a high-quality Risk-Taking Capacity (RTC) in line with the definition of regulatory capital ratios under Directive 2013/36 / EU and CRR, including some adjustments to include others capital elements or instruments that the Group considers appropriate to cover existing risks, prudently projected over the time horizon under analysis.

The Bank considers that in December 2021 the amounts of economic and regulatory capital held were sufficient to adequately capitalize the risks to which the Group was exposed on that date.

The table below shows the distribution of the capital requirements per type of risk:

TABLE 21 – INTERNAL CAPITAL REQUIREMENTS PER TYPE OF RISK



Credit risk, given the nature of the Bank's activity, presents itself as the most relevant risk justifying 46% of the internal capital needs. Sovereign risk, including default risk and spread risk, represents 7%, influenced by the volume of investments of the Group's excess liquidity in public debt securities. The Swiss Franc mortgage loan portfolio at Bank Millennium represents around 16% of the total internal capital requirements.

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.

ICAAP is subject to independent validation carried out by the Office for the Validation and Monitoring of Models (GAVM) and audited by the Audit Division.

6. Leverage ratio

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 and by the Regulation (EU) 876/2019 of 20 May 2019.

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, namely those related to intra-group exposures, securities financing transactions (SFTs), items deducted from the total capital ratio's numerator and off-balance sheet items, and to account for different risk profiles of each type of exposure (in SFTs 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 leverage ratio is included in the Risk Appetite Framework of the Group, as part of its commitment to preserve robust capital adequacy ratios. In this way, the leverage ratio is monitored and reported in order to ensure that any significant change in any of the main driver of this indicator are analysed and reported internally so as to avoid limits being breached. In the case of a risk appetite breach for the leverage ratio, the Group will undertake the necessary actions based on its source and severity.

The following tables show the leverage ratio exposure and the leverage ratio in December 2021.

TABLE 22 – TEMPLATE EU LR1 - LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

(Thousand euros)

		a
		Applicable amount
1	Total assets as per published financial statements	92,904,812
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-20,637
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	
5	(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 point (i) of Article 429a(1) CRR)	
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	
7	Adjustment for eligible cash pooling transactions	
8	Adjustments for derivative financial instruments	-104,665
9	Adjustment for securities financing transactions (SFTs)	
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7,126,431
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-9,053
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	
12	Other adjustments	-110,988
13	Leverage ratio total exposure measure	99,785,900

TABLE 23 – TEMPLATE EU LR2 - LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

(Thousand euros)

		CRR leverage ratio exposures	
		a	b
		Dec 21	Jun 21
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	93,138,226	91,728,044
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-248,127	-66,743
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0	0
5	(General credit risk adjustments to on-balance sheet items)	0	-14,765
6	(Asset amounts deducted in determining Tier 1 capital)	-774,882	-960,897
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	92,115,217	90,685,640
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	180,453	130,173
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	0	0
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	303,217	351,949
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	0	0
EU-9b	Exposure determined under Original Exposure Method	0	0
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	0	0
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	0	0
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	0	0
11	Adjusted effective notional amount of written credit derivatives	2,000	2,000
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
13	Total derivatives exposures	485,670	484,122
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	58,582	4,066
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
16	Counterparty credit risk exposure for SFT assets		
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR		
17	Agent transaction exposures		
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)		
18	Total securities financing transaction exposures	58,582	4,066
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	15,801,228	15,798,143
20	(Adjustments for conversion to credit equivalent amounts)	8,674,798	8,708,678
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	-20,733
22	Off-balance sheet exposures	7,126,431	7,110,198

		a	b
		Dec 21	Jun 21
Excluded exposures			
EU-22a	(Exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)		
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet))		
EU-22c	(-) Excluded exposures of public development banks - Public sector investments		
EU-22d	(Excluded promotional loans of public development banks: - Promotional loans granted by a public development credit institution - Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State - Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)		
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units): - Promotional loans granted by a public development credit institution - Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State - Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)		
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)		
EU-22g	(Excluded excess collateral deposited at triparty agents)		
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)		
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)		
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)		
EU-22k	(Total exempted exposures)		
Capital and total exposure measure			
23	Tier 1 capital	5,882,041	6,062,830
24	Leverage ratio total exposure measure	99,785,900	98,284,027
Leverage ratio			
25	Leverage ratio	5.9%	6.2%
EU-25	Leverage ratio (without the adjustment due to excluded exposures of public development banks - Public sector investments) (%)	5.9%	6.2%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	5.9%	6.2%
26	Regulatory minimum leverage ratio requirement (%)	3.0%	3.0%
EU-26	Additional leverage ratio requirements (%)	0.0%	0.0%
27	Required leverage buffer (%)	3.0%	3.0%
Choice on transitional arrangements and relevant exposures			
EU-27	Choice on transitional arrangements for the definition of the capital measure	Transitional definition	Transitional definition
Disclosure of mean values			
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	5,466	12,849
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	58,582	4,066
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	99,732,785	98,292,809
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	99,732,785	98,292,809
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.9%	6.2%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.9%	6.2%

TABLE 24 – TEMPLATE EU LR3 - LRSPL: SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

(Thousand euros)

		a
		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	92,861,005
EU-2	Trading book exposures	437,678
EU-3	Banking book exposures, of which:	92,423,327
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	24,486,705
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	1,526,333
EU-7	Institutions	1,156,674
EU-8	Secured by mortgages of immovable properties	28,641,764
EU-9	Retail exposures	10,915,771
EU-10	Corporate	14,907,446
EU-11	Exposures in default	2,403,304
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	8,385,329

7. Credit risk

7.1. Evolution and breakdown of the loan portfolio

The next table presents the evolution of the Group's portfolio subject to credit risk and counterparty credit risk between December 31, 2020 and December 31, 2021, in terms of EAD (Exposure at Default) *, in the three main geographies where the Group operates (Portugal, Poland and Mozambique), which represented almost the total Group's EAD by 31 December 2021.

TABLE 25 – EVOLUTION OF THE GROUP'S PORTFOLIO SUBJECT TO CREDIT RISK AND COUNTERPARTY CREDIT RISK

(Million euros)

Geography	Dec. 21	Dec. 20	Change	
			Amount	%
Portugal	65,881	59,708	6,173	10,3%
Poland (1)	23,281	22,148	1,133	5,1%
Mozambique	2,377	1,869	507	27,1%
TOTAL	91,539	83,726	7,813	9,3%

* Without impairment deduction to the exposures treated prudentially under the Standardized Approach (STD) and including all risk classes (i.e. besides credit to Customers, debt positions from Sovereign entities and Institutions are included).

(1) Includes the adjustment to the balances of 2020 made in Bank Millennium regarding mortgage loans linked to Swiss francs (transfer from the liability item "Provisions" to the asset item "Loans and advances to customers", adjustment that reflects an adjustment to the fair value of loans and advances to customers).

Considering the position on December 31, 2020 as a basis for comparison, the Group's loan portfolio, measured in euros, recorded a growth of 9.3% during 2021, identical to that seen in 2020 (also +9.3%). The evolution is explained by an increase in all geographies.

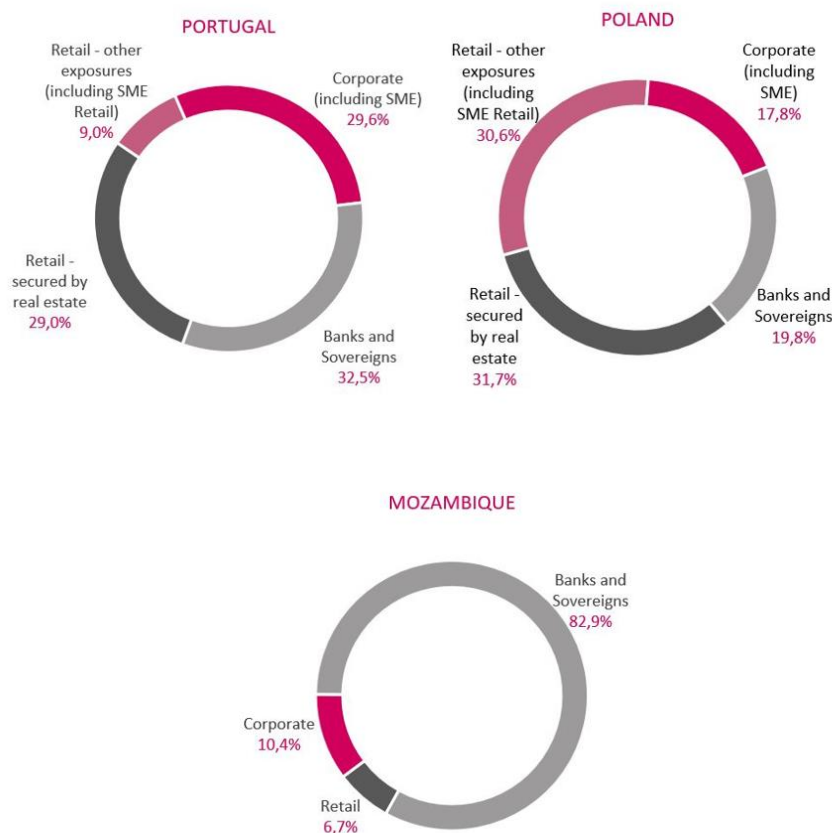
The increase in Portugal is explained, by the increase in the credit portfolio in the different segments, particularly in residential loans and by the exposure to Banks and Sovereigns, which increased by approximately 4.9 billion euros, particularly the position in Portuguese government public debt and deposits at the Bank of Portugal, which grew 2.3 billion euros. It should be noted that this evolution was made in a context of a 485 million euros reduction in the NPE portfolio.

In the Polish loan portfolio, there was an increase of 5.1%, measured in euros, explained, almost entirely, by the increase in credit exposure to Corporates and Retail, which amounted to approximately 1 billion euros.

Likewise, with respect to Mozambique, there was a 27.1% increase in the loan portfolio, measured in EUR, mainly related to the increase in exposure to Banks and Sovereigns in the total of 363 million euros.

Regarding the composition of the portfolio by risk classes, it is illustrated by the following graphs, representative of the portfolio structure on December 31, 2021:

GRAPH 1 – COMPOSITION OF THE CREDIT PORTFOLIO BY RISK CLASSES



7.2. 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.

Restructured credits (Forborne) are credit operations for which deferral measures have been granted. Deferral measures are concessions made to a debtor that is going through or will soon go through difficulties in meeting its financial commitments (financial difficulties).

Since January 1st, 2018, the process for calculating impairment of financial assets classified at amortized cost or at fair value through other comprehensive income and of credit commitments, documentary credits and financial guarantees integrates the general principles defined by IFRS 9 and the guidelines issued by the Bank of Portugal through Circular Letter 2018/00000062.

Under IFRS 9, the concept of impairment is based on expected losses. The expected credit losses of each operation are determined according to the changes in credit risk that have occurred since initial recognition. For this purpose, transactions are classified into stages according to the following criteria:

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

The Bank adopted the internal definition of default (i.e., classified with Risk Grade 15 on the internal rating scale) as the criterion for identifying financial instruments at stage 3. In accordance with the provisions of the definition of default, which were subject to change at the beginning of 2020, the existence of a situation of default in relation to a given debtor takes into account the verification of at least one of the following conditions:

- Days past due: The obligor is more than 90 days past due on any obligation above the following thresholds: 100 Euros, for retail obligors or above 500 Euros for non-retail obligors; and 1% of total (on-balance sheet) exposure (irrespective of whether it is a retail obligor or not).
- Non-accrual status: The obligor has had at least one obligation that has ceased to recognize interest income because of a perceived decline in its credit quality.
- Debtor with credit impairment: The obligor has been submitted to the individual impairment analysis and it has been concluded as having objective signals of impairment.
- Sale of the credit obligation: The obligor's exposure(s) have been sold – partially or in full – with a material loss (5%).
- Restructuring due to financial difficulties: The debtor was subject to a restructuring due to financial difficulties with an economic loss higher than 1%.
- Bankruptcy: The obligor that has filed for bankruptcy (insolvency) or similar arrangement: (i) PEAP; or (ii) EPR; or (iii) PER; or (iv) "Pré-insolvência".
- Credit arrears after restructuring due to financial difficulties: The debtor has a significant credit obligation overdue for more than 30 days on a restructured credit obligation.
- Restructuring recurrence: The debtor has a restructured obligation and requests additional restructuring measures, regardless of the loss/gain from the restructuring.
- Legal recovery proceedings: The obligor that is sent to legal recovery proceedings
- Guarantors of exposures in default: The obligor is a guarantor of a defaulted exposure, provided that (i) the guarantee has been officially claimed; and (ii) after the foreseen contractual period the overdue amount has not been paid.
- Credit fraud: The debtor has participated in credit fraud.
- Cross default at the BCP Group level: The common obligor (between BCP and any other Group entity) is in a default status in any entity of BCP Group.
- Breach of covenants in a credit agreement: The debtor that, as a result of a case-by-case analysis, is considered to have any other indication of reduced probability of payment, taking into consideration the breach of covenants in a credit agreement.
- Contagion of default in economic group: The debtor who, as a result of a case-by-case analysis, is considered to have any other indication of reduced probability of payment, taking into consideration the contagion of default at the level of a group of related debtors.
- Days past due on joint credit obligations: The obligor has, together with other obligors classified as in default, a significant credit obligation overdue for more than 90 days (or 30 days in case of a restructured credit obligation) - in this case, the materiality thresholds are analysed considering only the amounts of the obligation.

³ POCI (*Purchased or Originated Credit Impaired*): financial assets with objective evidence of impairment at the time of initial recognition.

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 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.
- 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 are 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 with 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.

During 2021 and in order to incorporate an additional level of conservatism in the impairment values in the context of the COVID-19 pandemic, the Bank proceeded to register additional impairments in relation to those estimated by the impairment calculation models in force (overlays).

Also, from a conservative perspective, the Bank identified customers under moratorium with internal risk rating by behavioural models that at the end of December 2021 had an improved risk level compared to that existing before the moratorium and, for these cases, assumed for the purposes of staging criteria and impairment calculation the maintenance of this pre-moratorium risk rating.

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 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.

7.3. 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.

TABLE 26 – TEMPLATE EU CR1: PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

(Thousand euros)

	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								Collaterals 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		Accumulated partial write-off		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						
005 Cash balances at central banks and other demand deposits	7,552,606	7,552,606	0	0	0	0	0	0	0	0	0	0	0	0	0
010 Loans and advances	54,623,356	46,562,949	7,978,979	2,752,414	0	2,686,267	-492,179	-207,509	-289,659	-1,368,966	0	-1,336,612	0	40,580,267	1,096,674
020 Central banks	101,583	101,583	0	0	0	0	0	0	0	0	0	0	0	0	0
030 General governments	1,224,767	959,062	265,705	0	0	0	-3,927	-1,151	-2,776	0	0	0	0	337,792	0
040 Credit institutions	333,038	327,851	5,187	0	0	0	-1,067	-57	-1,011	0	0	0	0	0	0
050 Other financial corporations	986,947	787,437	199,510	169,827	0	169,827	-9,643	-4,330	-5,313	-110,024	0	-110,024	0	754,536	58,604
060 Non-financial corporations	18,463,977	14,233,070	4,227,875	1,475,485	0	1,474,552	-364,936	-145,549	-219,387	-777,439	0	-777,381	0	13,636,239	652,216
070 Of which: SMEs	14,604,484	10,881,074	3,720,379	964,646	0	963,719	-322,732	-123,417	-199,315	-450,892	0	-450,839	0	11,381,192	478,309
080 Households	33,513,045	30,153,947	3,280,702	1,107,103	0	1,041,888	-112,605	-56,422	-61,172	-481,502	0	-449,206	0	25,851,700	385,854
090 Debt Securities	22,215,594	20,950,456	122,257	88,960	0	5,543	-15,704	-13,186	-2,517	-67,923	0	-1,190	0	893,786	4,341
100 Central banks	650,885	650,885	0	0	0	0	0	0	0	0	0	0	0	0	0
110 General governments	17,263,064	17,263,064	0	0	0	0	-8,489	-8,489	0	0	0	0	0	306,098	0
120 Credit institutions	510,173	510,173	0	0	0	0	0	0	0	0	0	0	0	0	0
130 Other financial corporations	1,292,735	141,236	8,618	0	0	0	-508	-168	-339	0	0	0	0	102,458	0
140 Non-financial corporations	2,498,738	2,385,099	113,639	88,960	0	5,543	-6,707	-4,529	-2,178	-67,923	0	-1,190	0	485,230	4,341
150 Off-balance sheet exposures	15,405,758	13,484,935	1,920,622	412,179	0	411,986	-25,880	-12,848	-13,032	-84,768	0	-84,768		3,058,059	160,602
160 Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
170 General governments	121,758	115,336	6,421	0	0	0	-263	-259	-4	0	0	0		22,363	0
180 Credit institutions	644,274	576,572	67,702	0	0	0	-57	-56	-1	0	0	0		27,189	0
190 Other financial corporations	558,624	495,768	62,857	7,802	0	7,802	-677	-394	-283	-593	0	-593		132,547	0
200 Non-financial corporations	11,030,526	9,420,472	1,610,054	385,573	0	385,541	-19,527	-10,343	-9,185	-81,537	0	-81,537		2,843,222	159,441
210 Households	3,050,576	2,876,787	173,588	18,804	0	18,643	-5,356	-1,797	-3,559	-2,638	0	-2,638		32,738	1,161
220 Total	99,797,314	88,550,947	10,021,858	3,253,553	0	3,103,796	-533,763	-233,543	-305,208	-1,521,657	0	-1,422,570	0	44,532,112	1,261,617

The table below provides the Group's original risk positions by residual maturity term at the end of 2021.

TABLE 27 – TEMPLATE EU CR1-A: MATURITY OF EXPOSURES

(Thousand euros)

	a	b	c	d	e	f
	Net exposure value					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1 Loans and advances	3,011,775	4,512,880	10,992,738	36,997,234	0	55,514,626
2 Debt securities		3,586,672	8,082,058	10,511,308	40,889	22,220,927
3 Total	3,011,775	8,099,551	19,074,795	47,508,542	40,889	77,735,553

TABLE 28 – TEMPLATE EU CR2: CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

(Thousand euros)

	a
	Gross carrying amount
010 Initial stock of non-performing loans and advances	3,295,271
020 Inflows to non-performing portfolios	846,177
030 Outflows from non-performing portfolios	1,389,033
040 Outflows due to write-offs	360,342
050 Outflow due to other situations	1,028,691
060 Final stock of non-performing loans and advances	2,752,414

Note: Flows net of segment adjustments in the amount of 87 304 thousand euros.

TABLE 29 - TEMPLATE EU CR2A: CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES AND RELATED NET ACCUMULATED RECOVERIES

(Thousand euros)

	a	b
	Gross carrying amount	Related net cumulated recoveries
010 Initial stock of non-performing loans and advances	3,295,271	
020 Inflows to non performing portfolios	846,177	
030 Outflows from non-performing portfolios	1,389,033	
040 Outflow to performing portfolio	225,235	
050 Outflow due to loan repayment, partial or total	347,661	
060 Outflow due to collateral liquidations	0	0
070 Outflow due to taking possession of collateral	47,601	0
080 Outflow due to sale of instruments	329,673	0
090 Outflow due to risk transfers	0	0
100 Outflows due to write-offs	360,342	
110 Outflow due to Other Situations	78,520	
120 Outflow due to reclassification as held for sale	0	
130 Final stock of non-performing loans and advances	2,752,414	

7.4. Credit quality

The following tables present the breakdown of both on-balance and off-balance sheet items' credit quality, excluding counterparty credit positions.

