52. RISK MANAGEMENT

The Group is subject to several risks during the course of its business. The risks from different companies of the Group are managed centrally, in coordination with the local departments and considering the specific risks of each business.

The Group's risk-management policy is designed to permanently ensure an adequate relationship between its own funds and the business it develops, as well as the corresponding evaluation of the risk/return profile by business line.

Under this scope, the monitoring and control of the main types of financial risks to which the Group's business is subject to – credit, market, liquidity and operational – is particularly relevant.

MAIN TYPES OK RISK

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between these instruments and the respective volatilities.

Liquidity – Liquidity risk reflects the Group's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk consists in the potential losses resulting from failures or inadequacies in internal procedures, persons or systems, and also in the potential losses resulting from external events.

INTERNAL ORGANISATION

Banco Comercial Português Board of Directors is responsible for the definition of the risk policy, including the approval of the principles and rules of the highest level to be followed in risk management, as well as the guidelines dictating the allocation of capital to the business lines.

The Board of Directors, through the Audit Committee, ensures the existence of adequate risk control and of risk-management systems at Group level and for each entity. The Board of Directors also approves the risk-tolerance level acceptable to the Group, proposed by its Executive Committee.

The Risk Committee is responsible for monitoring the overall levels of risk incurred, ensuring that these are compatible with the goals and strategies approved for the business.

The Chief Risk Officer is responsible for the control of risks in all Group entities, for the identification of all risks to which the Group activity is exposed and for the proposal of measures to improve risks control. The Chief Risk Officer also ensures that risks are monitored on an overall basis and that there is alignment of concepts, practices and goals in risk management.

The activity of every entity included within the Banco Comercial Português consolidation perimeter is governed by the principles and decisions established centrally by the Risk Committee and the main subsidiaries are provided with Risk Office structures which are established in accordance with the risks inherent to their particular business. A Risk Control Commission has been set up at each relevant subsidiary, responsible for the control of risks at local level, in which the Chief Risk Officer takes part.

The Group Head of Compliance is responsible for implementing systems for monitoring the compliance with legal obligations and responsibilities to which the Bank is subject, as well, the prevention, monitoring and reporting of risks in organizational processes, which include, among others, the prevention and repression of money laundering, combating financing of terrorism, prevention of conflicts of interest, issues related to abuse of market and compliance with the disclosure requirements to customers.

RISK ASSESSMENT

Credit Risk

Credit granting is based on a prior classification of the customers' risk and on a thorough assessment of the level of protection provided by the underlying collateral. In order to do so, a single risk-notation system has been introduced, the Rating Master Scale, based on the expected probability of default, allowing greater discrimination in the assessment of the customers and better establishment of the hierarchies of the associated risk.

The Rating Master Scale also identifies those customers that show a worsening credit capacity and, in particular, those classified as being in default. All rating and scoring models used by the Group have been duly calibrated for the Rating Master Scale. The protection-level concept has been introduced as a crucial element of evaluation of the effectiveness of the collateral in credit-risk mitigation, leading to a more active collateralization of loans and to a better adequacy of pricing regarding the risk incurred.

The gross Group's exposure to credit risk (original exposure) is presented in the following table:

(Thousands of euros)

Risk items	2017	2016
Central Governments or Central Banks	11,404,056	10,351,072
Regional Governments or Local Authorities	744,693	763,620
Administrative and non-profit Organisations	349,156	765,626
Multilateral Development Banks	19,432	17,968
Other Credit Institutions	2,915,047	3,024,895
Retail and Corporate customers	60,199,404	59,364,139
Other items (*)	11,449,727	13,889,468
	87,081,515	88,176,788

Note: gross exposures of impairment and amortization, in accordance with the prudential consolidation perimeter. Includes securitization positions.

(*) In addition to positions in equity, collective investment and securitization, the Other items contain other assets subject to credit risk in accordance with article 134 of the CRR.

The Bank of Portugal applied for a group of templates to evaluate the risk associated to the loans portfolio and the calculation of the corresponding losses. Methodological notes regarding the following categories:

a) Collaterals and Guarantees

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

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

- financial collaterals, real estate collaterals or other collaterals;
- receivables;
- first demand guarantees, issued by banks or other entities with Risk Grade 7 or better on the Rating Master Scale;
- personal guarantees, when the persons are classified with Risk Grade 7 or better;
- credit derivatives.

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

In this context, it is important to refer that the Bank's shares are not accepted as financial collaterals of new credit operations and are only accepted for the reinforcement of guarantees of existing credit operations, or in restructuring process associated to credit recoveries.

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

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

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

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

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

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

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

Regarding residential real estate, after the initial valuation and in accordance with Notice n. 5/2006 of Bank of Portugal and e CRR 575/2013, the Bank monitors the respective values through market indexes. If the index is lower than 0.9, the Bank revaluates 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 Euros 300,000;
ii) - review of the property value by external valuators, depending on the value of the credit operation, and in accordance wit the established standards from ECB and Bank of Portugal.