TABLE 30 - TEMPLATE EU CQ1: CREDIT QUALITY OF FORBORNE EXPOSURES

(Thousand euros)

	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			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	Of which impaired					
005	Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0
010	Loans and advances	1,110,173	1,465,997	1,465,997	1,447,101	-42,360	-759,078	1,487,031
020	Central banks	0	0	0	0	0	0	0
030	General governments	64,063	0	0	0	-716	0	48,206
040	Credit institutions	0	0	0	0	0	0	0
050	Other financial corporations	46,549	92,093	92,093	92,093	-1,617	-72,773	55,995
060	Non-financial corporations	608,541	912,419	912,419	912,415	-36,583	-524,920	856,476
070	Households	391,021	461,485	461,485	442,593	-3,444	-161,385	526,354
080	Debt Securities	15,894	0	0	0	-248	0	13,657
090	Loan commitments given	2,071	2,770	2,770	2,770	-24	-264	2,220
100	Total	1,128,137	1,468,767	1,468,767	1,449,871	-42,633	-759,342	1,502,907

TABLE 31 - TEMPLATE EU CQ2: QUALITY OF FORBEARANCE

(Thousand euros)

	a
	Gross carrying amount of forborne exposures
010	Loans and advances that have been forborne more than twice
	162,696
020	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria
	857,027

TABLE 32 - TEMPLATE EU CQ3: CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures				Non-performing exposures							
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 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
005	Cash balances at central banks and other demand deposits	7,552,606	7,552,606	0	0	0	0	0	0	0	0	0	0
010	Loans and advances	54,623,356	54,497,726	125,630	2,752,414	1,524,813	125,043	133,112	280,475	538,327	81,996	68,649	2,751,720
020	Central banks	101,583	101,583	0	0	0	0	0	0	0	0	0	0
030	General governments	1,224,767	1,224,767	0	0	0	0	0	0	0	0	0	0
040	Credit institutions	333,038	333,038	0	0	0	0	0	0	0	0	0	0
050	Other financial corporations	986,947	986,934	13	169,827	108,737	1,762	148	19	59,161	0	0	169,827
060	Non-financial corporations	18,463,977	18,448,080	15,896	1,475,485	869,941	49,322	38,860	146,214	306,721	46,845	17,583	1,474,790
070	Of which SMEs	14,604,484	14,588,988	15,496	964,646	724,940	45,870	33,349	84,200	50,448	14,027	11,812	963,951
080	Households	33,513,045	33,403,324	109,721	1,107,103	546,135	73,959	94,104	134,241	172,445	35,151	51,066	1,107,102
090	Debt securities	22,215,594	22,215,594	0	88,960	88,920	0	0	0	0	40	0	88,960
100	Central banks	650,885	650,885	0	0	0	0	0	0	0	0	0	0
110	General governments	17,263,064	17,263,064	0	0	0	0	0	0	0	0	0	0
120	Credit institutions	510,173	510,173	0	0	0	0	0	0	0	0	0	0
130	Other financial corporations	1,292,735	1,292,735	0	0	0	0	0	0	0	0	0	0
140	Non-financial corporations	2,498,738	2,498,738	0	88,960	88,920	0	0	0	0	40	0	88,960
150	Off-balance-sheet exposures	15,405,758			412,179								412,179
160	Central banks	0			0								0
170	General governments	121,758			0								0
180	Credit institutions	644,274			0								0
190	Other financial corporations	558,624			7,802								7,802
200	Non-financial corporations	11,030,526			385,573								385,573
210	Households	3,050,576			18,804								18,804
220	Total	99,797,314	84,265,927	125,630	3,253,553	1,613,733	125,043	133,112	280,475	538,327	82,036	68,649	3,252,858

NPL ratio (Loans and Advances) 4.8%

TABLE 33 - TEMPLATE EU CQ4: QUALITY OF NON-PERFORMING EXPOSURES BY GEOGRAPHY

(Thousand euros)

		a	b	c	d	e	f	g
			Gross carrying/Nominal amount of which: non-performing of which: defaulted		of which: subject to impairment	Accumulated impairment	Provisions on off- balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non- performing exposures
010	On balance sheet exposures	79,680,324	2,841,374	2,840,680	78,364,165	-1,867,365		-77,406
020	Portugal	46,414,036	1,919,575	1,919,574	45,601,170	-1,261,643		-66,745
030	Poland	21,271,292	722,332	721,637	21,189,781	-481,069		-8,118
040	Mozambique and others	11,994,996	199,468	199,468	11,573,214	-124,653		-2,543
080	Off balance sheet exposures	15,817,936	412,179	412,179			-110,649	
090	Portugal	11,778,417	395,940	395,940			-98,816	
100	Poland	3,003,656	14,934	14,934			-9,623	
110	Mozambique and others	1,035,863	1,304	1,304			-2,209	
150	Total	95,498,261	3,253,553	3,252,858	78,364,165	-1,867,365	-110,649	-77,406

TABLE 34 - TEMPLATE EU CQ5: CREDIT QUALITY OF LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS BY INDUSTRY

(Thousand euros)

	a	b	c	d	e	f
			Gross carrying amount of which: non-performing	of which: loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
010 Agriculture, forestry and fishing	449,525	15,341	15,341	449,525	-11,960	0
020 Mining and quarrying	120,238	2,764	2,764	120,238	-2,126	0
030 Manufacturing	4,300,869	258,164	258,132	4,299,182	-152,964	-5
040 Electricity, gas, steam and air conditioning supply	228,243	2,795	2,795	228,243	-2,072	0
050 Water supply	223,332	14,448	14,448	223,332	-19,310	0
060 Construction	1,486,007	171,821	171,820	1,486,007	-116,781	0
070 Wholesale and retail trade	4,055,095	131,748	131,554	4,055,094	-118,118	-1
080 Transport and storage	1,382,122	30,306	30,306	1,382,094	-26,000	-24
090 Accommodation and food service activities	1,634,477	138,251	138,251	1,634,477	-86,267	0
100 Information and communication	486,051	10,991	10,991	486,051	-13,274	0
110 Real estate activities	277,626	5,708	5,678	277,626	-6,149	0
120 Financial and insurance activities	1,816,252	69,244	69,244	1,816,252	-43,365	0
130 Professional, scientific and technical activities	1,254,318	59,442	59,442	1,254,302	-58,489	-14
140 Administrative and support service activities	539,912	72,358	72,313	539,912	-60,048	0
150 Public administration and defense, compulsory social security	5,957	0	0	5,957	-15	0
160 Education	150,776	19,918	19,918	150,776	-13,175	0
170 Human health services and social work activities	375,609	24,256	24,256	375,609	-15,568	0
180 Arts, entertainment and recreation	359,544	200,358	200,358	359,544	-103,331	0
190 Other services	793,508	247,571	247,179	793,506	-293,319	0
200 Total	19,939,461	1,475,485	1,474,790	19,937,727	-1,142,331	-44

TABLE 35 - TEMPLATE EU CQ6: COLLATERAL VALUATION - LOANS AND ADVANCES

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l
Loans and advances												
		Performing		Non-performing			Past due > 90 days					
			Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days		Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years
010 Gross carrying amount	57,375,771	54,623,356	125,630	2,752,414	1,524,813	1,227,602	125,043	133,112	280,475	538,327	81,996	68,649
020 Of which secured	43,832,036	41,856,101	85,737	1,975,935	1,202,307	773,628	57,269	49,297	150,153	402,006	63,385	51,517
030 Of which secured with immovable property	32,458,133	31,182,763	76,219	1,275,371	921,160	354,210	30,946	32,912	101,643	87,457	59,443	41,809
040 Of which instruments with LTV higher than 60% and lower or equal to 80%	8,931,477	8,676,729		254,748	207,638	47,110						
050 Of which instruments with LTV higher than 80% and lower or equal to 100%	4,681,831	4,413,706		268,125	220,814	47,311						
060 Of which instruments with LTV higher than 100%	2,643,534	2,388,546		254,988	137,035	117,953						
070 Accumulated impairment for secured assets	-1,147,045	-277,041	-6,476	-870,005	-438,908	-431,097	-23,265	-11,989	-57,666	-267,816	-36,354	-34,006
080 Collateral												
090 Of which value capped at the value of exposure	34,019,446	33,075,790	71,909	943,656	639,558	304,099	21,408	26,936	85,810	129,105	24,754	16,086
100 Of which immovable property	31,151,032	30,348,390	71,064	802,642	590,830	211,811	20,743	26,037	78,680	46,143	24,732	15,476
110 Of which value above the cap	42,753,674	40,273,220	66,825	2,480,455	1,638,561	841,894	45,207	38,775	324,035	353,231	35,607	45,039
120 Of which immovable property	37,550,825	35,778,991	64,711	1,771,834	1,423,195	348,640	42,640	36,364	110,027	84,180	35,322	40,106
130 Financial guarantees received	7,657,495	7,504,477	6,559	153,017	118,685	34,332	12,082	9,988	5,895	2,943	2,207	1,217
140 Accumulated partial write-off	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 36 - TEMPLATE EU CQ7: COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

(Thousand euros)

		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
010	Property, plant and equipment (PP&E)		
020	Other than PP&E	917,986	-164,487
030	Residential immovable property	123,723	-8,084
040	Commercial Immovable property	506,361	-119,136
050	Movable property (auto, shipping, etc.)	6,449	-2,233
060	Equity and debt instruments	279,699	-34,546
070	Other collateral	1,756	-488
080	Total	917,986	-164,487

TABLE 37 - TEMPLATE EU CQ8: COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES – VINTAGE BREAKDOWN

(Thousand euros)

		a	b	c	d	e	f	g	h	i	j	k	l
		Total collateral obtained by taking possession											
		Debt balance reduction						Foreclosed <=2 years		Foreclosed >2 years <=5 years		Foreclosed >5 years	
		Gross carrying amount	Accumulated negative changes	Value at initial recognition	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
010	Collateral obtained by taking possession classified as Property Plant and Equipment (PP&E)												
020	Collateral obtained by taking possession other than classified Property Plant and Equipment	1,181,261	-224,926	917,986	-164,487	121,830	-3,606	301,906	-53,851	494,250	-107,030	698,287	-137,858
030	Residential immovable	133,753	-25,304	123,723	-8,084	41,735	-1,285	53,711	-1,677	28,276	-5,122	123,723	-8,084
040	Commercial Immovable Property	608,642	-162,094	506,361	-119,136	67,560	-1,944	179,169	-47,494	259,632	-69,698	506,361	-119,136
050	Movable property (auto,	6,449	-2,233	6,449	-2,233	4,448	-377	413	-327	1,588	-1,530	6,449	-2,233
060	Equity and debt instruments	430,662	-34,806	279,699	-34,546	8,087	0	68,613	-4,354	202,998	-30,192	60,000	-7,917
070	Other	1,756	-488	1,756	-488	0	0	0	0	1,756	-488	1,756	-488
080	Total	1,181,261	-224,926	917,986	-164,487	121,830	-3,606	301,906	-53,851	494,250	-107,030	698,287	-137,858

7.5. Exposures subject to measures applied in response to the COVID-19 pandemic

In 2020, the European Banking Association (EBA) issued a “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures”, along with guidance on legislative and nonlegislative moratoria. On December 2, 2020 after closely monitoring the developments of the COVID-19 pandemic and the impact of the second COVID-19 wave and the related government restrictions taken in many EU countries, EBA reactivated its guidelines on legislative and non-legislative moratoria which applied until 31 March 2021.

The Portuguese Government, through Decree-Law no. 10-J / 2020, of 26 March, established a moratorium on credits before financial institutions with the objective of supporting families and companies in an adverse context of sharp drop in income caused by the COVID-19 pandemic. This public moratorium established exceptional measures to protect the credits of the beneficiary entities within the scope of the COVID-19 pandemic, allowing the deferral of the fulfilment of responsibilities, when they represent credits assumed by the beneficiary entities before the Bank, which were not past due on the date of receipt of the declaration of adherence. With the evolution of the economic crisis generated by the COVID-19 pandemic, in June 2020, the Portuguese Government extended the scope and deadline of the public moratoria. Thus, Decree-Law No. 26/2020 introduced changes to the public moratoria, regarding the term, the deadline for adherence and the scope of the beneficiaries and exposures covered. With these changes, bank customers began to benefit from an extension of the term of the public moratoria. The moratorium term initially set at six months, until 30 September 2020, was extended until 31 March 2021. This new term was applicable not only to new moratoria but also to those subscribed in periods prior to the extension. Within the scope of these amendments, a deadline for adhering to the public moratorium was also set, which might be requested until 30 September 2020. With the enacting of Decree-Law 78-A/2020, the public moratoria were extended for one last time, until 30 September 2021. This Decree-Law also implemented the extension, for one more year, of the term date of credits of entities operating in a list of sectors, set out in the annexes, which corresponded to the most vulnerable activities in the COVID-19 pandemic context.

On 28 December 2020, acknowledging the impacts of the second wave of the pandemic, Decree-Law 107/2020 was enacted, establishing the possibility of applying for a moratorium, for a period of up to nine months from the date of this adherence, for credit instruments that could have applied for the initial moratorium. The period for adherence to this new moratorium was between 1 January and 31 March 2021.

Based on this framework, the Bank started to offer credit moratoria aimed at protecting, namely, companies, sole proprietors and other professionals, private social solidarity institutions, non-profit associations and other social economy entities that meet the requirements set out in the law. The moratorium was applied across all sectors, with the exception of the financial sector. In the case of individuals, it covered mortgage guarantee loans (with multiple purposes, namely mortgage credit, including credit granted for the acquisition of secondary own housing or for rental purposes), as well as the financial leasing of real estate and consumer credit for education purposes, including academic and professional training. Following the guidance issued by the EBA on public and private moratoria applied to credit operations in the context of the COVID-19 pandemic, the Portuguese Banking Association provided access to two private moratoria aimed at natural persons, residents or non-residents in Portugal, one of which relates to mortgage credit and the other to non-mortgage credit (e.g. personal or automobile).

In the case of non-mortgage credit, the moratoria contracted until 30 June 2020 were granted for a period of 12 months, counted as from the date they were contracted. Moratoria contracted after 30 June 2020 ended on 30 June 2021. In the case of mortgage credit, the moratoria lasted until 31 March 2021. These moratoria involved payments associated with the credit including instalments of capital, capital, rent, interest, commissions and other charges. The Bank did not assign a direct economic loss associated with the granting of the moratoria.

The Bank did not assign a direct economic loss associated with the granting of the moratoria.

As of 31 December 2021, and as shown in next table, there were no longer any credit moratoria implemented under COVID-19 pandemic schemes.

TABLE 38 – TEMPLATE 1 – EBA/GL/2020/07 – INFORMATION ON LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
	Performing			Non Performing				Performing			Non Performing				Inflows to non-performing exposures
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			
1. Loans and advances subject to moratorium	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2. of which: Households	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. of which: Collateralised by residential immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. of which: Non-financial corporations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5. of which: Small and Medium-sized Enterprises	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. of which: Collateralised by commercial immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 39 – TEMPLATE 2 – EBA/GL/2020/07 – BREAKDOWN OF LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA BY RESIDUAL MATURITY OF MORATORIA

(Thousand euros)

	a	b	c	d	e	f	g	h	i
	Gross carrying amount								
	Number of obligors		Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1. Loans and advances for which moratorium was offered	137,285	11,038,636							
2. Loans and advances subject to moratorium (granted)	137,051	10,939,554	8,808,798	10,939,554	0	0	0	0	0
3. of which: Households		5,212,656	3,336,291	5,212,656	0	0	0	0	0
4. of which: Collateralised by residential immovable property		4,533,171	3,271,082	4,533,171	0	0	0	0	0
5. of which: Non-financial corporations		5,632,584	5,378,193	5,632,584	0	0	0	0	0
6. of which: Small and Medium-sized Enterprises		5,085,424	4,978,548	5,085,424	0	0	0	0	0
7. of which: Collateralised by commercial immovable property		1,895,247	1,875,252	1,895,247	0	0	0	0	0

Regarding the legislative moratorium (Decree-Law No. 26/2020), the moratorium term was initially fixed at six months, until 30 September 2020, and was subsequently extended twice, initially until 31 March 2021 and subsequently until 30 September 2021. This new term was applicable not only to the new moratoriums but also to those subscribed in periods prior to the extension.

Concerning the moratoria arising from the enactment of Decree-Law 107/2020, they were granted for a maximum duration of 9 months as of the date of adherence.

Regarding the moratorium within the scope of the Portuguese Banking Association, in the case of non-mortgage credit, the moratoria contracted until 30 June 2020 were granted for a period of 12 months, counted from the date of contracting and the moratoria contracted after 30 June 2020 ended on 30 June 2021. In the case of mortgage loans, the moratoria lasted until 31 March 2021.

TABLE 40 - TEMPLATE 3 - EBA/GL/2020/07 – INFORMATION ON NEWLY ORIGINATED LOANS AND ADVANCES PROVIDED UNDER NEWLY APPLICABLE PUBLIC GUARANTEE SCHEMES INTRODUCED IN RESPONSE TO COVID-19 CRISIS

(Thousand euros)

	a	b	c	d
	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1. Newly originated loans and advances subject to public guarantee schemes	2,835,674	1,215	2,186,423	13,805
2. of which: Households	15,381			52
3. of which: Collateralised by residential immovable property	275			0
4. of which: Non-financial corporations	2,819,709	1,215	2,172,353	13,753
5. of which: Small and Medium-sized Enterprises	2,531,939			11,478
6. of which: Collateralised by commercial immovable property	90,342			50

In the context of the Coronavirus pandemic, the Portuguese Government created lines of support for the economy that allow companies to access credit to support the treasury under more favourable conditions. This support has been made available in stages and distributed in specific lines:

- Lines with autonomous guarantee provided by Mutual Guarantee Societies up to 90% (100% coverage of the Fundo de Garantia Mútua - FGM) in the case of credit granted to micro and small companies (except for the Capitalizar 2018 Lines – Subline Covid-19 e Investe RAM Covid-19), as well as the Covid-19 Social Sector Support Line;
- Lines with autonomous guarantee provided by Mutual Guarantee Societies up to 80% (coverage of the FGM in 100%) in the case of larger companies, Linha Capitalizar 2018 - Subline Covid-19 and Linha Investe RAM Covid-19
- Line only with interest subsidies (partial) in the case of the Support Line to the Fishing Sector Covid-19.

In sectorial terms, the lines cover a very wide universe, covering practically all sectors of economic activity, with some lines allocated to specific sectors.

The lines that fit into the different sectors and according to a certain dimension are as follows:

- Capitalize 2018 - Subline COVID-19 - SMEs and Large Companies - € 400 million
- Covid-19 Economy Support Line, which includes the following specific lines:
 - a. Specific Line “Covid 19 - Support for Catering Companies and the like” - € 600 million
 - b. Specific Line “Covid 19 - Support to Tourism Companies” - € 900 million
 - c. Specific Line “Covid 19 - Support to Travel Agencies, Tourist Entertainment, Event Organizers and Similar” - € 200 million
 - d. Specific Line “Covid 19 - Support for Economic Activity” - € 4.500 million

Note: With the signature of the addendum to the Protocol, the specific lines identified in a) to d) were ceased and a specific Line with a € 400 million ceiling was created, aimed at Medium-sized companies, Small Mid Caps and Mid Caps with an autonomous guarantee provided by a Mutual Guarantee Society up to 80%.

- COVID MPE: Micro and Small Enterprises - € 1,000 million
- COVID Açores: SMEs and Small Mid Caps - € 150 million
- COVID Support Madeira 2020: Small, Medium and Large Companies - € 20 million
- COVID Investe RAM: SMEs and Large Companies in the Autonomous Region of Madeira - € 100 million
- COVID Social Sector: IPSS and private non-profit entities equipped with SMEs - € 165 million
- COVID Support to the Fishing Sector - € 20 million

For the most representative lines, namely the four specific lines integrated in the COVID-19 Economy Support Lines and the line for Micro and Small Companies, the term of the operations may go up to 6 years after contracting the operation, with an 18-month grace period. The financing operations covered by the support lines are only intended to finance treasury needs. Therefore, the financial restructuring and / or consolidation of live credit or the liquidation or replacement of financing previously agreed with the Bank or the acquisition of land and other properties in use, as well as properties for general use, cannot be used for these operations. that do not already have (before the acquisition) characteristics appropriate to the technical requirements of the company's production process.

With the enactment of Decree-Law 22-C, on 19 March 2021, was allowed the extension of the grace period of capital, in loans with public sector guarantee, for a maximum period of 9 months. The document established the extension in two modalities, for entities operating in those sectors considered as vulnerable, the adherence was automatic, with the client being given the possibility to refuse that extension (opt-out). For the remaining entities, adherence would only take place after the customer's express wish (opt-in). On 31 December 2021, the grace period extensions introduced by Decree-Law 22-C were no longer active.

7.6. 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), for the portfolio of exposures to leveraged transactions and to the 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 banks, Sovereigns and large exposures single-name –, to the leveraged transactions portfolio and to set of exposures to an activity sector or to a country (the counterparty country of residence). 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 and leveraged transactions portfolio, 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 2021, for the exposure to Sovereigns, Institutions, Single-name, leveraged transactions portfolio 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 41 – LIMITS FOR SINGLE NAME CONCENTRATION

Limit = Max. % of Net Exposure over the Consolidated Own Funds

Risk quality	Risk grades	Countries
1st Tier	1 - 3	40,0%
2nd Tier	4 - 6	20,0%
3rd Tier	7 - 12	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	0,6%
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.

Risk grades	Sovereigns		Institutions	
	% own funds	Value	% own funds	Value
1	14.4%	2,300	8.3%	1,330
2	13.7%	2,200	7.9%	1,266
3	13.1%	2,100	7.5%	1,202
4	12.5%	2,000	7.1%	1,138
5	11.9%	1,900	6.7%	1,074
6	10.6%	1,700	5.8%	930
7	7.5%	1,200	5.0%	801
8	3.1%	500	2.1%	337
9	2.5%	400	1.7%	272
10	0.6%	100	0.4%	67
11	0.5%	80	0.3%	53
12	0.3%	50	0.2%	34

As at 31 December 2021:

- There were no exposure excesses to Sovereigns, Institutions or countries.
- There were five Economic Groups with net exposure above the established Single-name limits for their respective risk grade, three more Economic Group than as by the end of 2020, although the total excess was smaller in 2021 than in 2020. 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 31/12/2021, 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 31/12/2021, there was no excess over this limit.

It should also be noted that the limit of 25% of consolidated Own Funds for the Group's exposure to leveraged transactions portfolio also did not register any excess and far from being hit.

The Bank's Executive Committee 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.

7.7. Own funds requirements for credit risk

7.7.1. Framework of the approaches used

On 31 December 2021, the Group calculated 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 weighted 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 2021, 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", "Items representing securitisation positions" and "Other non-credit obligations". Regarding the Corporates exposure class, the exposures treated under the "State Owned Enterprises" (SOE) and simplified rating systems were weighted using the standardised approach. Purchased receivables positions, for both corporate and retail classes, were also treated according to standardised approach.

Also, in Portugal, exposures to Customers that did not receive an internal risk level were computed according to the IRB approach, considering the most conservative PD related to the last performing risk grade available. 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 2021 were estimated following the standardised approach.

7.7.2. 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 42.

TABLE 42 - RATING MASTER SCALE AND RELATION BETWEEN INTERNAL AND EXTERNAL GRADES

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%	Default

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

Risk grades	Fitch	Standard & Poor's	Moody's
1	AAA, AA+	AAA, AA+	Aaa, Aa1
2	AA-, AA	AA-, AA	Aa2, Aa3
3	A, A+	A, A+	A1, A2
4	A-, BBB+	A-, BBB+	A3, Baa1
5	BBB	BBB	Baa2
6	BBB-	BBB-	Baa3
7	BB+	BB+	Ba1
8	BB	BB	Ba2
9	BB-	BB-	Ba3
10	B+	B+	B1
11	B	B	B2
12	≤ B-	≤ B-	≤ B3

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 business 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 is 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 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 Subcommittees 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 and do the Internal Audit Division in the internal audit performed.

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 Bank has defined a model risk management framework, duly documented in the form of a specific group code, which is applied throughout the model's life cycle and based on a robust governance structure that ensures a holistic understanding of the application and use of models, the identification, measurement, monitoring, management and risk mitigation of the model. In this framework, all models are identified in the model inventory and the respective risks are identified and assessed. The continuous use and performance of the models are monitored to ensure that they are used within the scope and for the purpose for which they were approved and, furthermore, that they continue to function as expected. The models are monitored by the GAVM and audited by the Internal Audit Division, with a frequency based on their objective risk rating, or as prescribed by the regulation.

The models in force at the Bank are approved by the Subcommittee on Monitoring and Validation of Models or by the Risk Committee, as applicable. The Risk Office is responsible for requesting the approval of the use of risk models from the Supervisory Authorities, when applicable.

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 43 – CREDIT FACILITIES OUTSIDE OF THE BALANCE SHEET

(Thousand euros)

	Original exposure		Exposure at risk		Risk weighted assets		% RWA	
	Non-used	Used	Non-used	Used	Non-used	Used	Non-used	Used
Corporate	10,594,299	19,247,649	4,640,081	18,898,200	3,379,008	13,464,917	73%	71%
Large Corporate	5,999,266	8,841,049	3,013,910	8,585,966	2,316,080	7,186,783	77%	84%
Small and medium Corporate	4,229,560	9,387,135	1,366,665	9,298,180	847,318	5,403,345	62%	58%
Specialised lending	365,473	1,019,465	259,505	1,014,055	215,610	874,788	83%	86%
Equity	70,017	1,582,622	70,017	1,582,622	125,967	3,016,852	180%	191%

In accordance with paragraphs h) and i) of Art. 452 of the CRR, the relevant IRB portfolio parameters in 2021, including cases in default (PD = 100%), were, respectively, the following:

- Average LGD: 30%/29%;
- Average CCF: 52%/54%;
- Average PD: 6.2%/7.6%.

7.7.3. 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 Rating Division according to 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 systems.

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 of 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 questionnaires / matrix of qualitative factors, which in the Large Corporate model are different according to the Client's sector of activity and include the Sector Risk itself (The Bank's Economic Studies Area developed and runs periodically a sectoral risk model). 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. Subsequently, the degree of risk is adjusted according to the economic group to which the company belongs (if applicable), with a parent and affiliate template to determine the level of relevance of the company in the group itself (e.g. core, strategic) and as a consequence, the level of adjustment that the company's degree of risk can / should be subject to (are called Group Adjustments).

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 44 summarises these rating models and systems:

TABLE 44 - CORPORATES RATING MODELS AND SYSTEMS

Rating system for Corporates	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.
	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 (development projects / investment / income): quantitative component + qualitative component + adjustments stemming from pre-defined situations or from the identification of imminent risk evidence.
Rating system for Projects	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.
	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 (for sale / income): quantitative component + qualitative component + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.

7.7.4. 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 monthly), 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 45:

TABLE 45 - 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 below shows the values related to PD Backtesting, by risk class, at the end of 2021.

TABLE 46 – TEMPLATE CR9 –IRB APPROACH – BACK-TESTING OF PD PER EXPOSURE CLASS (FIXED PD SCALE)

(Thousand euros)

A-IRB

Exposure class	PD range	Number of obligors at the end of previous year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
CORPORATE	b	c	d	e	f	g	h
	0.00 to <0.15	152	0	0.00%	0.05%	0.08%	0.26%
	0.00 to <0.10	7	0	0.00%	0.05%	0.05%	0.00%
	0.10 to <0.15	145	0	0.00%	0.10%	0.10%	0.28%
	0.15 to <0.25	722	0	0.00%	0.20%	0.20%	0.00%
	0.25 to <0.50	1,537	0	0.00%	0.40%	0.40%	0.02%
	0.50 to <0.75	1,668	4	0.24%	0.70%	0.70%	0.05%
	0.75 to <2.50	3,466	10	0.29%	1.79%	1.80%	0.17%
	0.75 to <1.75	1,888	2	0.11%	1.29%	1.30%	0.09%
	1.75 to <2.5	1,578	8	0.51%	2.29%	2.30%	0.27%
	2.50 to <10.00	3,433	16	0.47%	4.81%	5.23%	0.84%
	2.5 to <5	1,447	6	0.41%	3.56%	3.70%	0.62%
	5 to <10	1,986	10	0.50%	6.37%	6.76%	1.02%
	10.00 to <100.00	2,959	85	2.88%	11.90%	28.75%	5.27%
	10 to <20	2,816	62	2.20%	11.48%	11.50%	3.53%
	20 to <30	0	0	0.00%	0.00%	0.00%	45.09%
	30.00 to <100.00	143	23	16.20%	54.84%	46.00%	29.52%
	100.00 (Default)	563	0	0%	100%	100%	0%

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year		Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
CORPORATE SME	b	c	d	e	f	g	h
	0.00 to <0.15	167	0	0.00%	0.10%	0.08%	0.00%
	0.00 to <0.10	51	0	0.00%	0.05%	0.05%	0.00%
	0.10 to <0.15	116	0	0.00%	0.10%	0.10%	0.00%
	0.15 to <0.25	503	0	0.00%	0.20%	0.20%	0.00%
	0.25 to <0.50	480	0	0.00%	0.40%	0.40%	0.00%
	0.50 to <0.75	426	0	0.00%	0.70%	0.70%	0.06%
	0.75 to <2.50	647	0	0.00%	1.68%	1.80%	0.24%
	0.75 to <1.75	294	0	0.00%	1.30%	1.30%	0.17%
	1.75 to <2.5	353	0	0.00%	2.27%	2.30%	0.35%
	2.50 to <10.00	843	3	0.36%	5.49%	5.15%	0.65%
	2.5 to <5	499	0	0.00%	3.68%	3.70%	0.69%
	5 to <10	344	3	0.87%	6.79%	6.61%	0.64%
	10.00 to <100.00	265	9	3.40%	12.62%	28.75%	6.62%
	10 to <20	237	5	2.11%	11.48%	11.50%	4.25%
	20 to <30	0	0	0.00%	23.60%	0.00%	26.25%
	30.00 to <100.00	28	4	14.29%	50.15%	46.00%	29.84%
	100.00 (Default)	106	0	0%	100%	100%	0%

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year		Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
SECURED BY REAL ESTATE SME	b	c	d	e	f	g	h
	0.00 to <0.15	6,228	5	0.08%	0.10%	0.08%	0.03%
	0.00 to <0.10	79	0	0.00%	0.07%	0.05%	0.32%
	0.10 to <0.15	6,149	5	0.08%	0.10%	0.10%	0.02%
	0.15 to <0.25	4,754	7	0.15%	0.20%	0.20%	0.09%
	0.25 to <0.50	2,510	7	0.28%	0.38%	0.40%	0.13%
	0.50 to <0.75	2,142	3	0.14%	0.63%	0.70%	0.13%
	0.75 to <2.50	2,378	13	0.55%	1.37%	1.80%	0.57%
	0.75 to <1.75	1,487	7	0.47%	1.14%	1.30%	0.51%
	1.75 to <2.5	891	6	0.67%	1.79%	2.30%	0.65%
	2.50 to <10.00	1,975	23	1.16%	4.50%	5.23%	1.65%
	2.5 to <5	842	6	0.71%	3.25%	3.70%	1.26%
	5 to <10	1,133	17	1.50%	5.81%	6.75%	1.95%
	10.00 to <100.00	1,604	56	3.49%	11.40%	28.76%	8.76%
	10 to <20	1,526	40	2.62%	8.61%	11.52%	6.68%
	20 to <30	0	0	0.00%	25.30%	0.00%	32.27%
	30.00 to <100.00	78	16	20.51%	52.40%	46.00%	40.65%
	100.00 (Default)	507	0	0%	100%	100%	0%

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year		Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
SECURED BY REAL ESTATE NON SME	b	c	d	e	f	g	h
	0.00 to <0.15	190,259	154	0.08%	0.09%	0.08%	0.06%
	0.00 to <0.10	84,907	79	0.09%	0.08%	0.05%	0.06%
	0.10 to <0.15	105,352	75	0.07%	0.10%	0.10%	0.05%
	0.15 to <0.25	54,501	60	0.11%	0.20%	0.20%	0.11%
	0.25 to <0.50	34,161	74	0.22%	0.39%	0.40%	0.24%
	0.50 to <0.75	21,224	85	0.40%	0.67%	0.70%	0.45%
	0.75 to <2.50	23,829	217	0.91%	1.61%	1.80%	1.01%
	0.75 to <1.75	14,263	114	0.80%	1.24%	1.30%	0.85%
	1.75 to <2.5	9,566	103	1.08%	2.15%	2.30%	1.25%
	2.50 to <10.00	20,827	355	1.70%	4.84%	5.26%	2.55%
	2.5 to <5	10,054	132	1.31%	3.42%	3.70%	1.69%
	5 to <10	10,773	223	2.07%	6.35%	6.83%	3.25%
	10.00 to <100.00	10,892	616	5.66%	17.70%	28.84%	12.83%
	10 to <20	9,910	379	3.82%	11.11%	11.67%	8.95%
	20 to <30	0	0	0.00%	25.30%	0.00%	37.76%
	30.00 to <100.00	982	237	24.13%	48.95%	46.00%	44.03%
	100.00 (Default)	6,522	0	0%	100%	100%	0%

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year		Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
QUALIFYING REVOLVING RETAIL EXPOSURES	b	c	d	e	f	g	h
	0.00 to <0.15	571,206	367	0.06%	0.08%	0.08%	0.05%
	0.00 to <0.10	385,484	240	0.06%	0.08%	0.05%	0.05%
	0.10 to <0.15	185,722	127	0.07%	0.10%	0.10%	0.05%
	0.15 to <0.25	232,095	249	0.11%	0.20%	0.20%	0.10%
	0.25 to <0.50	179,015	750	0.42%	0.40%	0.40%	0.33%
	0.50 to <0.75	106,988	857	0.80%	0.71%	0.70%	0.71%
	0.75 to <2.50	131,017	2,117	1.62%	1.71%	1.80%	1.38%
	0.75 to <1.75	76,218	1,052	1.38%	1.29%	1.30%	1.16%
	1.75 to <2.5	54,799	1,065	1.94%	2.26%	2.30%	1.68%
	2.50 to <10.00	99,020	3,804	3.84%	5.84%	5.31%	3.17%
	2.5 to <5	44,320	1,230	2.78%	3.78%	3.70%	2.33%
	5 to <10	54,700	2,574	4.71%	7.54%	6.92%	3.79%
	10.00 to <100.00	118,291	14,123	11.94%	20.80%	28.85%	10.98%
	10 to <20	112,963	10,772	9.54%	13.79%	11.70%	7.75%
	20 to <30	0	0	0.00%	26.01%	0.00%	48.60%
	30.00 to <100.00	5,328	3,351	62.89%	53.61%	46.00%	45.62%
	100.00 (Default)	49,807	0	0%	100%	100%	0%

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year		Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
OTHER RETAIL - SME	b	c	d	e	f	g	h
	0.00 to <0.15	18,385	11	0.06%	0.10%	0.08%	0.02%
	0.00 to <0.10	718	1	0.14%	0.05%	0.05%	0.03%
	0.10 to <0.15	17,667	10	0.06%	0.10%	0.10%	0.02%
	0.15 to <0.25	23,669	24	0.10%	0.19%	0.20%	0.09%
	0.25 to <0.50	22,683	54	0.24%	0.35%	0.40%	0.26%
	0.50 to <0.75	16,629	64	0.38%	0.59%	0.70%	0.43%
	0.75 to <2.50	17,818	146	0.82%	1.25%	1.80%	1.03%
	0.75 to <1.75	11,163	60	0.54%	1.02%	1.30%	0.78%
	1.75 to <2.5	6,655	86	1.29%	1.72%	2.30%	1.44%
	2.50 to <10.00	9,962	261	2.62%	4.01%	5.24%	2.53%
	2.5 to <5	4,823	98	2.03%	2.87%	3.70%	1.93%
	5 to <10	5,139	163	3.17%	5.15%	6.77%	2.97%
	10.00 to <100.00	16,676	1,016	6.09%	12.64%	28.78%	9.02%
	10 to <20	16,018	759	4.74%	8.13%	11.56%	7.57%
	20 to <30	0	0	0.00%	25.30%	0.00%	52.33%
	30.00 to <100.00	658	257	39.06%	52.40%	46.00%	45.91%
	100.00 (Default)	4,469	0	0%	100%	100%	0%

A-IRB

Exposure class	PD range	Number of obligors in the end of previous year		Observed average default rate (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
OTHER RETAIL - NON SME	b	c	d	e	f	g	h
	0.00 to <0.15	8,160	4	0.05%	0.09%	0.08%	0.12%
	0.00 to <0.10	1,477	0	0.00%	0.05%	0.05%	0.10%
	0.10 to <0.15	6,683	4	0.06%	0.10%	0.10%	0.13%
	0.15 to <0.25	31,486	59	0.19%	0.20%	0.20%	0.20%
	0.25 to <0.50	46,448	317	0.68%	0.40%	0.40%	0.51%
	0.50 to <0.75	29,313	390	1.33%	0.69%	0.70%	1.09%
	0.75 to <2.50	32,676	856	2.62%	1.60%	1.80%	2.10%
	0.75 to <1.75	20,438	447	2.19%	1.27%	1.30%	1.77%
	1.75 to <2.5	12,238	409	3.34%	2.21%	2.30%	2.60%
	2.50 to <10.00	19,664	1,136	5.78%	5.15%	5.30%	4.93%
	2.5 to <5	7,925	330	4.16%	3.52%	3.70%	3.45%
	5 to <10	11,739	806	6.87%	6.49%	6.90%	5.91%
	10.00 to <100.00	10,350	2,196	21.22%	19.62%	28.90%	23.33%
	10 to <20	9,196	1,361	14.80%	11.14%	11.79%	16.10%
	20 to <30	0	0	0.00%	25.30%	0.00%	55.91%
	30.00 to <100.00	1,154	835	72.36%	52.40%	46.00%	68.05%
	100.00 (Default)	11,543	0	0%	100%	100%	0%

The figures for the risk positions of portfolios treated by the IRB approach, with reference to 31 December 2021 are presented in the following tables, reflecting the different risk classes of the portfolios for Corporate, Retail, Specialised Lending and Equity.

TABLE 47 – TEMPLATE EU CR6 – IRB APPROACH – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE

(Thousand euros)

A-IRB	PD scale	On-balance sheet exposures	Off-balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
CORPORATE													
	0.00 to <0.15	4	109 000	86	93 239	0,05%	4	42,26%	1	11 062	11,9%	20	-7
	0.00 to <0.10	0	105 347	87	91 451	0,05%	2	42,26%	1	10 212	11,2%	19	-7
	0.10 to <0.15	4	3 653	49	1 788	0,10%	2	42,26%	5	850	47,5%	1	0
	0.15 to <0.25	471 711	696 420	82	1 041 045	0,20%	141	42,25%	2	399 889	38,4%	880	-299
	0.25 to <0.50	647 104	472 915	81	1 043 730	0,40%	158	35,15%	2	456 290	43,7%	1 458	-781
	0.50 to <0.75	333 564	645 518	74	822 530	0,70%	159	38,88%	2	537 187	65,3%	2 226	-901
	0.75 to <2.50	1 591 646	1 070 002	72	2 401 233	1,79%	510	38,59%	3	2 483 854	103,4%	16 287	-10 107
	0.75 to <1.75	756 414	509 632	81	1 192 254	1,29%	225	41,04%	3	1 252 108	105,0%	6 297	-2 880
	1.75 to <2.5	835 232	560 370	64	1 208 979	2,29%	285	36,17%	3	1 231 745	101,9%	9 989	-7 227
	2.50 to <10.00	1 026 953	663 724	47	1 380 283	4,81%	575	36,60%	2	1 703 562	123,4%	24 589	-23 161
	2.5 to <5	561 481	334 656	48	765 968	3,56%	282	35,30%	2	813 214	106,2%	9 629	-8 432
	5 to <10	465 472	329 068	45	614 314	6,37%	293	38,21%	2	890 349	144,9%	14 960	-14 729
	10.00 to <100.00	407 215	184 281	41	483 006	11,90%	258	29,42%	3	702 274	145,4%	17 082	-37 926
	10 to <20	407 156	174 957	40	478 333	11,48%	237	29,34%	3	693 585	145,0%	16 119	-37 713
	20 to <30	0	0	0	0	0,00%	0	0,00%	0	0		0	0
	30.00 to <100.00	59	9 323	49	4 672	54,84%	21	38,02%	4	8 689	186,0%	963	-212
	100.00 (Default)	640 044	85 085	27	662 850	100,00%	80	76,40%	3	67 822	10,2%	446 910	-465 333
Subtotal Corporate		5 118 241	3 926 945		7 927 916		1 885			6 361 940		509 452	-538 515