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

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

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

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

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

b) Risk grades

Credit granting is based on the previous risk assessment of clients and also on a rigorous assessment of the protection level provided by the underlying collaterals. For this purpose, a single risk grading system is used - the Rating Master Scale - based on Probability of Default (PD), allowing for a greater discriminating power in clients assessment and for a better hierarchy of the associated risk. The Rating Master Scale also allows to identify clients that show signs of degradation in their credit capacity and, in particular, those that are classified in a default situation. All rating systems and models used by the Group were calibrated for the Rating Master Scale.

Aiming at an adequate assessment of credit risk, the Group defined a set of macro segments and segments which are treated through different rating systems and models that relate the internal risk grades and the clients' PD, ensuring a risk assessment that considers the clients' specific features in terms of their respectively risk profiles.

The assessment made by these rating systems and models result in the risk grades of the Master Scale, that has fifteen grades, where the last three correspond to relevant downgrades of the clients' credit quality and are referred to by "procedural risk grades": 13, 14 and 15, that correspond, in this order, to situations of increased severity in terms default, as risk grade 15 is a Default situation.

The non-procedural risk grades are attributed by the rating systems through automatic decision models or by the Rating Division – a unit which is independent from the credit analysis and decision areas and bodies- and are reviewed/updated periodically or whenever this is justified by events.

The models within the various rating systems are regularly subject to validation, made by the Models Validation and Monitoring Office, which is independent from the units that are responsible for the development and maintenance of the rating models.

The conclusions of the validations by the Models Validation and Monitoring Office, as well the respective recommendations and proposal for changes and/or improvements, are analysed and ratified by a specific Validation Committee, composed in accordance to the type of model analysed. The proposals for models' changes originated by the Validation Committee are submitted to the approval of the Risk Committee.

c) Impairment and Write-offs

The credit impairment calculation as at 31 December 2017 integrates the general principles defined by IAS 39 and the guidelines issued by the Bank of Portugal through "Carta-Circular 2/2014 / DSP", in order to align with the international best practices in this area.

This process is based, as far as possible, on the concepts and the data used in capital requirements calculation according to the Internal Ratings Based Approach (IRB), in order to maximize the synergies between the two processes.

There are three components to be considered in impairment calculation, according to the risk of the customers' exposure and whether there is objective evidence of impairment:

- Individual analysis for customers with high exposure and risk;
- Collective analysis for customers in default or considered at high risk, not included in individual analysis;
- Collective analysis of customers not in default, non-high risk or without enough evidence of impairment, as a result of individual analysis (IBNR - Incurred But Not Reported component).

Customers in one of the following conditions are submitted to individual analysis:

Customers in default

i) Customers in insolvency or under legal proceedings provided that the total exposure of the group's customers in these situations exceed Euros 1 million;
ii) Customers rated "15" integrated in groups with exposure above Euros 5 million;

Customers not in default but with impairment indicators

iii) Customers rated "14" integrated in groups with exposure above Euros 5 million;

Groups or Customers without impairment indicators

iv) Other customers integrating groups under the above conditions;
v) Groups or customers with exposure above Euros 5 million having restructured credits and rated "13";
vi) Groups or Customers with exposure above Euros 10 million, provided that some pre-defined impairment soft signs exist;
vii) Groups or Customers not included in the preceding paragraphs, with exposure above Euros 25 million.

Other customers, that do not meet the criteria above, will also be subject to individual analysis if under the following conditions:

i) Have impairment as a result of the latest individual analysis; or
ii) According to recent information, show a significant deterioration in risk levels; or
iii) are Special Vehicle Investment (SPV);

Individual analysis includes the following procedures:

- For customers without impairment signs, analysis of a set of financial difficulties indicators, in order to conclude if the customer has objective impairment signs;
- For customers with impairment signs and for those in which objective evidence of impairment is identified in the above mentioned preliminary analysis, loss estimation.

Customers included in individually analysis are subject to a regular process of assigning an expectation of recovery of the totality of their exposure and of the expected period for such recovery, and the impairment value of each customer should be supported, mainly in the prospects of receiving monetary, financial or physical assets and in the forecasted period for those receipts.

This process is carried out by recovery areas or by the Credit Division, supported by all the relevant elements for the calculation of impairment, including the following ones:

- economic and financial data, based on the most recent financial statements of the customer;
- qualitative data, characterizing the customer's situation, particularly with regard to the economic viability of the business;
- estimated cash flows for the clients on an ongoing basis;
- customers credit experience with the Bank and with the Financial System.

Each of the aforementioned units is responsible for assigning an expectation and a recovery period to the exposures relating to clients subject to individual analysis, which must be transmitted to the Risk Office in the context of the regular process of collection of information, accompanied by detailed justification of the impairment proposal.

The Risk Office is responsible for reviewing the information collected and for clarifying all identified inconsistencies, and it is the final decision on the client's impairment.

For the purpose of individual analysis, information on collaterals and guarantees plays an important role, mainly for real estate companies and whenever the viability of the customer's business is weak.

The Bank takes a conservative approach concerning collaterals, working with haircuts that incorporate the risk of assets devaluation, the sale and maintenance costs and the required time for sale.

For each client, the impairment is calculated as the difference between the exposure and the sum of the expected cash-flows of all the businesses, discounted at the effective interest rate of each operation.