A-IRB	PD scale	On-balance sheet exposures	Off-balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
CORPORATE SME													
	0.00 to <0.15	8 844	3 446	62	10 987	0,10%	97	33,19%	3	1 792	16,3%	4	-9
	0.00 to <0.10	3	155	84	133	0,05%	1	29,79%	1	6	4,7%	0	0
	0.10 to <0.15	8 842	3 291	61	10 853	0,10%	96	33,23%	3	1 785	16,4%	4	-9
	0.15 to <0.25	62 901	117 630	72	147 132	0,20%	549	38,12%	2	30 157	20,5%	112	-145
	0.25 to <0.50	195 585	239 435	63	348 085	0,40%	1 105	38,14%	2	111 337	32,0%	531	-934
	0.50 to <0.75	301 557	211 399	63	437 619	0,70%	1 080	38,04%	2	187 908	42,9%	1 162	-1 449
	0.75 to <2.50	914 275	439 428	54	1 160 242	1,68%	2 060	38,97%	3	770 688	66,4%	7 566	-7 816
	0.75 to <1.75	562 614	239 022	58	702 711	1,30%	1 078	39,62%	3	466 446	66,4%	3 616	-3 430
	1.75 to <2.5	351 661	200 406	49	457 530	2,27%	982	37,98%	2	304 242	66,5%	3 950	-4 387
	2.50 to <10.00	1 438 019	853 338	35	1 744 030	5,49%	2 617	35,52%	3	1 458 539	83,6%	33 967	-39 214
	2.5 to <5	581 973	419 089	33	728 637	3,68%	994	35,77%	3	543 395	74,6%	9 595	-10 287
	5 to <10	856 046	434 249	36	1 015 392	6,79%	1 623	35,33%	2	915 143	90,1%	24 372	-28 927
	10.00 to <100.00	1 063 133	410 580	37	1 215 420	12,62%	2 733	34,48%	3	1 304 182	107,3%	53 003	-75 769
	10 to <20	1 029 386	403 448	37	1 179 633	11,48%	2 587	34,45%	3	1 260 068	106,8%	46 662	-67 905
	20 to <30	157	0	0	157	23,60%	2	39,78%	3	223	141,7%	15	-186
	30.00 to <100.00	33 590	7 132	29	35 629	50,15%	144	35,45%	3	43 891	123,2%	6 326	-7 679
	100.00 (Default)	478 070	157 591	25	517 704	100,00%	636	45,87%	4	227 372	43,9%	242 376	-268 098
Subtotal Corporate SME		4 462 385	2 432 847		5 581 218		10 877			4 091 973		338 720	-393 434

A-IRB	PD scale	On-balance sheet exposures	Off-balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
SECURED BY REAL ESTATE SME													
	0.00 to <0.15	408 241	6 311	81	413 342	0,10%	5 508	15,28%	0	12 103	2,9%	63	-29
	0.00 to <0.10	519	692	68	988	0,07%	25	28,53%	0	43	4,4%	0	-1
	0.10 to <0.15	407 722	5 619	82	412 354	0,10%	5 483	15,24%	0	12 060	2,9%	63	-28
	0.15 to <0.25	334 866	9 401	81	355 138	0,20%	3 692	16,74%	0	18 975	5,3%	117	-65
	0.25 to <0.50	102 366	4 606	81	121 036	0,38%	1 221	17,52%	0	10 814	8,9%	79	-51
	0.50 to <0.75	85 915	3 096	94	112 424	0,63%	1 200	17,03%	0	13 949	12,4%	120	-74
	0.75 to <2.50	102 904	3 634	91	140 490	1,37%	1 348	17,07%	0	28 959	20,6%	329	-156
	0.75 to <1.75	70 859	1 711	83	91 121	1,14%	884	17,22%	0	17 088	18,8%	179	-78
	1.75 to <2.5	32 045	1 923	98	49 368	1,79%	464	16,80%	0	11 872	24,0%	150	-79
	2.50 to <10.00	87 847	1 282	98	110 199	4,50%	1 242	16,85%	0	44 373	40,3%	830	-286
	2.5 to <5	45 470	883	100	56 249	3,25%	567	17,10%	0	19 847	35,3%	314	-142
	5 to <10	42 376	399	93	53 950	5,81%	675	16,58%	0	24 525	45,5%	516	-144
	10.00 to <100.00	45 437	5 676	85	77 180	11,40%	748	16,83%	0	43 305	56,1%	1 524	-397
	10 to <20	40 472	5 676	85	72 214	8,61%	688	16,71%	0	39 688	55,0%	1 047	-292
	20 to <30	81	0	0	81	25,30%	5	17,06%	0	65	80,1%	3	0
	30.00 to <100.00	4 884	0	0	4 884	52,40%	55	18,49%	0	3 552	72,7%	473	-104
	100.00 (Default)	29 404	5	46	29 406	100,00%	388	28,21%	0	24 783	84,3%	6 351	-5 443
Subtotal Secured by Real Estate SME		1 196 980	34 011		1 359 214		15 347			197 261		9 413	-6 500

A-IRB	PD scale	On-balance sheet exposures	Off-balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
SECURED BY REAL ESTATE NON SME													
	0.00 to <0.15	12 063 935	96 046	100	12 159 949	0,09%	216 904	25,09%	0	690 899	5,7%	2 663	-4 063
	0.00 to <0.10	4 691 478	12 039	100	4 703 504	0,08%	109 297	40,37%	0	400 725	8,5%	1 511	-3 911
	0.10 to <0.15	7 372 458	84 007	100	7 456 446	0,10%	107 607	15,46%	0	290 173	3,9%	1 152	-152
	0.15 to <0.25	4 628 323	66 808	100	4 816 159	0,20%	60 578	19,68%	0	394 399	8,2%	1 846	-923
	0.25 to <0.50	2 190 187	22 996	100	2 325 947	0,39%	31 370	20,32%	0	326 398	14,0%	1 839	-1 044
	0.50 to <0.75	1 249 714	7 935	100	1 359 004	0,67%	19 113	21,75%	0	302 593	22,3%	2 020	-1 291
	0.75 to <2.50	1 240 615	7 376	100	1 354 131	1,61%	19 789	23,93%	0	580 007	42,8%	5 271	-3 677
	0.75 to <1.75	738 480	5 094	100	802 398	1,24%	11 806	24,11%	0	296 896	37,0%	2 423	-1 916
	1.75 to <2.5	502 135	2 283	100	551 733	2,15%	7 983	23,66%	0	283 112	51,3%	2 848	-1 761
	2.50 to <10.00	982 371	2 034	100	1 112 863	4,84%	16 979	21,10%	0	788 257	70,8%	11 700	-5 176
	2.5 to <5	508 062	1 470	100	574 763	3,42%	8 762	21,14%	0	345 518	60,1%	4 255	-2 064
	5 to <10	474 309	564	99	538 099	6,35%	8 217	21,05%	0	442 740	82,3%	7 444	-3 112
	10.00 to <100.00	508 670	1 474	100	549 536	17,70%	8 251	19,42%	0	544 994	99,2%	20 516	-7 635
	10 to <20	411 942	1 474	100	452 807	11,11%	6 849	18,28%	0	414 791	91,6%	9 591	-3 076
	20 to <30	1 635	0	0	1 635	25,30%	64	14,17%	0	1 427	87,3%	59	-8
	30.00 to <100.00	95 094	0	0	95 094	48,95%	1 338	24,95%	0	128 777	135,4%	10 866	-4 551
	100.00 (Default)	462 936	11	76	462 945	100,00%	6 506	38,18%	0	469 674	101,5%	156 367	-119 698
Subtotal Secured by Real Estate Non SME		23 326 751	204 681		24 140 533		379 490			4 097 223		202 222	-143 506

A-IRB	PD scale	On-balance sheet exposures	Off-balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
QUALIFYING REVOLVING RETAIL EXPOSURES													
	0.00 to <0.15	125 323	1 058 033	38	529 563	0,08%	611 288	60,35%	0	16 866	3,2%	255	-649
	0.00 to <0.10	97 544	680 924	48	422 278	0,08%	437 747	65,86%	0	14 221	3,4%	214	-536
	0.10 to <0.15	27 779	377 109	21	107 285	0,10%	173 541	38,65%	0	2 646	2,5%	41	-113
	0.15 to <0.25	113 753	591 713	25	260 454	0,20%	287 813	61,48%	0	17 825	6,8%	315	-617
	0.25 to <0.50	112 402	244 566	30	184 549	0,40%	198 046	62,98%	0	22 782	12,3%	459	-877
	0.50 to <0.75	83 982	118 160	35	125 817	0,71%	116 208	66,04%	0	25 788	20,5%	587	-1 094
	0.75 to <2.50	125 319	100 715	44	169 373	1,71%	135 323	71,37%	0	72 831	43,0%	2 072	-3 148
	0.75 to <1.75	69 316	63 221	43	96 460	1,29%	79 188	70,03%	0	33 140	34,4%	868	-1 501
	1.75 to <2.5	56 003	37 493	45	72 913	2,26%	56 135	73,14%	0	39 692	54,4%	1 205	-1 647
	2.50 to <10.00	104 601	54 826	43	128 070	5,84%	105 906	75,28%	0	134 870	105,3%	5 677	-6 056
	2.5 to <5	46 882	24 193	45	57 776	3,78%	44 291	74,29%	0	45 910	79,5%	1 624	-1 964
	5 to <10	57 719	30 632	41	70 294	7,54%	61 615	76,09%	0	88 960	126,6%	4 053	-4 092
	10.00 to <100.00	59 872	51 935	20	70 198	20,80%	128 770	74,88%	0	128 524	183,1%	11 292	-11 123
	10 to <20	45 975	49 937	20	55 971	13,79%	115 842	74,03%	0	97 926	175,0%	5 843	-7 163
	20 to <30	2 610	561	16	2 698	26,01%	2 656	69,67%	0	5 727	212,3%	491	-491
	30.00 to <100.00	11 287	1 437	17	11 529	53,61%	10 272	80,24%	0	24 871	215,7%	4 958	-3 469
	100.00 (Default)	48 905	9 510	6	49 436	100,00%	68 373	74,93%	0	92 163	186,4%	32 715	-31 281
Subtotal Qualifying Revolving Retail Exposures		774 156	2 229 458		1 517 460		1 651 727			511 650		53 372	-54 845

A-IRB	PD scale	On-balance sheet exposures	Off-balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
OTHER RETAIL - SME													
	0.00 to <0.15	70 382	136 193	32	113 813	0,10%	20 521	32,75%	0	7 197	6,3%	36	-191
	0.00 to <0.10	2 675	13 860	44	8 728	0,05%	241	38,22%	0	397	4,5%	2	-32
	0.10 to <0.15	67 708	122 334	31	105 086	0,10%	20 280	32,30%	0	6 800	6,5%	34	-159
	0.15 to <0.25	208 630	130 609	34	285 090	0,19%	22 174	29,99%	0	26 802	9,4%	162	-855
	0.25 to <0.50	238 480	85 075	38	362 770	0,35%	15 992	30,14%	0	50 944	14,0%	384	-2 721
	0.50 to <0.75	159 874	64 684	44	283 704	0,59%	10 999	29,46%	0	52 090	18,4%	493	-2 785
	0.75 to <2.50	149 526	42 774	36	270 143	1,25%	12 427	29,97%	0	68 729	25,4%	1 024	-4 334
	0.75 to <1.75	102 776	27 337	33	181 221	1,02%	7 949	29,78%	0	43 237	23,9%	555	-2 618
	1.75 to <2.5	46 750	15 437	42	88 922	1,72%	4 478	30,36%	0	25 492	28,7%	469	-1 717
	2.50 to <10.00	64 081	17 340	42	114 371	4,01%	7 133	30,11%	0	38 631	33,8%	1 424	-3 469
	2.5 to <5	31 780	9 839	45	57 194	2,87%	3 498	29,88%	0	18 317	32,0%	499	-1 436
	5 to <10	32 301	7 501	38	57 177	5,15%	3 635	30,33%	0	20 314	35,5%	926	-2 033
	10.00 to <100.00	84 930	76 339	42	192 639	12,64%	15 701	32,72%	0	88 707	46,0%	8 432	-15 706
	10 to <20	69 030	60 513	45	172 133	8,13%	14 278	32,30%	0	73 484	42,7%	4 703	-10 436
	20 to <30	1 393	173	44	1 469	25,30%	241	43,30%	0	1 250	85,1%	161	-438
	30.00 to <100.00	14 507	15 652	29	19 037	52,40%	1 182	35,77%	0	13 973	73,4%	3 568	-4 832
	100.00 (Default)	85 393	77 740	24	103 771	100,00%	5 554	57,22%	0	136 894	131,9%	48 426	-53 043
Subtotal Other Retail SME		1 061 297	630 754		1 726 301		110 501			469 995		60 381	-83 105

A-IRB	PD scale	On-balance sheet exposures	Off-balance- sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
OTHER RETAIL - NON SME													
	0.00 to <0.15	102 812	23 476	50	114 627	0,09%	5 569	20,65%	0	5 819	5,1%	22	-33
	0.00 to <0.10	10 289	7 122	45	13 463	0,05%	736	28,06%	0	590	4,4%	2	-4
	0.10 to <0.15	92 524	16 354	53	101 164	0,10%	4 833	19,66%	0	5 229	5,2%	20	-29
	0.15 to <0.25	395 934	29 132	44	413 765	0,20%	34 963	21,88%	0	38 702	9,4%	180	-183
	0.25 to <0.50	546 775	19 041	56	570 430	0,40%	55 953	27,61%	0	104 606	18,3%	623	-531
	0.50 to <0.75	300 202	7 522	60	314 771	0,69%	32 561	29,73%	0	84 547	26,9%	645	-621
	0.75 to <2.50	261 769	8 928	58	282 081	1,60%	31 938	29,50%	0	103 849	36,8%	1 320	-1 189
	0.75 to <1.75	169 786	6 793	61	182 733	1,27%	20 708	29,92%	0	64 400	35,2%	691	-686
	1.75 to <2.5	91 983	2 135	49	99 348	2,21%	11 230	28,73%	0	39 449	39,7%	628	-503
	2.50 to <10.00	125 122	3 065	66	137 818	5,15%	17 129	30,25%	0	65 030	47,2%	2 175	-1 617
	2.5 to <5	56 615	1 544	54	62 410	3,52%	7 524	28,88%	0	26 880	43,1%	633	-520
	5 to <10	68 507	1 521	78	75 409	6,49%	9 605	31,39%	0	38 150	50,6%	1 542	-1 097
	10.00 to <100.00	64 338	3 949	31	68 001	19,62%	8 170	30,85%	0	43 141	63,4%	4 050	-4 456
	10 to <20	47 142	2 840	34	50 573	11,14%	6 359	30,92%	0	28 962	57,3%	1 739	-2 025
	20 to <30	5 233	21	20	5 237	25,30%	690	34,39%	0	4 645	88,7%	456	-734
	30.00 to <100.00	11 964	1 088	21	12 191	52,40%	1 121	29,04%	0	9 534	78,2%	1 855	-1 698
	100.00 (Default)	148 771	2 566	24	149 379	100,00%	14 833	61,78%	0	184 537	123,5%	77 521	-80 983
Subtotal Other Retail Non SME		1 945 723	97 680		2 050 873		201 116			630 232		86 535	-89 614
Total (all exposures classes)		37 885 533	9 556 375		44 303 515		2 370 943			16 360 274		1 260 095	-1 309 518

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

TABLE 48 – TEMPLATE EU CR6-A – SCOPE OF THE USE OF IRB AND SA APPROACHES

(Thousand euros)

	a	b	c	d	e
	Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to IRB Approach (%)	Percentage of total exposure value subject to a roll-out plan (%)
1 Central governments or central banks	0	26,506,184	100%	0%	0%
1.1 Of which Regional governments or local authorities		1,173,584	100%	0%	0%
1.2 Of which Public sector entities		406,662	100%	0%	0%
2 Institutions	0	1,571,169	100%	0%	0%
3 Corporates	14,578,082	24,134,044	6.5%	22.4%	71.1%
3.1 Of which Corporates - Specialised lending, excluding slotting approach		24,134,044	6.5%	22.4%	71.1%
3.2 Of which Corporates - Specialised lending under slotting approach		22,990,821	6.9%	23.6%	69.5%
4 Retail	30,793,542	39,523,207	1.3%	17.1%	81.6%
4.1 of which Retail – Secured by real estate SMEs		1,410,317	0.3%	0.3%	99.4%
4.2 of which Retail – Secured by real estate non-SMEs		25,088,798	0.1%	3.8%	96.2%
4.3 of which Retail – Qualifying revolving		1,810,278	0%	0%	100%
4.4 of which Retail – Other SMEs		3,778,510	15.9%	10.7%	73.4%
4.5 of which Retail – Other non-SMEs		7,435,304	1.6%	70.8%	27.6%
5 Equity	1,282,717	1,470,418	8.4%	0%	91.6%
6 Other non-credit obligation assets	5,892,100	5,892,100	1.2%	0%	98.8%
7 Total	52,546,441	99,097,123	34.2%	11.4%	54.4%

TABLE 49 – TEMPLATE EU CR7-A – IRB APPROACH – DISCLOSURE OF THE EXTENT OF THE USE OF CRM TECHNIQUES

(Thousand euros)

A-IRB		Total exposures	Credit risk Mitigation techniques										Credit risk Mitigation methods in the calculation of RWEAs			
			Funded credit Protection (FCP)										Unfunded credit Protection (UFCP)		RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and substitution effects)
			Part of exposures covered by Financial Collaterals (%)	Part of exposures covered by Other eligible collaterals (%)	Part of exposures covered by Immovable property Collaterals (%)	Part of exposures covered by Receivables (%)	Part of exposures covered by Other physical collateral (%)	Part of exposures covered by Other funded credit protection (%)	Part of exposures covered by Cash on deposit (%)	Part of exposures covered by Life insurance policies (%)	Part of exposures covered by Instruments held by a third party (%)	Part of exposures covered by Guarantees (%)	Part of exposures covered by Credit Derivatives (%)			
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	
1	Central governments and central banks	0														
2	Institutions	0														
3	Corporates	14,425,211	2.88%	27.79%	18.39%	0.00%	9.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	11,341,650	11,229,357	
3.1	Of which Corporates – SMEs	5,581,218	2.68%	44.88%	28.61%	0.00%	16.27%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4,132,893	4,091,973	
3.2	Of which Corporates – Specialised lending	916,077	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	783,198	775,444	
3.3	Of which Corporates – Other	7,927,916	3.35%	18.97%	13.31%	0.00%	5.66%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6,425,559	6,361,940	
4	Retail	30,793,542	1.27%	83.09%	82.48%	0.00%	0.61%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6,024,334	5,906,209	
4.1	Of which Retail – Immovable property SMEs	1,359,214	0.23%	99.35%	98.85%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	201,206	197,261	
4.2	Of which Retail – Immovable property non-SMEs	24,140,533	0.05%	98.76%	98.74%	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4,179,167	4,097,223	
4.3	Of which Retail – Qualifying revolving	1,517,460	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	521,883	511,650	
4.4	Of which Retail – Other SMEs	1,726,301	6.53%	17.02%	9.18%	0.00%	7.84%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	479,394	469,995	
4.5	Of which Retail – Other non-SMEs	2,050,034	12.84%	4.83%	2.90%	0.00%	1.93%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	642,682	630,081	
5	Total	45,218,753	1.78%	65.45%	62.03%	0.00%	3.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	17,365,984	17,135,566	

TABLE 50 – TEMPLATE EU CR10.1 – SPECIALISED LENDING

(Thousand euros)

Regulatory categories	Remaining maturity	Specialised lending : Project finance (Slotting approach)			Exposure value	Risk weighted exposure amount	Expected loss amount
		On-balancesheet exposure	Off-balancesheet exposure	Risk weight			
		a	b	c	d	e	f
Category 1	Less than 2.5 years	0	0	50%	0	0	0
	Equal to or more than 2.5 years	17,708	0	70%	17,736	11,634	71
Category 2	Less than 2.5 years	0	0	70%	0	0	0
	Equal to or more than 2.5 years	814,734	157,573	90%	924,446	744,403	7,396
Category 3	Less than 2.5 years	0	0	115%	0	0	0
	Equal to or more than 2.5 years	82,089	15,817	115%	84,493	97,167	2,366
Category 4	Less than 2.5 years	0	0	250%	0	0	0
	Equal to or more than 2.5 years	21,066	7,326	250%	23,741	51,568	1,899
Category 5	Less than 2.5 years	0	0	-	0	0	0
	Equal to or more than 2.5 years	634	2,290	-	2,784	0	1,392
Total	Less than 2.5 years	0	0		0	0	0
	Equal to or more than 2.5 years	936,230	183,007		1,053,200	904,772	13,124

TABLE 51 – TEMPLATE EU CR10.5 – EQUITY EXPOSURES UNDER THE SIMPLE RISK WEIGHTED APPROACH

(Thousand euros)

	Equity exposures under the simple risk-weighted approach				Risk weighted exposure amount	Expected loss amount
	On-balancesheet exposure	Off-balancesheet exposure	Risk weight	Exposure value		
	a	b	c	d	e	f
Private equity exposures	874,595	0	190%	874,595	1,661,731	6,997
Exchange-traded equity exposures	3,294	0	290%	3,294	9,551	26
Other equity exposures	51,093	0	370%	51,093	189,043	1,226
Total	928,982	0		928,982	1,860,325	8,249

The following table shows the breakdown of RWA flows in the last quarter of 2021:

TABLE 52 – TEMPLATE EU CR8 – RWEA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER THE IRB APPROACH

(Thousand euros)

	Risk weighted exposure amount
	a
1 Risk weighted exposure amount as at the end of the previous reporting period	22,225
2 Asset size (+/-)	-180
3 Asset quality (+/-)	0
4 Model updates (+/-)	0
5 Methodology and policy (+/-)	0
6 Acquisitions and disposals (+/-)	0
7 Foreign exchange movements (+/-)	42
8 Other (+/-)	174
9 Risk weighted exposure amount as at the end of the reporting period	22,261

7.7.5. Standardised approach – exposures and risk weights by regulatory risk classes

The table below presents the break down as at the 31 December 2021 of 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

TABLE 53 – TEMPLATE EU CR5 – STANDARDISED APPROACH

(Thousand euros)

Exposure classes	Risk weight															Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1 Central governments or central banks	27,683,030	0	0	0	9,718	0	30,160	0	0	1,062,615	436,663	0	0	0	0	29,222,187	4,133
2 Regional government or local authorities	0	0	0	0	740,890	0	0	0	0	0	0	0	0	0	0	740,890	
3 Public sector entities	0	0	0	0	0	0	31,199	0	0	295,996	55,936	0	0	0	0	383,131	
4 Multilateral development banks	18,790	0	0	0	0	0	0	0	0	0	0	0	0	0	0	18,790	
5 International organisations																0	
6 Institutions	0	24,439	0	0	685,925	0	398,794	0	0	107,789	4,467	0	0	0	0	1,221,414	315,120
7 Corporates	0	0	0	0	0	0	0	0	0	4,764,316	131,099	0	0	0	0	4,895,415	40,138
8 Retail	0	0	0	0	0	0	0	0	5,788,257	0	0	0	0	0	0	5,788,257	1,962
9 Secured by mortgages on immovable property	0	0	0	0	0	1,078,456	503,864	0	71,197	175,633	86,273	0	0	0	0	1,915,422	
10 Exposures in default	0	0	0	0	0	0	0	0	0	381,045	96,122	0	0	0	0	477,167	
11 Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	6,432	0	0	0	0	6,432	
12 Covered bonds																0	
13 Institutions and corporates with a short-term credit assessment																0	
14 Unit or shares in collective investment undertakings	0	0	0	0	0	0	0	0	0	0	20,449	0	0	0	89,372	109,822	
15 Equity	0	0	0	0	0	0	0	0	0	1,333	0	6,368	0	0	0	7,701	
16 Other items	0	0	0	0	0	0	0	0	0	70,178	0	0	0	0	0	70,178	
17 TOTAL	27,701,821	24,439	0	0	1,436,533	1,078,456	964,017	0	5,859,454	6,858,906	837,441	6,368	0	0	89,372	44,856,807	361,353

8. 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.

For the counterparty credit risk management, the Bank defines of exposure limits to specific counterparties, establishes bilateral contracts to guarantee exposures resulting from derivatives and requests collaterals within the scope of these agreements as preferred tools to mitigate this risk.

The internal procedures of the Group define 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 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.

The Group changed in 2021 the approach for measuring counterparty credit risk. Until June 2021, the financial collateral comprehensive method was used, 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. From June-2021 on, the Standardised Approach for Counterparty Credit Risk (SA-CCR) as established in article 274, Section 3, Chapter 6, Title II, Part III of the CRR has been used.

After estimating the exposures as at 2021 and 2020, 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 SA-CCR method, the exposure for derivatives is built through the calculation of Replacement Cost and Potential Future exposure for these transactions.

The market values of the operations are directly collected from the Bank's front-end application, in which the management and evaluation of the operations is carried out.

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. Within this framework, 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 2021, 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 54 – TEMPLATE EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

(Thousand euros)

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU1	EU – Original Exposure Method (for derivatives)								
EU2	EU – Simplified SA-CCR (for derivatives)								
1	SA-CCR (for derivatives)	114,402	99,895		1.4	300,015	300,015	300,015	234,365
2	IMM (for derivatives and SFTs)								
2a	Of which securities financing transactions netting sets								
2b	Of which derivatives and long settlement transactions netting sets								
2c	Of which from contractual cross-product netting sets								
3	Financial collateral simple method (for SFTs)								
4	Financial collateral comprehensive method (for SFTs)					58,582	2,630	2,630	2,630
5	VaR for SFTs								
6	Total					358,597	302,645	302,645	236,995

TABLE 55 – TEMPLATE EU CCR2 – TRANSACTIONS SUBJECT TO OWN FUNDS REQUIREMENTS FOR CVA RISK

(Thousand euros)

		a	b
		Exposure value	RWEA
1	Total transactions subject to the Advanced method	0	0
2	(i) VaR component (including the 3× multiplier)		0
3	(ii) stressed VaR component (including the 3× multiplier)		0
4	Transactions subject to the Standardised method	103,697	51,426
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	0	0
5	Total transactions subject to own funds requirements for CVA risk	103,697	51,426

TABLE 56 - TEMPLATE EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY EXPOSURE CLASS AND RISK WEIGHTS

(Thousand euros)

Exposure classes		Risk weight											Total exposure value
		a	b	c	d	e	f	g	h	i	j	k	
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	4,133											4,133
2	Regional government or local authorities												0
3	Public sector entities												0
4	Multilateral development banks												0
5	International organisations												0
6	Institutions		211,579			47,688	47,367			5,460	3,026		315,120
7	Corporates									40,138			40,138
8	Retail								1,962				1,962
9	Institutions and corporates with a short-term credit assessment												0
10	Other items												0
11	Total exposure value	4,133	211,579	0	0	47,688	47,367	0	1,962	45,598	3,026	0	361,353

TABLE 57 – TEMPLATE EU CCR4 – IRB APPROACH – CCR EXPOSURES BY EXPOSURE CLASS AND PD SCALE

(Thousand euros)

	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
		a	b	c	d	e	f	g
CORPORATE	0.00 to <0.15	0	0,00%	0	0,00%	0	0	0,0%
	0.15 to <0.25	0	0,00%	0	0,00%	0	0	0,0%
	0.25 to <0.50	0	0,00%	0	0,00%	0	0	0,0%
	0.50 to <0.75	0	0,00%	0	0,00%	0	0	0,0%
	0.75 to <2.50	9 856	1,30%	1	42,26%	0	13 050	132,4%
	2.50 to <10.00	5 892	3,70%	1	42,26%	0	9 787	166,1%
	10.00 to <100.00	0	0,00%	0	0,00%	0	0	0,0%
	100.00 (Default)	0	0,00%	0	0,00%	0	0	0,0%
Subtotal Corporate		15 748	2,20%	2	42,26%	0	22 836	145,0%
OTHER RETAIL – SME								
	0.00 to <0.15							
	0.15 to <0.25							
	0.25 to <0.50							
	0.50 to <0.75							
	0.75 to <2.50							
	2.50 to <10.00							
	10.00 to <100.00							
	100.00 (Default)							
Subtotal Other Retail SME								
Total (all CCR relevant exposure classes)		15 748	2,20%	2	42,26%	0	22 836	145,0%

TABLE 58 – TEMPLATE EU CCR5 – COMPOSITION OF COLLATERAL FOR CCR EXPOSURES

(Thousand euros)

	a	b	c	d	e	f	g	h
Collateral type	Collateral used in derivative 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	Segregated	Unsegregated	Segregated	Unsegregated
1 Cash – domestic currency	21,567	0	341,901	0	0	0	0	0
2 Cash – other currencies	0	0	0	0	0	0	0	0
3 Domestic sovereign debt	0	0	0	0	0	55,952	0	0
4 Other sovereign debt	0	0	0	0	0	0	0	0
5 Government agency debt	0	0	0	0	0	0	0	0
6 Corporate bonds	0	0	0	0	0	0	0	0
7 Equity securities	0	0	0	0	0	0	0	0
8 Other collateral	0	0	0	0	0	0	0	0
9 Total	21,567	0	341,901	0	0	55,952	0	0

TABLE 59 – TEMPLATE EU CCR8 – EXPOSURES TO CCPS

(Thousand euros)

	a	b
	Exposure value	RWEA
1 Exposures to QCCPs (total)		6,862
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	214,209	6,862
3 (i) OTC derivatives	211,579	4,232
4 (ii) Exchange-traded derivatives	0	0
5 (iii) SFTs	2,630	2,630
6 (iv) Netting sets where cross-product netting has been approved	0	0
7 Segregated initial margin	194,542	
8 Non-segregated initial margin	0	0
9 Prefunded default fund contributions	0	0
10 Unfunded default fund contributions	0	0
11 Exposures to non-QCCPs (total)		0
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	0	0
13 (i) OTC derivatives	0	0
14 (ii) Exchange-traded derivatives	0	0
15 (iii) SFTs	0	0
16 (iv) Netting sets where cross-product netting has been approved	0	0
17 Segregated initial margin	0	
18 Non-segregated initial margin	0	0
19 Prefunded default fund contributions	0	0
20 Unfunded default fund contributions	0	0

8.1. Wrong Way risk

The Wrong Way risk corresponds to the risk of a given exposure being negatively 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) represent 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 2021, this risk was not considered material, within the scope of the assessment carried out.

9. Credit risk mitigation techniques

9.1. 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 Division 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 physical collaterals;
- Receivables;
- First demand guarantees, issued by banks or other entities with rating 7 or better on the Rating Master Scale;
- Personal guarantees, when the persons are classified with rating 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 instrument eligible for own funds (e.g. shares, preferred shares or subordinated bonds) 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 rating of the client by the rating of the guarantor, (if the rating of the guarantor is better than the client's), when the protection is formalized through:

Regarding guarantees and credit derivatives, it can be applied the substitution principle by replacing the rating of the client by the rating of the guarantor, (if the rating 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.

9.2. 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.

9.3. 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.

The evaluations are performed by external expert valuers and the analyse and ratification process is centralized in the Appraisals Unit, within the Rating Division, which is independent of the business areas.

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, 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 no. 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 Banco de Portugal and e CRR 575/2013, the Bank monitors the respective values through market indexes. If the index is lower than 0.9 (meaning a devaluation above 10%), the Bank revalues the property, 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 thousand euros;
- ii. Whenever it comes to residential property, an updated value is made using the property value review algorithms, resident in the internal Valuation Database, comparing the property under review with identical properties recently evaluated, in the same location.
- iii. 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 Banco de 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 a potential 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 countryside 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 provided to the Bank by a specialized external entity that has been collecting and processing information on the Portuguese real estate market for over a decade.

When evaluating properties, the Bank already considers environmental factors, namely in terms of physical risk factors, and the evaluator is responsible for collecting and disclosing information on:

- Flood risk: property built in the vicinity of water lines.
- Fire hazards: identification of fuel elements in the building structure. Coverage type.
- Risk of soil contamination or the existence of potentially hazardous materials included in the construction.

The conclusions regarding the physical risk factors identified are incorporated into the Bank's management processes, namely in terms of the management of insurance coverage associated with properties.

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 table below shows a breakdown of unsecured and secured credit risk exposures and credit risk exposures secured by various credit risk mitigants for all loans and debt securities including the carrying amounts of the total population which are in default in December 2021.

TABLE 60 – TEMPLATE EU CR3 – CRM TECHNIQUES OVERVIEW: DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

(Thousand euros)

		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	23,251,436	41,676,941	34,019,446	7,657,495	0
2	Debt securities	21,406,426	898,127	156,547	741,580	
3	Total	44,657,863	42,575,068	34,175,993	8,399,075	0
4	Of which non-performing exposures	1,740,359	1,101,015	947,998	153,017	0
EU-5	Of which defaulted	1,739,722	1,100,958			

The next table below shows credit risk exposure and CRM effects in the standardized approach as well as related RWA and average risk weights broken down by regulatory exposure classes and a split in on- and off-balance sheet exposures in December 2021.

TABLE 61 – TEMPLATE EU CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

(Thousand euros)

Exposure classes		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWEA	RWEA density (%)
		a	b	c	d	e	f
1	Central governments or central banks	24,467,915	462,437	28,970,687	251,499	1,734,633	5.94%
2	Regional government or local authorities	1,164,045	76,457	737,989	2,901	148,178	20.00%
3	Public sector entities	362,288	99,606	361,656	21,475	395,499	103.23%
4	Multilateral development banks	18,790	0	18,790	0	0	0.00%
5	International organisations						
6	Institutions	1,156,674	818,244	1,194,192	27,222	451,561	36.97%
7	Corporates	5,078,633	3,401,885	4,554,814	340,601	4,555,685	93.06%
8	Retail	5,879,366	632,895	5,785,691	2,566	4,232,949	73.13%
9	Secured by mortgages on immovable property	1,914,737	286,668	1,817,826	97,597	926,619	48.38%
10	Exposures in default	484,232	69,461	463,176	13,991	525,228	110.07%
11	Exposures associated with particularly high risk	6,314	14,918	6,314	119	9,649	150.00%
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings	109,822	0	109,822	0	90,654	82.55%
15	Equity	7,701	0	7,701	0	17,253	224.04%
16	Other items	70,178	0	70,178	0	70,178	100.00%
17	TOTAL	40,720,695	5,862,570	44,098,835	757,972	13,158,087	29.33%

10. Equity exposures in the banking book

The Group holds equity exposures in the Banking Book, with stable character and with the objective of creating value. The holding of these positions, which include shares and venture capital fund participation units / restructured companies, complies with at least one of the following objectives:

- The development of companies or projects of strategic interest for the Group;
- Generating a return or opportunities for growth of the banking business;
- The development of companies with appreciation potential;
- The turnaround of viable companies under recovering processes, 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, according to the rules established in IFRS9 for this type of assets. Dividends are recognized in the income statement when the right to receive is attributed.

In compliance with the provisions of Article 447 of the CRR, we present in the table below the exposures on shares of the Banking Portfolio on 31/12/2021 and 31/12/2020:

TABLE 62 – EQUITY EXPOSURES IN THE BANKING BOOK

(Thousand euros)

	Listed Shares		Unlisted Shares <i>Private equity</i>		Other capital instruments ^(*)		Total	
	Dec 2021	Dec 2020	Dec 2021	Dec 2020	Dec 2021	Dec 2020	Dec 2021	Dec 2020
Acquisition cost / Notional amount	25,508	35,759	172,894	86,293			198,402	122,052
Fair value	3,325	4,401	69,092	79,334			72,418	83,735
Market price	3,325	4,401	69,092	79,334			72,418	83,735
Balance sheet value	3,325	4,401	69,092	79,334			72,418	83,735
Gains or losses arising from sales and settlements in the period							18,554	11,566
Total unrealised gains or losses							-30,242	-38,317
Total latent revaluation gains or losses							-125,985	-38,317

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

(*) Venture capital funds, similar to equity.

- Gains or losses arising from sales and settlements in the period: results before taxes.
- 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.
- 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 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 the table below:

TABLE 63 – EQUITY EXPOSURES

(Thousand euros)

	Risk positions		Risk weighted assets	
	Dec 2021	Dec 2020	Dec 2021	Dec 2020
Venture capital funds	913,695	992,881	1,688,927	1,881,831
Financial participations (CRR 48)	354,012	355,130	885,031	887,824
Other equities	105,991	131,027	232,711	425,251
TOTAL	1,373,699	1,479,037	2,806,669	3,194,906

Note: Includes Venture capital funds which, under the Look-Through method, are treated by the standardised approach or by the simple risk weight.

11. Securitisation operations

11.1. Description of the activities and operations

On 31 December 2021, the Group had five ongoing credit securitisation transactions originated by the operation in Portugal. Three are traditional securitisation transactions (Magellan No.1, No.3 and No.4) and the other two are synthetic securitisation transactions (Caravela SME No.3 and No.4).

Since 1998, the Group has carried out securitisation transactions supported on portfolios of different types of assets and envisaging 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. These transactions - involving mortgage loans, car loans, consumer loans and companies' loans - were carried out with the purpose of obtaining additional funding for the Group's business and, under certain circumstances, to promote a more efficient management of the Bank's balance sheet, particularly its equity. The universe 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 2021, 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 period. 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.

Taking advantage of improved market conditions, namely 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) of the CRR, 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 259 and 263 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 low materiality 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.

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 2021, are summarised in the next table:

TABLE 64 – 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 RWA 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 RWA 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, on 31st December 2021, could be pledged by the Bank as collateral within the Eurosystem in the scope of its financing operations.

11.2. 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 SIC⁴ 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.

⁴ SIC – Standard Interpretations Committee

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 SPEs 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 the same segment of clients.

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 (CLNs). 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 totally collateralizes the responsibilities with the Bank under the CDS.

Regarding Magellan No.3, which was 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.

In traditional securitisations, 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 in case the SPE is not consolidated from the beginning, corresponding to the difference between the sale value of the assets and their accounting value. In case 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.

11.3. Own funds requirements

On 31 December 2021, 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 244 and 245, 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 both 2021 and 2020 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, the External Ratings Based Approach – SEC-ERBA – was used, in accordance with article 263, 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 2021 to compute the own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

For the positions held as an originator entity, the Internal Ratings Based Approach – SEC-IRBA – was used, in accordance with the CRR, article 259, Subsection 4, Section 3, Chapter 5, Title II, Part III.

The risk weighted assets for securitisation operations, at the end of 2021 and 2020, are shown in next tables.

On 31 December 2021 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.

TABLE 65 - TEMPLATE EU-SEC1 - SECURITISATION EXPOSURES IN THE NON-TRADING BOOK

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Institution acts as originator						Institution acts as sponsor				Institution acts as investor				
	Traditional		Synthetic		Sub-total		Traditional		Sub-total		Traditional		Sub-total		
	STS	Non-STS	STS	Non-STS	STS	Non-STS	STS	Non-STS	STS	Non-STS	STS	Non-STS	STS	Non-STS	STS
	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT	of which SRT
1 Total exposures		86,375		1,022,710	1,022,710	86,375						101		101	
2 Retail (total)		86,375				86,375						101		101	
3 residential mortgage		86,375				86,375						101		101	
4 credit card															
5 other retail exposures															
6 re-securitisation															
7 Wholesale (total)				1,022,710	1,022,710	1,022,710									
8 loans to corporates				395,657	395,657	395,657									
9 commercial mortgage						0									
10 lease and receivables				627,053	627,053	627,053									
11 other wholesale															
12 re-securitisation															

TABLE 66 - TEMPLATE EU-SEC3 - SECURITISATION EXPOSURES IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS - INSTITUTION ACTING AS ORIGINATOR OR AS SPONSOR

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure values (by RW bands/deductions)				Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap				
	RW ≤ 20 %	RW > 20 % e até 50 %	RW > 50 % e até 100 %	RW > 100 % e até 1250 %	RW 1250 %/deduções	SEC-IRBA	SEC-ERBA (incluindo IAA)	SEC-SA	RW 1250 %/ deduções	SEC-IRBA	SEC-ERBA (incluindo IAA)	SEC-SA	RW 1250 % deduções	SEC-IRBA	SEC-ERBA (incluindo IAA)	SEC-SA	RW 1250 % deduções
1 Total exposures																	
2 Traditional transactions																	
3 Securitisation																	
4 Retail underlying																	
5 Of which STS																	
6 Wholesale																	
7 Of which STS																	
8 Re-securitisation																	
9 Synthetic transactions		1,014,345			8,365	1,022,710				329,530				26,362			
10 Securitisation		1,014,345			8,365	1,022,710				329,530				26,362			
11 Retail underlying						0											
12 Wholesale		1,014,345			8,365	1,022,710				329,530				26,362			
13 Re-securitisation																	

TABLE 67 - TEMPLATE EU-SEC4 - SECURITISATION EXPOSURES IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS - INSTITUTION ACTING AS INVESTOR

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure values (by RW bands/deductions)				Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap				
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deduction
1	Total exposures																
2	Traditional securitisation				101		101				1,256				101		
3	Securitisation				101		101				1,256				101		
4	Retail underlying				101		101				1,256				101		
5	Of which STS																
6	Wholesale																
7	Of which STS																
8	Re-securitisation																
9	Synthetic securitisation																
10	Securitisation																
11	Retail underlying																
12	Wholesale																
13	Re-securitisation																

12. 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 of 31 December 2021, own funds requirements for generic market risks of the 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 (CTP). 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 of 31 December 2021 and calculated through the Standardised Approach are shown in the following tables.

TABLE 68 – TEMPLATE EU MR1 - MARKET RISK UNDER THE STANDARDISED APPROACH

(Thousand euros)

		RWEAs
Outright products		
1	Interest rate risk (general and specific)	40,428
2	Equity risk (general and specific)	3,011
3	Foreign exchange risk	1,593,678
4	Commodity risk	0
Options		
5	Simplified approach	
6	Delta-plus approach	
7	Scenario approach	
8	Securitisation (specific risk)	
9	Total	1,637,117

12.1. Calculation methodologies

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

- Debt instruments 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 of the CRR and the treatment of positions referred to in Section 1 of the same chapter.
- Equity instruments: 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 model's 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 Português, SA). With reference to 31 December 2021, the capital requirements calculated by internal model corresponded to 16% of the total requirements of the Group for market risk.

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 spread 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 31 December 2021, the Bank was applying a weighting system where a greater weight is given to most recent observations compared with older ones. 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 31 December 2021, the stress period considered was a year ending on 25 June 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.

The following tables provide quantitative data on the market risk measurement of the Trading Book using the internal model used (Table 70, with positions at the beginning and end of the last half of 2021) and on the evolution of the respective RWA and capital requirements Table 69), with positions at the beginning and end of the last quarter).

TABLE 69 – TEMPLATE EU MR2-A - MARKET RISK UNDER THE INTERNAL MODEL APPROACH (IMA)

(Thousand euros)

		a	b
		RWAs	Own funds requirements
1	VaR (higher of values a and b)	72,895	5,832
(a)	Previous day's VaR (VaR _{t-1})		1,816
(b)	Multiplication factor (mc) x average of previous 60 working days (VaR _{avg})		5,832
2	SVaR (higher of values a and b)	237,354	18,988
(a)	Latest available SVaR (SVaR _{t-1})		4,266
(b)	Multiplication factor (ms) x average of previous 60 working days (sVaR _{avg})		18,988
3	IRC (higher of values a and b)	0	0
(a)	Most recent IRC measure		
(b)	12 weeks average IRC measure		
4	Comprehensive risk measure (higher of values a, b and c)	0	0
(a)	Most recent risk measure of comprehensive risk measure		
(b)	12 weeks average of comprehensive risk measure		
(c)	Comprehensive risk measure Floor		
5	Other	0	0
6	Total	310,249	24,820

TABLE 70 – TEMPLATE EU MR2-B - RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

(Thousand euros)

	a	b	c	d	e	f	g
	VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total own funds requirements
1 RWAs at previous period end	213,836	463,814				677,650	54,212
1a Regulatory adjustment	-181,061	-383,467				-564,528	-45,162
1b RWAs at the previous quarter-end (end of the day)	32,774	80,347				113,122	9,050
2 Movement in risk levels	-10,076	-27,028				-37,104	-2,968
3 Model updates/changes							
4 Methodology and policy							
5 Acquisitions and disposals							
6 Foreign exchange movements							
7 Other							
8a RWAs at the end of the reporting period (end of the day)	22,698	53,320				76,018	6,081
8b Regulatory adjustment	50,197	184,034				234,231	18,739
8 RWAs at the end of the reporting period	72,895	237,354				310,249	24,820

Own funds requirements for specific market risk are calculated in accordance with the standardised approach, including those of the trading areas 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 or equity instruments, respectively).

TABLE 71 – TEMPLATE EU MR3 - IMA VALUES FOR TRADING PORTFOLIOS

(Thousand euros)

		a
VaR (10 day 99%)		
1	Maximum value	2,401
2	Average value	1,273
3	Minimum value	374
4	Period end	1,318
SVaR (10 day 99%)		
5	Maximum value	10,506
6	Average value	4,336
7	Minimum value	2,500
8	Period end	3,351
IRC (99.9%)		
9	Maximum value	
10	Average value	
11	Minimum value	
12	Period end	
Comprehensive risk measure (99.9%)		
13	Maximum value	
14	Average value	
15	Minimum value	
16	Period end	

In 2021, the average value of stressed VaR, for the Trading Portfolio, was EUR 4,34 million. Regarding the value of this metric on 31 December 2021, the amount determined was EUR 3,35 million.

12.2. 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, including all portfolios, analysing the results of those stress tests.

The next table summarises the results of these tests on the Group's global Trading Book on 31 December 2021, 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 a decrease in interest rates, especially when accompanied by a decrease in the slope of the yield curve.

TABLE 72 – STRESS TESTS OVER THE TRADING BOOK

(Thousand euros)

	Negative impact scenario	Impact
STANDARD SCENARIOS		
Parallel shift of the yield curve by +/- 100 bps	+ 100 p.b.	-7,980
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	+ 25 p.b.	-1,554
4 combinations of the previous 2 scenarios	+ 100 p.b. & + 25 p.b.	-9,367
	+ 100 p.b. & - 25 p.b.	-6,555
Variation in the main stock market indices by +/- 30%	+30%	-680
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	-10%, -25%	-1,679
Variation in swap spreads by +/- 20 bps	-20 bps	-493
NON-STANDARD SCENARIOS		
Widening/narrowing of the bid-ask spread	Broadening	-79
Significant vertices(1)	Undiversified VaR	-1,391
	Diversified VaR	-743
Historical scenarios(2)	May 7th, 2010	-937
	July 18th, 2011	-1,533

(1) Scenarios in which the more adverse variations of the last seven years, relative to the portfolio's five most significant risk factors for VaR, 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 Eurozone Sovereign Debt crisis from 2010 onwards.

12.3. Valuation of financial instruments

The valuation of financial instruments is based on market prices, whenever these are available, or estimated through internal models based on cash-flow discounting techniques. The fair value obtained is influenced by the cash flow characteristics and parameters such as discount rates used in the valuation models that may have some degree of judgment.

The valuation of the financial assets and liabilities is subject to controls by a unit independent from its negotiation, as described in the Group's internal regulations, and the valuation models are reviewed by the Office for the Validation and Monitoring of Models (GAVM), an independent model validation within the second line of defense. The segregation between position-taking and position-valuation is also contemplated at the level of information technology systems that intervene in the global process involving the management, valuation, settlement and accounting of those transactions.

12.4. 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.

TABLE 73 - BACKTESTING OF THE VAR APPROACH APPLIED IN MARKET RISK CALCULATION

Year	Result	
	Positive	Negative
2020 (*)	3	6
2021	0	2

(*) In 2020, one of the hypothetical excesses resulted from the 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.

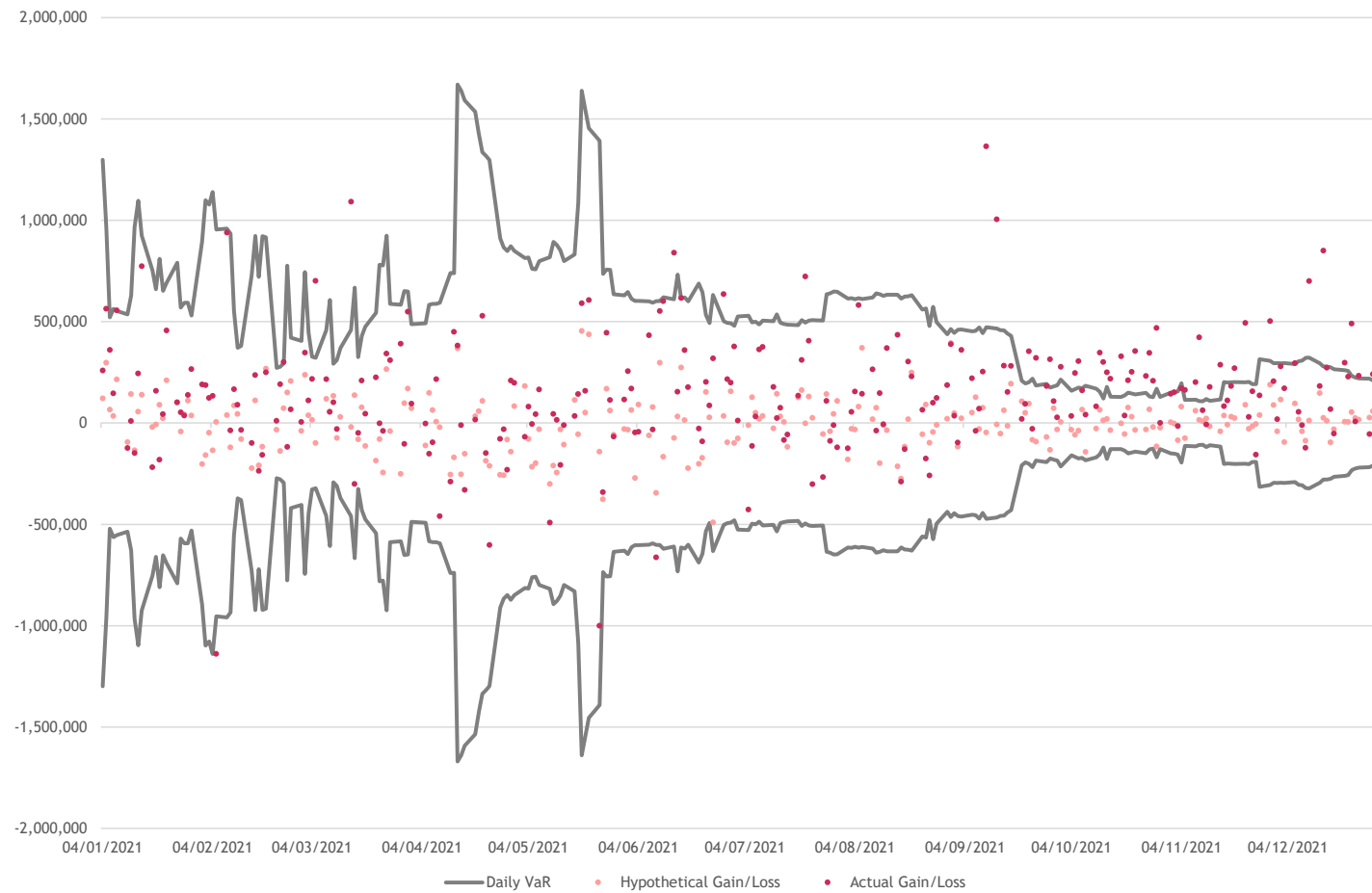
Graph 2 shows the results of the hypothetical and real backtesting, for the Trading Book centrally managed from Portugal, in 2021.

In 2021, nil negative excesses were observed over the hypothetical results predicted by the model, in 259 days of observations. This result is in line with the theoretical value of expected bilateral excesses, so the model is considered adequate.

In 2021, two excesses of negative value were observed over the hypothetical results predicted by the model, which represents a frequency of 0,8%, in 259 days of observations. This result is in line with the theoretical value of expected bilateral excesses, so the model is considered adequate.

GRAPH 2 – TEMPLATE EU MR4 - COMPARISON OF VAR ESTIMATES WITH GAINS/LOSSES

(Thousand euros)



13. Operational risk

As at 31 December 2021, 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.

13.1. 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.

13.2. 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 2021, this calculation was carried out for the operations of 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 2021, the Group reported around 330 million euros of own funds requirements for operational risk, having reported 321 million euros as at 31 December 2020.

TABLE 74 – TEMPLATE EU OR1 - OPERATIONAL RISK OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

(Thousand euros)

	Banking activities	a	b	c	d	e
		Year-3	Relevant indicator Year-2	Last year	Own funds requirements	Risk weighted exposure amount
1	Banking activities subject to basic indicator approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	2,503,407	2,363,363	2,435,037	329,873	4,123,409
3	Subject to TSA:	2,503,407	2,363,363	2,435,037		
4	Subject to ASA:	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

13.3. 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).

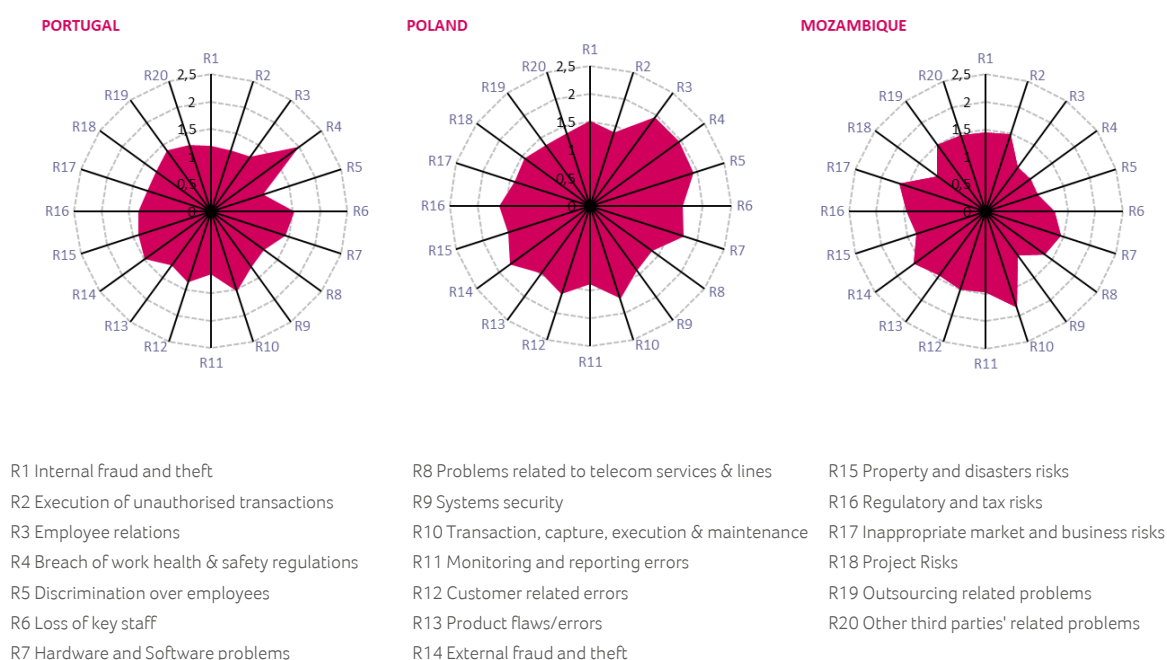
The aim of the RSA exercises is to promote the identification and mitigation (or elimination) of risks, either actual or potential, in each process, through the assessment of each of the 20 subtypes of operational risk considered. These assessments are positioned in a risk tolerance matrix, considering the 'worst-case event' that might occur in each process, for three different scenarios: Inherent Risk (without considering the existing/implemented controls), Residual Risk (considering the existing/implemented controls) and Target Risk (the desirable risk level). These exercises are typically carried out in the second half of each year.

The 2021 RSA exercise for operational risk processes incorporated:

- Qualitatively, the results of the ICT risks RSA computed in the beginning of the year, as input information to process owners, regarding 3 of the 20 risks assessed. The ICT risks RSA was made over 155 critical technological assets – hardware, software and communication lines and infrastructures – under 3 evaluation dimensions: availability/integrity/data confidentiality.
- The input stemming from the CORPE (Compliance and Operational Risk Process Evaluation) factors, which introduce and highlight operational risk components that result from the compliance and internal control status of the processes.

The results from the 2021 exercise are presented in the following charts, in terms of the average score for each of the 20 risk subtypes considered for the set of process in each geography, in which the outer line represents a score of 2.5 in a scale from 1 (lowest exposure/insignificant risk) to 5 (highest exposure/catastrophic risk):

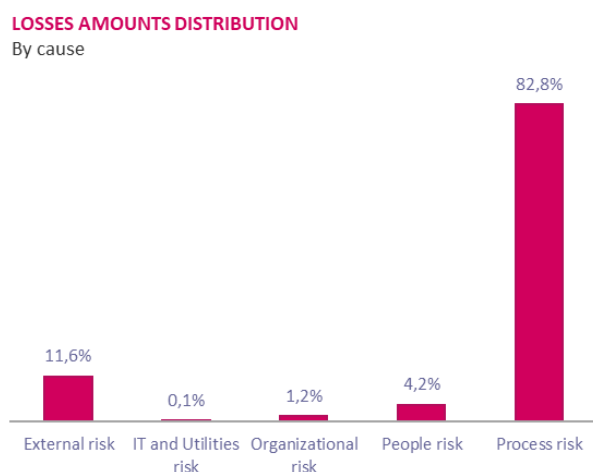
GRAPH 3 – RSA EXERCISE RESULTS



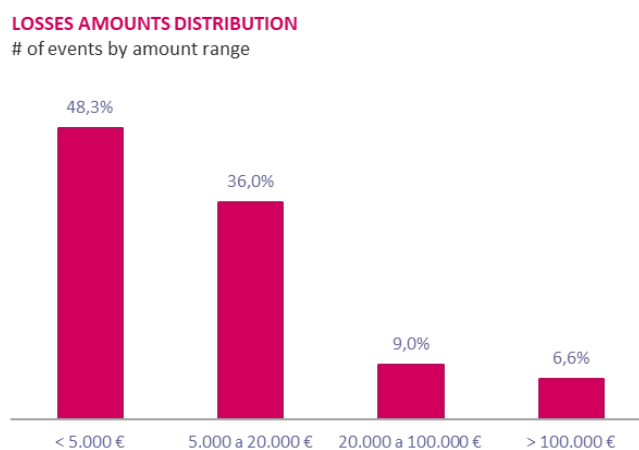
The operational losses identified are registered in the Group's operational risk application and connected with the respective process, being assessed and characterised in accordance with their nature. When applicable, a mitigation action is associated with each loss event.

The following graphs feature the profile of accumulated operational losses in 2021:

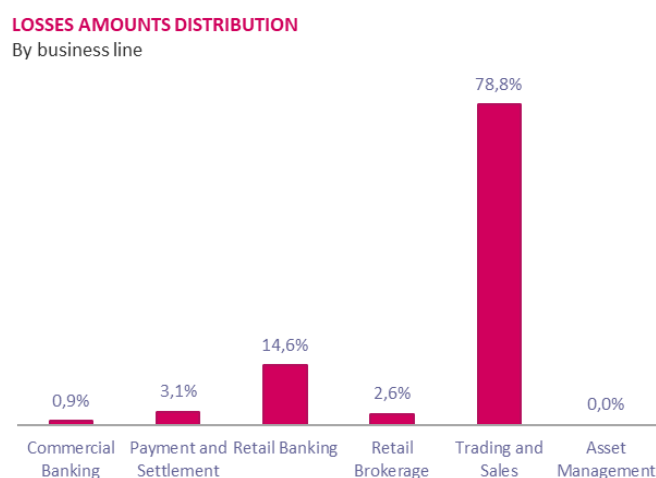
GRAPH 4 – LOSS AMOUNT DISTRIBUTION, BY CAUSE



GRAPH 5 – LOSS AMOUNT DISTRIBUTION, BY AMOUNT RANGE



GRAPH 6 – LOSS AMOUNT DISTRIBUTION, BY BUSINESS SEGMENT



As shown in the graphs above, the process risks and the external risks assumed a marked predominance in the set of losses recorded in 2021, representing around 94% of the global amount of losses. This resulted, mainly, from a large loss event related to a litigation situation in Poland that had an unfavourable outcome for the Bank, concerning an FX markets'

product that was discontinued a few years ago. The also relevant weight of the external risks is due, essentially, to external frauds. In what concerns the distribution of losses by class of amount (in number of losses), there was no change in the typical profile of the distribution of operating losses. Regarding the distribution of losses by banking business line, there was an expected concentration in the Trading and Sales segment, due to the referred large loss event.

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 process's 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 2021, 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 fulfilment of the legally prescribed information duties in selling through digital banking channels.

In parallel, the Group continued to strengthen and improve its business continuity management throughout 2021, with a focus on the follow-up and control of Outsourcing risk and on the update of existing strategies, procedures and documentation (as well as conducting regular business recovery simulations) on business recovery, technological recovery and crisis management, in order to maintain its emergency response capacity.

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.

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.

13.4. Operational risk within the COVID-19 pandemic context

2021 brought the consolidation of the response to the challenges imposed by the COVID-19 pandemic, namely, regarding the implementation of governmental and health authorities' determinations and guidelines. Hence, a highlight should be made on the continuity of priority efforts with regards to safeguarding the health and well-being of the Group's employees, as well as in preserving the full operational continuity of the services provided and the products made available to clients.

Thus, in Portugal, Poland and Mozambique, teleworking and rotation working on the premises were maintained, with preservation of physical distance and resorting to emergency responses, prevention and safety measures in the workplace, such as, for example:

- Placement of affected Employees in isolation spaces or prophylactic teleworking for Employees with contact with infected people.
- Internal channels of specific information for the dissemination of prevention measures (behaviours to be observed), distribution of protective equipment (gloves, masks, disinfectants), reinforcement of cleaning routines.
- Segregation of some critical teams, involving the movement of Employees to alternative spaces intended for business recovery, to guarantee the recommended social distance.

14. 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 2021, 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, Overdrafts, Credit cards and Factoring: assumption of repricing within 1Y for fixed rate transactions. Floating rate transactions consider contractual repricing.
- Non maturity deposits for Portugal: maturity assumptions estimated by a stochastic behavioural model taking into account the relevant macroeconomic indicators.
- Non-Maturity deposits for Poland: assumptions of 5% up to 24 months and 75% for 36 months in regard to PLN and 1Y for other currencies.

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.

The following table illustrates the impacts on the shareholders' equity of the Group, as at 31 December 2021 and 2020, in amount and percentage, as a result of +200 and -200 basis points shocks in interest rates.

TABLE 75 - SENSITIVITY ANALYSIS TO THE INTEREST RATE RISK IN THE BANKING BOOK

(Thousand euros)

		Dec 21	Dec 20
Value	+200 pb	329,745	175,099
	-200 pb	-183,103	-27,147
% Shareholders' equity ⁽¹⁾	+200 pb	5.0%	2.5%
	-200 pb	-2.8%	-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 a relevant asymmetry of impacts over the economic value of the Group. This is due to the assumptions related with the limits to interest rate decreases in rates decrease scenarios and to the different impacts verified over the portfolio for the several repricing terms (resulting in different effective impacts occurring under the two scenarios).

15. Liquidity risk

15.1. 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 regarding 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 Bank has reduced the risk profile of its operation in recent years through a process of deleveraging its balance sheet, through the reduction in the commercial gap by the decrease in the credit portfolio and the reinforcement of customer deposits, allowing the progressive reduction of the dependence on market and ECB funding. This trend has been reinforced after the inception of the Covid 19 crisis, in March 2020, which triggered a strong and continuous growth of customer deposits, further accelerating the reduction of the commercial gap.

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 and approved by the Risk Commission or by the BoD, in case of RAS metrics.

The Group's Risk Appetite Statement (RAS) defines, in a consolidated perspective, a set of short term and structural liquidity indicators and respective limits, which are then reflected in the Corporate RAS of each of the Group's main operations, in order to reinforce consistency in risk assessment and greater efficiency in centralized monitoring. Internal limits are typically more stringent than regulatory ones, ensuring prudent liquidity risk management.

The evolution of wholesale funding, the LCR (Liquidity Coverage Ratio) and the indicators of loan to deposits and assets eligible for discount available on the ECB and other central banks vs clients' deposits are monitored at least weekly.

Daily, the main entities monitor short-term liquidity indicators, adopting the centrally defined methodology.

Concomitantly, the Group's liquidity position is regularly analysed, 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. The Risk Commission is responsible for the continuous assessment of the liquidity risk management framework and for approving and controlling limits for exposure to that same risk.

To avoid the appearance of a liquidity crisis or to act immediately if it materializes, the result of the Early Warning Signals system of the Liquidity Contingency Plan is reported weekly to the management bodies through 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 fulfil 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.

15.2. Management model

The Group's liquidity management is coordinated at the level of the BCP Group under the responsibility of CALCO, with the objective of promoting an efficient financing policy both from a short-term and structural perspective.

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 RAS of the different geographies, thus ensuring the 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 the subsidiaries 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 and the refinement of the government model dealt with succinctly in this section, are continually reassessed in the Liquidity Adequacy Assessment Process (ILAAP), which is materialized 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 liquidity risk management framework, 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, 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 a framework of procedures, responsibilities, methodologies, and rules used by the Group to approach 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 that are either eligible as collateral in refinancing operations with central banks or eligible for the LCR buffer.

Cost benefit allocation mechanism:

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

Intraday liquidity risk management:

- 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, with a periodical review of the methodologies.

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 feasibility of the measures of reinforcement of the counterbalancing capacity.

15.3. Regulatory requirements and ILAAP

In the scope of the new prudential information requirements, 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, in what concerns the liquidity coverage requirement, it should be stressed the application of the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 from 2016 onwards.

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 suited to the respective profile and aligned with the European Banking Authority guidelines and with the Single Supervisory Mechanism expectations. The ILAAP methodology 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 the 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.

TABLE 76 – ILAAP INTERCONNECTION WITHIN THE PLANNING EXERCISES OF THE GROUP



During the first half of 2019, the ECB's Banking Supervision conducted the Sensitivity 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.

Between December 2018, the reference date for the LiST, and December 2021, BCP's liquidity position strengthened significantly, with the liquidity buffer available for discount at the ECB growing 9.510 million euros, from 14.261 million euros to 23.771 million euros.

15.4. Balance sheet indicators

The year ended on 31 December 2021 showed a very significant growth in the deposit bases of the Group's operations in Portugal and Poland, mainly supported by growth in the retail segment, continuing the trend that began to take shape soon after the outbreak of the COVID-19 crisis in March 2020.

After the ECB's decision to extend the use of the Targeted Longer-Term Refinancing Operation III (LTRO III, "T LTRO III" in the English abbreviation) to 55% of eligible loans, BCP reinforced its medium-long-term financing component in the first quarter of 2021 through an additional borrowing of 600 million euro, in addition to the 7.550 million euros taken in June 2020, thus bringing the total gross amount taken in that instrument to 8.150 million euros.

Within the scope of its Strategic Plan 2021-24, and in order to comply with the requirements known as "MREL" (Minimum Requirements for Own Funds and Eligible Liabilities), BCP benefited from the favourable market conditions prevailing during the first quarter of 2021 to anticipate the execution of a senior preferred issue in the amount of 500 million euros, foreseen in that plan only for the third quarter of 2021.

At the end of the third quarter, BCP returned to the market under its Euro Note Program, placing an inaugural issue of 500 million euros by a Portuguese issuer of senior preferred social debt securities in the ESG (Environmental, Social and Governance) segment), focusing in this case on the social component. Thus, under the terms of its Green, Social and Sustainability Bond Framework, the net proceeds from the issuance are primarily intended for the financing and/or refinancing of loans granted by the Bank under the COVID-19 lines, constituting a demonstration of the commitment

assumed by the Bank in supporting the economy, in financing micro, small and medium-sized enterprises most affected by the recent pandemic context. The issuance has a term of 6.5 years, with an option for early repayment by the Bank at the end of 5.5 years, and involved a diverse set of European institutional investors, many of whom are committed to ESG investments.

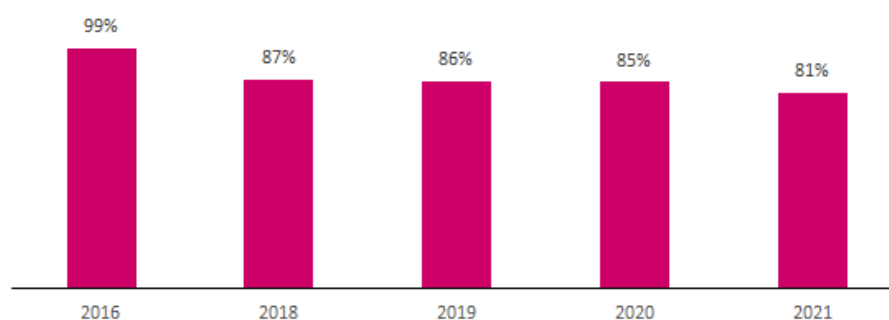
Also, in line with the strategy of continuously optimizing its capital structure, strengthening its own funds and its base of eligible liabilities to meet the “MREL” requirements, the Bank issued in November subordinated debt in the amount of 300 million euros, eligible as Tier 2 own funds, with a maximum term of 10.5 years and with the option of early repayment by the bank at any time in the six months following the end of the 5th year.

The liquidity generated by the operations described above, in addition to that resulting from the sustained reduction in the commercial gap in Portugal, mainly due to the growth in deposits from retail customers, continued to be applied to support the real economy and, given its materiality, to reinforce by 2,808 billion euro of the securities portfolio in Portugal and an increase of 2.123 million euros (to 6.418 million euros) in reserves deposited with the Banco de Portugal.

Focused mainly on sovereign debt portfolios, placements in securities contributed to an increase of 2.999 million euros in the balance of eligible assets (after haircuts) available for discount at the ECB, to 25.502 million euros. Taking in account that net funding with the ECB, in the same period, fell by 1.552 million euros, to 1.730 million euros, the discountable liquidity buffer with the ECB increased by 4.551 million euros, to 23.771 million euros.

At the end of December 2021, consolidated customer deposits stood at 69.560 million euros, registering an increase of 10% compared to 31 December 2020, with the balance sheet resources of Customers reaching 71.175 million euros, gross loans amounted to 58.231 million euros, which represents an increase of 3.7% compared to the end of 2020. Consequently, the transformation ratio thus evolved from 85% at the end of 2020 to 81% at the end of 2021.

GRAPH 7 – LTD RATIO EVOLUTION (*)



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

The evolution of the pool of monetary policy assets discountable, after haircuts, is detailed as follows:

TABLE 77 - LIQUID ASSETS INTEGRATED IN COLLATERAL POOLS

	Dec 21	Dec 20
European Central Bank	13,394,653	9,783,715
Other Central Banks	4,840,405	4,591,249
TOTAL	18,235,058	14,374,964

As at 31 December 2021:

- The gross amount discounted with the European Central Bank amounts to 8.150 million euros (31 December 2020: 7.550 million euros).
- The amount discounted with the Banco de Mozambique amounts to 2.5 million euros (31 December 2020: 2.4 million euros).
- There are no discounted amounts with other central banks.

The evolution of the portfolio of eligible assets available for discount with the ECB (after haircuts) and the net borrowings at the ECB and the liquidity buffer between 31/12/2021 and 31/12/2020 are analysed as follows:

TABLE 78 – LIQUIDITY BUFFER OF THE ECB

(Thousand euros)

	T	T-1
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy (i)	13,394,653	9,783,715
Outside the pool of ECB monetary policy	12,107,127	12,719,114
	25,501,780	22,502,829
Net borrowing at the ECB (ii)	1,730,318	3,282,609
LIQUIDITY BUFFER (iii)	23,771,462	19,220,220

i) Corresponds to the amount reported in COLMS (Bank of Portugal application).

ii) Includes, as at 31 December 2021, the value of funding with ECB (deducted from the accrual of the LTRO

III), deducted from deposits with the Bank of Portugal and other liquidity with the Eurosystem (Euros 6,759,794,000), plus the minimum cash reserves (Euros 461,365,000).

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

Thus, on 31 December 2021, the liquidity that could be mobilized through available collateral, plus deposits with Banco de Portugal deducted from the minimum cash reserves and accrued interest, amounted to 23.771 million euros, compared to 19.220 million euros as at 31 December 2020.

The Group's counterbalancing capacity is defined by the ability to generate additional liquidity in the short term to deal with possible situations of financial stress.

In consolidated terms, the refinancing risk of medium to long-term instruments will remain at very low levels in the coming years. Excluding the LTRO III refinancing, the annual amount to be refinanced over the next five years will only reach 1.000 million euros in 2022, with the payment of a covered bond issue at that exact amount. Even in this case, the collateral released after repayment will be integrated into the ECB liquidity buffer without significant loss of liquidity.

15.5. Regulatory indicators

15.5.1. Liquidity coverage ratio

The Group Liquidity Coverage Ratio (LCR) in December 2021 stood at 269%, comfortably above the internal and regulatory requirements, supported by highly liquid asset portfolios in an amount compatible with the prudent management of the Group's short-term liquidity. The Liquidity Coverage Ratio stood significantly above the one on the same date of the previous year (230%), with a high coverage level.

The main key drivers have been the solid financing structure 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 and deposits in central banks.

The next table presents the qualitative information of the LCR and its components.

TABLE 79 – TEMPLATE EU LIQ1 - LCR DISCLOSURE

(Thousnd euros)

Scope of consolidation: consolidated		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYYY)	T Dec 21	T-1 Sep 21	T-2 Jun 21	T-3 Mar 21	T Dec 21	T-1 Sep 21	T-2 Jun 21	T-3 Mar 21
EU 1b	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)					21,896,644	20,806,858	20,009,083	18,929,038
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	54,779,437	53,629,431	52,755,869	51,978,831	2,874,056	2,788,209	2,725,924	2,657,616
3	Stable deposits	29,783,757	28,979,445	27,943,338	26,910,317	1,489,188	1,448,972	1,397,167	1,345,516
4	Less stable deposits	10,519,937	10,170,688	10,168,594	10,086,879	1,384,868	1,339,237	1,328,757	1,312,100
5	Unsecured wholesale funding	14,235,688	13,859,300	13,518,127	13,110,395	5,142,519	5,259,825	5,429,886	5,603,073
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	5,913,636	4,738,071	3,541,467	2,229,275	1,451,086	1,165,030	873,537	553,131
7	Non-operational deposits (all counterparties)	8,295,945	9,095,028	9,958,012	10,858,569	3,665,325	4,068,595	4,537,702	5,027,390
8	Unsecured debt	26,107	26,200	18,647	22,551	26,107	26,200	18,647	22,551
9	Secured wholesale funding					694	694	694	417
10	Additional requirements	13,134,040	13,628,489	13,748,526	13,614,936	3,047,039	3,515,058	3,615,074	3,665,749
11	Outflows related to derivative exposures and other collateral requirements	1,748,652	2,188,259	2,306,267	2,452,626	1,748,652	2,188,259	2,306,267	2,452,626
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	11,385,388	11,440,230	11,442,258	11,162,310	1,298,387	1,326,799	1,308,806	1,213,123
14	Other contractual funding obligations	787,923	780,622	817,589	811,770	787,923	780,622	817,589	808,716
15	Other contingent funding obligations	4,688,575	4,754,028	4,815,899	4,898,772	499,114	490,699	502,495	537,835
16	TOTAL CASH OUTFLOWS					12,351,345	12,835,107	13,091,662	13,273,405
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	10,842	7,566	8,066	15,525	0	0	0	0
18	Inflows from fully performing exposures	2,361,238	2,372,722	2,454,432	2,483,795	1,596,124	1,628,435	1,703,262	1,704,656
19	Other cash inflows	6,853,172	7,364,794	7,631,263	7,996,623	2,642,959	3,138,785	3,398,035	3,652,369
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)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	TOTAL CASH INFLOWS	9,225,251	9,745,083	10,093,761	10,495,943	4,239,083	4,767,220	5,101,297	5,357,025
EU-20a	Fully exempt inflows	0	0	0	0	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0	0	0	0	0
EU-20c	Inflows subject to 75% cap	9,225,251	9,745,083	10,093,761	10,495,943	4,239,083	4,767,220	5,101,297	5,357,025
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					21,896,644	20,806,858	20,009,083	18,929,038
22	TOTAL NET CASH OUTFLOWS					8,112,262	8,067,887	7,990,365	7,916,380
23	LIQUIDITY COVERAGE RATIO					270%	258%	251%	239%

Concentration of funding and liquidity sources:

The funding of the business model of the BCP Group's operations is essentially based on deposits from retail customers, endowed with a high level of stability, complemented by deposits from corporates and financial entities, mainly supporting operational relations. The concentration of the largest depositors has been decreasing materially in recent years in the Group's largest operations, currently presenting very comfortable values. Long-term secured resources, such as TLTRO with the ECB, covered bonds and loans with the EIB, have contributed to the Group's stable financing base. Senior and subordinated issues that concur, in part, for regulatory capital, complete and increase the level of diversification of wholesale funding sources, which, as a whole, does not show any material refinancing concentrations in the coming years.

Composition of the liquidity buffer:

The Group liquidity buffer portfolio consists of central bank deposits, government bonds issued by European countries and corporate bonds. The majority of the liquidity buffer qualify as Level 1 securities under the LCR rules and are defined as High Quality Liquid Assets ("HQLA"). BCP Group has an additional liquidity buffer composed by non-HQLA central bank eligible (own covered bonds and credit claims) that are available for immediate use as collateral to obtain additional funding with the ECB and market repo. The Bank monitors several internal threshold levels above the regulatory requirement in order to minimize operational risk and ensure that the liquidity buffer is adequate for to a prudent management of the Group's short-term liquidity.

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 (between receivables and payables) in these collaterals, in the sense of an increase in use of liquidity by these collateral in intervals of 30 calendar days, in the last 24 months.

Currency mismatch in the LCR:

The BCP Group monitors relevant currencies (where liabilities > 5% of total liabilities), related liquid buffer and net liquid cash outflows. Only EUR and PLN currencies has a significant amount of funding obtained, mostly due to the activity in Portugal and that registered by the subsidiary in Poland, resulted to be relevant at Group level. The liquidity coverage ratio in EUR and PLN is significantly above the required 100%.

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

The Group's liquidity management is decentralized by geography, as each subsidiary must be self-sufficient in the management and funding of its liquidity needs, mainly ensured by the respective deposit bases and complementarily through the market mechanisms available locally.

The BCP Group consolidates the individual liquidity plans for the main entities of the Group, in order to ensure the alignment between the evolution of inflows and outflows of assets and liabilities resulting from commercial and corporate objectives with prudent treasury management and comfortable liquidity indicators, including the maintenance of liquidity buffers of appropriate size with central banks. The evolution of the liquidity and funding position of each of the Group's entities is monitored centrally through operational and structural indicators, either regulatory or internal. The various entities operate with autonomy to manage their liquidity needs, while the Group ensures internal mechanisms for maximizing management efficiency on a consolidated basis, namely in potential situations of stress.

15.5.2. Net stable funding ratio

In consistency with the BCBS' stable funding standard, in June 2021, came into effect the minimum regulatory requirement of 100% for the NSFR (Article 428 of Regulation (EU) 2019/876). The Group reinforced the disposition of the stable funding base, characterized by the large share of customer deposits in the funding structure, collateralized funding and medium and long-term instruments, which enabled the stable funding ratio (Net Stable Funding Ratio or NSFR) as at 31 December 2021 to stand at 150% (140% as at 31 December 2020).

TABLE 80 – TEMPLATE EU LIQ2: NET STABLE FUNDING RATIO

(Thousand euros)

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	6,098,488	-	-	1,383,777	7,482,265
2	Own funds	6,098,488	-	-	1,383,777	7,482,265
3	Other capital instruments		-	-	-	-
4	Retail deposits		52,754,131	2,655,262	1,317,905	53,203,484
5	Stable deposits		38,995,549	1,346,978	512,351	38,837,752
6	Less stable deposits		13,758,581	1,308,284	805,554	14,365,732
7	Wholesale funding:		15,459,951	106,433	9,725,909	16,567,484
8	Operational deposits		6,834,999	54,155	4,244	3,448,821
9	Other wholesale funding		8,624,952	52,278	9,721,665	13,118,663
10	Interdependent liabilities	-	-	-	-	-
11	Other liabilities:	-	1,022,516	45	1,783,164	1,783,186
12	NSFR derivative liabilities	-				
13	All other liabilities and capital instruments not included in the above categories		1,022,516	45	1,783,164	1,783,186
14	Total available stable funding (ASF)					79,036,420
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					1,167,870
EU-15a	Assets encumbered for more than 12m in cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		374,229	-	-	187,115
17	Performing loans and securities:		8,455,041	2,849,773	46,703,901	43,233,461
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		433,420	38,269	766,041	828,518
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		7,152,039	2,140,728	18,206,306	20,454,087
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		926,177	589,683	4,218,492	3,860,827
22	Performing residential mortgages, of which:		636,892	618,708	24,959,240	19,336,116
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		616,000	596,925	23,740,281	18,275,584
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		232,690	52,068	2,772,314	2,614,741
25	Interdependent assets		-	-	-	-
26	Other assets:		1,817,498	460,790	6,475,720	7,486,804
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				320,675	272,574
29	NSFR derivative assets				227,859	227,859
30	NSFR derivative liabilities before deduction of variation margin posted				583,356	29,168
31	All other assets not included in the above categories		685,608	460,790	6,475,720	6,957,203
32	Off-balance sheet items		3,507,831	6,149,071	2,098,872	652,207
33	Total RSF					52,727,456
34	Net Stable Funding Ratio (%)					150%

15.5.3. Encumbered and unencumbered assets

At the end of 2021, and according to the EBA methodology, the total encumbered assets represented 14% of the Group's total balance sheet assets. The encumbered Loans to customers represented 92% of the total encumbered assets, while Debt securities represents 6%.

The encumbered assets are mostly related with the Portugal's activity funding operations, namely with the ECB, 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. Another part of the collateralisation of financing operations with the European Investment Bank, is mainly supported by sovereign debt eligible for central banks, together with bonds issued by public sector companies.

On 31 December 2021, the Other assets includes unencumbered assets in the amount of 5.844.446 thousand euros related to Loans on demand, the amount of 55.282.197 thousand euros related to Loans and advances other than loans on demand (of which encumbered assets in the amount of 12.077.450 thousand euros) and the amount of 7.003.187 thousand euros mostly unencumbered and 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 2021, BCP Group has a 12.5 billion euros BCP Covered Bond Programme ("BCP Programme") with 10.2 billion euros of covered bonds outstanding. The BCP Programme is backed by a 11.9 billion euros' portfolio of residential mortgages, providing an overcollateralization ("OC") of 16.6%, which is above the minimum of 14% currently required by rating agencies.

The Portuguese covered bond legislation affords covered bond holders a dual-recourse, firstly over the issuer, secondly over the cover pool that may also include other eligible assets, over which they benefit from a special preferential claim. This legislation ensures total segregation of the covered pool from any future issuer's insolvent estate, for the benefit of covered bond holders, who have precedence over claims of any other of the issuer's creditors in case of issuer insolvency, thus and to this extent superseding the general insolvency and recovery legislation. Residential mortgages in a cover pool are subject to certain eligibility criteria inscribed in the law, among them a maximum LTV of 80%, delinquency of no more than 90 days, and them being first lien mortgages (or, if otherwise, all preceding liens being in the cover pool) over properties located in the EU. The BCP's Programme documentation limits property location to Portugal only.

According to European Banking Authority guidelines (EBA/GL/2014/03) 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 OF 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 81 – TEMPLATE EU AE1 - ENCUMBERED AND UNENCUMBERED ASSETS

(Thousand euros)

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered		Fair value of unencumbered assets	
	of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA	
	010	030	040	050	060	080	090	100
010 Assets of the reporting institution	13,191,342	823,391			78,258,679	23,261,035		
030 Equity instruments	0	0	0	0	118,531	0	118,531	0
040 Debt securities	823,391	823,391	845,678	845,678	22,096,853	17,308,360	22,138,610	17,356,597
050 of which: covered bonds	0	0	0	0	0	0	0	0
060 of which: securitisations	0	0	0	0	34,786	0	29,868	0
070 of which: issued by general governments	783,707	783,707	806,921	806,921	16,851,146	16,354,236	16,897,147	16,402,346
080 of which: issued by financial corporations	0	0	0	0	1,907,861	71,456	1,907,820	71,469
090 of which: issued by non-financial corporations	39,446	39,446	38,498	38,498	2,625,931	636,971	2,626,498	637,128
120 Other assets	12,370,041	0			55,193,824	6,031,991		

TABLE 82 – TEMPLATE EU AE2 - COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED

(Thousand euros)

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA	
		010	030	040	060
130	Collateral received by the reporting institution	0	0	43,721	4,649
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	4,649	4,649
170	of which: covered bonds	0	0	0	0
180	of which: securitisations	0	0	0	0
190	of which: issued by general governments	0	0	4,649	4,649
200	of which: issued by financial corporations	0	0	0	0
210	of which: issued by non-financial corporations	0	0	0	0
220	Loans and advances other than loans on demand	0	0	25,026	0
230	Other collateral received	0	0	0	0
240	Own debt securities issued other than own covered bonds or securitisations	0	0	0	0
241	Own covered bonds and asset-backed securities issued and not yet pledged			5,720,400	0
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	13,191,342	823,391		

TABLE 83 – TEMPLATE EU AE3 - SOURCES OF ENCUMBRANCE

(Thousand euros)

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	Carrying amount of selected financial liabilities	10,144,913	12,690,418

16. Remuneration policy

16.1. General principles

The rules guiding remuneration policies at BCP Group level, establishing a common framework defining the concepts, principles, rules and governance model for the preparation, approval, execution and monitoring of remuneration policies implemented in all entities of the Group are clearly defined, approved by the Board of Directors and published in a group code applicable to the entire Group.

In this context, the principle of alignment of the Group with the business strategy, objectives, values and long-term interests of the Group and each Group Entity is established and incorporates measures that avoid conflicts of interest as well as the promotion of sound and effective risk management that does not encourage the assumption of risks that exceed the risk level of the Bank defined in the RAS. It is up to the Group Entities to implement, for the different segments of the identified employees, specific remuneration policies and appropriate risk alignment mechanisms to ensure that the impact of the employee category identified in the risk profile of the institution is adequately aligned with its remuneration.

The Group considers a fixed component and a variable component. In the cases where variable remuneration is allocated, this assignment is based on the performance of the business units, the team, and the individual performance of each employee, and considers the risks assumed. In principle, the variable component of remuneration may not exceed the fixed component, but exceptions are allowed if they are justified and approved by the competent bodies.

The fixed remuneration of employees identified as Key Functions Holders incorporate their professional experience and organizational responsibility considering their academic level, their seniority, the level of knowledge and skills, their limitations and work experience, the business activity concerned and the level of remuneration in the geographical location.

The variable remuneration is aligned with the strategic plan and incorporated into the budget projections. The preliminary amount allocated for this purpose is explicitly approved in the approval process of the annual budget by the Board of Directors, considering its impact on the capital and liquidity requirements of the Bank and of the Entity.

The amount of the variable remuneration allocated conforms adequately to changes in the performance of the employee, with situations where the performance and/or behaviour of the employee lead to a sharp reduction of the variable remuneration, which may even be reduced to zero, being defined.

The Group considers, as a rule, 100% of the maximum ratio between the variable and fixed components of the remuneration. However, a maximum proportion above 100% may be approved by the General Shareholders' Meeting, when necessary, or by the Board of Directors, but may not exceed 200%.

In determining the Group, different categories of employees are considered, and specific schemes are defined for each category, namely distinguishing between executive and non-executive directors, the Chief Risk Officer, other members of the corporate bodies directly elected by the General Meeting of Shareholders, employees with key functions performing control functions of the Bank or not and, lastly, all the other employees. The policies defined for the above-mentioned categories are described in detail in Part D of the Corporate Governance Report, available on the Bank's website.

Employees involved in control functions are independent of the business units they supervise and are remunerated according to the execution of the goals that do not depend on the performance of the business areas they control.

The Group is designed in such a way that the adequate compensation of employees is not dependent on the allocation of variable remuneration, to avoid incentives to take excessive risks in the short term.

For that purpose, there is no guaranteed variable remuneration, and the calculation of the indemnities for key-function holders ceasing their functions, is dependent on the rules approved by the Executive Committee for the process of staff adjustment implemented during 2021.

All employees have access to the remuneration policy that applies to them through the Bank's intranet.

16.2. Abstract of the remuneration policies

The Remuneration Policy for members of the management and supervisory bodies has provided for an annual variable remuneration system, whereby an annual evaluation of the performance of each member of the Executive Committee is carried out based on quantitative and qualitative criteria. Depending on this evaluation and on the annual fixed remuneration, and provided that a minimum level of performance of the Bank in a set of quantitative indicators is met, the value of the variable remuneration to be attributed to each member of the Executive Committee shall be determined. The

payment of the amount of the variable remuneration allocated is subject to a 5-year deferral period for 40% of its amount, and 60% of which is paid in the year following the financial year to which it relates. The amounts for the undeferred and deferred part are paid 50% in cash and 50% in BCP shares. The number of BCP shares assigned results from their valuation at a share-price value defined in accordance with the approved Remuneration Policy.

In the Remuneration Policy for Employees, an annual variable compensation system is provided for employees not covered by the Commercial Incentive Systems, based on the evaluation of the performance of each employee supported on quantitative and qualitative criteria that is carried out annually. Depending on this evaluation and on the fixed reference remuneration for the function performed, and provided that a minimum level of performance of the Bank in a set of quantitative indicators is met, the value of the variable remuneration to be attributed to each Employee is determined. For Employees considered Key Functions Holders, the payment of the amount of the variable remuneration assigned is subject to a 5-year deferral period for 40% of its amount, and 60% of which is paid in the year following the financial year to which it relates. The amounts for the undeferred and deferred part are paid 50% in cash and 50% in BCP shares. The number of BCP shares assigned and to be assigned results from its valuation at a share-price value defined in accordance with the approved Remuneration Policy.

The Employees considered Key Function Holders are not covered by Commercial Incentive Systems.

As provided for in the Approved Remuneration Policy and applicable legislation, the variable remuneration amounts attributed to the members of the Executive Committee and employees considered Key Functions Holders are subject to reduction and reversal mechanisms, to be applied in case of verification of extremely significant events, duly identified, in which the persons concerned have had a direct participation.

For the members of the Executive Committee, a long-term variable remuneration system is also provided for, whereby they may receive a fully paid variable remuneration in BCP shares after the end of the evaluation period from 1 January 2018 to 31 December 2021, provided that a certain level of performance is achieved in a set of long-term objectives. The amount of the variable long-term remuneration allocated is subject to a 3-year deferral period for 40% of its amount, and 60% of which is paid in the year following the evaluation period to which it relates. The number of BCP shares assigned results from their valuation at a share-price value defined in accordance with the approved Remuneration Policy.

All shares attributed to members of the Executive Committee and to Key Function Holders, related to the payment of the variable remuneration, including the long-term, are subject to a retention period of 1 year after their payment.

16.3. Identification of key function holders

The Group annually identifies employees with key functions (Key Function Holders / KFH) through a self-assessment process carried out by BCP's Human Resources Division, in coordination with similar bodies in each Group Entity, in accordance with the Commission Delegated Regulation (EU) 604/2014. This exercise ensures the complete identification of all employees whose professional activities have a material impact on the Group's risk profile, at the individual and group level, and is supported on the qualitative and quantitative criteria mentioned below:

- First-line Managers and Executive Directors or equivalent of other Entities of the Group.
- Second-line Managers of the Risk Office, Compliance Office, and Internal Audit Division.
- Second-line Managers of the Treasury Division.
- Employees with delegated powers to approve credit transactions at a decision level immediately below those in which the intervention of the members of the Executive Committee is required.
- Members of the management committees, with the right to vote, not included in the above-mentioned groups.
- Employees with total remuneration of more than 500,000 euros or equivalent in the last financial year.
- Employees included in the set of 0.3% of employees with a higher total remuneration, in the previous financial year.
- Employees with a total remuneration, in the previous financial year, above the lowest total remuneration of a First-Line Manager.

The annual self-assessment process at the level of the Group Entity is conducted during the third quarter of the year and the results submitted for approval by each Board of Directors of the Group Entities, and subsequently presented to BCP's Board of Directors, jointly with the opinion issued by the Committee for Nominations and Remunerations.

16.4. Remuneration policy governance

The Remuneration and Welfare Board (RWB), a body emanating from the General Meeting of Shareholders, is responsible for setting the remuneration of the members of the Bank's corporate bodies (Board of Directors, Board of the General Assembly and the Board for International Strategy), to determine the pension supplements of the directors and, jointly with the Committee for Nominations and Remunerations, to make a proposal for the remuneration policy of the members of the BCP corporate bodies to be presented to the General Assembly of Shareholders.

The Board of Directors of BCP (BoD) is responsible for the approval of the Group Remunerations Policy and the continuous monitoring and oversight of its implementation by delegation of the Remunerations and Welfare Board.

The Committee for Nominations and Remunerations (CNR) provides support and advice to the Board of Directors in the preparation of the Group Remunerations Policy, being responsible for the preparation, in matters within its competence, of the resolutions on remuneration to be taken by the General Assembly of Shareholders and the BoD. The composition of the CNR and the number of annual meetings of this Committee are contained in mentioned Part D of the Corporate Governance Report.

In the case of BCP and the entities in Portugal, the Remuneration and Welfare Board oversees the preparation of remuneration policies and sets, under delegation of the General Meeting of Shareholders, the remuneration of the members of the Board of Directors, establishes the terms of the pension supplements for the management board and submits the remuneration policy for the Bank's management bodies to the annual General Meeting of Shareholders, jointly with the CNR.

The composition of the CNR and the number of annual meetings of this specialized committee of the Board of Directors are contained in Part D of the Corporate Governance report.

For the performance of its functions, namely in the supervision of the Remuneration Policies of the Subsidiaries, the CNR resorted to the advisory services of the external company KPMG, whose hiring process was prepared by the Compliance Officer.

In 2021, the Bank's remuneration policies were revised, so that they framed legislative and regulatory changes with significant impact on the governance of publicly held companies and credit institutions, namely regarding remuneration policies and practices, particularly Law 50/2020 of August 25 and Notice no. 3/2020 of Banco de Portugal, published on July 15.

Decisions on the remuneration of the KFHs fall within the competence of the CNR by delegation of the BoD, on a proposal by the Executive Committee (ExCo). The decisions relating to the remuneration of the other employees are a responsibility of the ExCo, in compliance of the Group approved by the BoD.

Regarding the variable remuneration of the KFHs it is the ExCo's responsibility to make a proposal for the overall amount of the variable remuneration to be attributed to these employees, for approval of the CNR and referral to the BoD.

To perform its task, the CNR communicates with the Committee for Risk Assessment and, if necessary, with the CEO, the CRO and the Company Secretary, and takes into account the contributions made by the relevant corporate functions, in particular the following:

- The Human Resources Division (HRD) participates in the planning of the remuneration structure, remuneration levels and incentive schemes, considering strategic and budgetary goals, the profile of employees, retention strategies and market conditions.
- The Risk Office informs on the definition of appropriate and risk-adjusted performance metrics and possible impacts of variable compensation on the institution's culture and risk profile.
- The Compliance Office analyses how the remuneration policy affects compliance with legislation, regulation, internal policies, and risk culture.

The relevant performance metrics for the following year associated with the variable remuneration should preferably be adopted with the budgetary procedure and at the latest in the first quarter of each year.

The assessment of the performance of employees who are not members of the boards of directors, carried out by the Human Resources Division, should be approved by the Executive Committee by the end of the first quarter of the following year.

Decisions regarding the approval of remuneration policies of other Group Entities and regarding the remuneration of employees of other Group Entities that are Group KFHs require a prior opinion of BCP's CNR, and BCP's CEO and Executive Directors monitoring the Entity should, in principle, be members of the Entity's remuneration committee.

Each year, the CNR, after the opinion of the Committee for Risk Assessment (CRA), based on the information and opinions of the Risk Office and of the Compliance Office, regarding the ex-post risk assessment, resolves on the possible application of measures to the deferred amounts of variable remuneration payable in that year

16.5. Quantitative information

Quantitative information on the overall amount of remuneration awarded in 2021 and their breakdown by business areas and categories of employees is available in note 51 of the Annual Report and Financial Statements for 2021 and Part D of the Corporate Governance Report.

The following tables show the remuneration awarded for the financial year, the special payments to staff whose professional activities have material impact on institution's risk profile, the deferred remuneration and information on remuneration of staff whose professional activities have a material impact on institution's risk profile.

TABLE 84 – TEMPLATE EU REM1 - REMUNERATION AWARDED FOR THE FINANCIAL YEAR

(Thousand euros)

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Number of identified staff	11	6	53	32
2	Total fixed remuneration	2,020,203	3,557,764	8,203,282	2,920,476
3	Of which: cash-based	2,020,203	3,557,764	8,203,282	2,920,476
4	(Not applicable in the EU)				
EU-4a	Fixed remuneration				
5	Of which: shares or equivalent ownership interests				
EU-5x	Of which: share-linked instruments or equivalent non-cash instruments				
6	Of which: other instruments				
7	(Not applicable in the EU)				
8	Of which: other forms				
9	(Not applicable in the EU)				
9	Number of identified staff	11	6	53	32
10	Total variable remuneration	-	820,000	500,428	111,687
11	Of which: cash-based	-	410,000	255,139	57,485
12	Of which: deferred	-	164,000	82,600	-
EU-13a	Of which: shares or equivalent ownership interests	-	410,000	245,289	54,202
EU-14a	Of which: deferred	-	164,000	82,600	-
EU-13b	Variable remuneration				
EU-14b	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14x	Of which: deferred	-	-	-	-
EU-14y	Of which: other instruments	-	-	-	-
15	Of which: deferred	-	-	-	-
16	Of which: other forms	-	-	-	-
17	Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)	2,020,203	4,377,764	8,703,710	3,032,164

TABLE 85 – TEMPLATE EU REM2 - SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF)

(Thousand euros)

	a	b	c	d
	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
1 Guaranteed variable remuneration awards - Number of identified staff	0	0	0	0
2 Guaranteed variable remuneration awards -Total amount	0	0	0	0
3 Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap				
Severance payments awarded in previous periods, that have been paid out during the financial year				
4 Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	0	0	0	0
5 Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	0	0	0	0
Severance payments awarded during the financial year				
6 Severance payments awarded during the financial year - Number of identified staff	0	0	0	3
7 Severance payments awarded during the financial year - Total amount	0	0	0	1,327,325
8 Of which paid during the financial year	0	0	0	1,327,325
9 Of which deferred	0	0	0	0
10 Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0	0	0	0
11 Of which highest payment that has been awarded to a single person	0	0	0	886,488

TABLE 86 – TEMPLATE EU REM3 - DEFERRED REMUNERATION

(Thousand euros)

	a	b	c	d	e	f	EU - g	EU - h
Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to explicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1 MB Supervisory function	0	0	0	0	0	0	0	0
2 Cash-based								
3 Shares or equivalent ownership interests								
4 Share-linked instruments or equivalent non-cash instruments								
5 Other instruments								
6 Other forms								
7 MB Management function	1,357,374	277,418	901,098	0	0	0	178,858	138,709
8 Cash-based	678,687	138,709	450,549				89,429	
9 Shares or equivalent ownership interests	678,687	138,709	450,549				89,429	138,709
10 Share-linked instruments or equivalent non-cash instruments								
11 Other instruments								
12 Other forms								
13 Other senior management	1,095,331	257,729	658,339	0	0	0	179,263	218,494
14 Cash-based	278,775	39,235	239,540					
15 Shares or equivalent ownership interests	816,556	218,494	418,799				179,263	218,494
16 Share-linked instruments or equivalent non-cash instruments								
17 Other instruments								
18 Other forms								
19 Other identified staff	54,505	14,137	32,278	0	0	0	8,090	0
20 Cash-based	15,120	3,024	12,096					
21 Shares or equivalent ownership interests	39,385	11,113	20,182				8,090	0
22 Share-linked instruments or equivalent non-cash instruments								
23 Other instruments								
24 Other forms								
25 Total amount	2,507,210	549,284	1,591,715	0	0	0	366,211	357,203

TABLE 87 – TEMPLATE EU REM4 - REMUNERATION OF 1 MILLION EUR OR MORE PER YEAR

(Thousand euros)

EUR		a Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	0
2	1 500 000 to below 2 000 000	0
3	2 000 000 to below 2 500 000	0
4	2 500 000 to below 3 000 000	0
5	3 000 000 to below 3 500 000	0
6	3 500 000 to below 4 000 000	0
7	4 000 000 to below 4 500 000	0
8	4 500 000 to below 5 000 000	0
9	5 000 000 to below 6 000 000	0
10	6 000 000 to below 7 000 000	0
11	7 000 000 to below 8 000 000	0
x	To be extended as appropriate, if further payment bands are needed.	0

TABLE 88 – TEMPLATE EU REM5 - INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF)

(Thousand euros)

	a	b	c	d	e	f	g	h	i	j
	Management body remuneration			Business areas						
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1 Total number of identified staff										
2 Of which: members of the MB	11	6	17							
3 Of which: other senior management				4	13	6	8	5	17	
4 Of which: other identified staff				0	4	3	1	19	5	
5 Total remuneration of identified staff	2,020,203	4,377,764	6,397,967	732,546	2,317,514	1,960,568	1,256,767	2,483,191	2,985,288	
6 Of which: variable remuneration	0	820,000	820,000	40,000	148,715	47,762	81,874	119,199	174,566	
7 Of which: fixed remuneration	2,020,203	3,557,764	5,577,967	692,546	2,168,800	1,912,806	1,174,893	2,363,993	2,810,722	

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APPENDIX III – 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

CRM: Credit Risk Mitigation techniques

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

ICS: Internal Control System

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

LCR: Liquidity Coverage Ratio

LGD: Loss Given Default

O-SII: Other Systemically Important Institution

OTC: Over-the-Counter derivatives

NSFR: Net Stable Funding Ratio

NPA: Non-performing Assets

NPE: Non-performing Exposures

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

RMS: Risk Management System

RSA: Risks Self-Assessment

RWEA: Risk Weighted: Risk Weighted Exposure Amounts

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

Market Discipline Report 2021

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