Credits to customers that are not individually analysed are grouped according to their risk characteristics, and impairment is based on homogenous populations, assuming a one-year emergence period (or loss identification period).

For the calculation of the impairment by homogeneous population is used the following formula: Collective impairment = EAD * PD * LGD.

in which EAD represents the client's credit exposure, PD represents the probability of a customer going into default in the period of recognition of the loss and LGD represents the loss associated with a customer in default taking into account the time of default.

For the calculation of PD, the homogeneous populations result from the following factors:

- Customer segment for rating purposes (according to the corresponding rating model);
- Risk bucket, depending on customer current status (different probabilities of default correspond to the several buckets).

For the calculation of LGD, the homogeneous populations result from the following factors:

- Customer segment;
- Defaulted period;
- LTV (Loan to Value) for exposures collateralized by real estate.

LGD estimation is mainly based on the following components:

- a priori definition of the possible recovery scenarios;
- historical information about the Bank's recovery processes, mainly regarding incurred losses and the probabilities associated to each of the recovery scenarios;
- direct and indirect costs associated to the recovery processes;
- discounted rate to be used in the discount of the cash-flows to the date of default;
- collaterals associated to each loan.

The criteria and the concepts underlying the definition of the above mentioned homogeneous populations are in line with the ones used for capital requirements (IRB) purposes.

The results of the impairment calculation process are the subject of accounting. In accordance with "Carta-Circular 15/2009" from the Bank of Portugal, write-offs take place whenever there are no realistic expectations of recovery; hence, when impairment reaches 100%, credits shall be considered as uncollectible. However, even if a credit not yet has an impairment of 100% can also be classified as uncollectible, provided there are no recovery expectations. It is noteworthy that all of the described procedures and methodologies are subject to internal regulations superiorly approved, concerning impairment, credit granting and monitoring and non-performing credit treatment.

The following tables detail the exposures and impairment by segment, as at 31 December 2017. The data presented includes the irrevocable credit lines, guarantees and commitments:

(Thousands of euros)

	Exposure 2017					
		Performing loans			Non-performing loans	
Segment	Total Exposure	Total	Of which "cured" (a)	Of which restructured (b)	Total	Of which restructured (b)
Construction and CRE (*)	6,322,862	4,074,450	28,423	77,044	2,248,412	884,857
Companies-Other Activities	20,815,356	18,464,348	70,460	463,187	2,351,008	965,753
Mortgage loans	23,596,442	22,316,971	123,237	399,657	1,279,471	449,535
Individuals - Others	4,795,433	4,171,569	12,491	76,494	623,864	250,608
Other loans	3,206,371	2,305,980	8,096	444,002	900,391	371,125
	58,736,464	51,333,318	242,707	1,460,384	7,403,146	2,921,878

(*) - CRE - Commercial real estate

(a) - Credits that have been in default for more than 90 days or have been classified as Credit Risk and which, in the past 12 months, did not verify any of these conditions;

(b) - Credits in which there have been changes in the contractual terms, motivated by customer financial difficulties.

(Thousands of euros)

	Impairment 2017		
Segment	Total Impairment	Performing loans	Non-performing loans
Construction and CRE	921,163	28,487	892,676
Companies-Other Activities	1,282,922	123,447	1,159,475
Mortgage loans	240,666	28,300	212,366
Individuals - Others	397,003	41,228	355,775
Other loans	611,052	49,019	562,033
	3,452,806	270,481	3,182,325

The following tables detail the exposures and impairment by segments, as at 31 December 2016. The data presented includes the irrevocable credit lines, guarantees and commitments:

(Thousands of euros)

	Exposure 2016					
		Performing loans			Non-performing loans	
Segment	Total Exposure	Total	Of which "cured" (a)	Of which restructured (b)	Total	Of which restructured (b)
Construction and CRE	6,748,292	5,042,462	204,762	551,913	1,705,830	601,521
Companies-Other Activities	20,291,371	18,394,499	216,646	1,124,187	1,896,872	668,235
Mortgage loans	24,103,692	22,768,643	196,672	666,056	1,335,049	352,006
Individuals - Others	4,664,975	3,963,339	28,110	153,607	701,636	261,274
Other loans	2,971,136	2,501,615	76,775	381,303	469,521	299,469
Total	58,779,466	52,670,558	722,965	2,877,066	6,108,908	2,182,505

(a) - Credits that have been in default for more than 90 days or have been classified as Credit Risk and which, in the past 12 months, did not verify any of these conditions;

(b) - Credits in which there have been changes in the contractual terms, motivated by customer financial difficulties.

(Thousands of euros)

Segment	Impairment 2016 Total Impairment	Performing loans	Non-performing loans
Construction and CRE	968,978	198,499	770,479
Companies-Other Activities	1,462,086	512,074	950,012
Mortgage loans	316,314	49,844	266,470
Individuals - Others	513,351	93,196	420,155
Other loans	608,178	269,729	338,449
	3,868,907	1,123,342	2,745,565

The following tables include the detail of the overdue exposure and impairment respectively by segment, as at 31 December 2017:

(Thousands of euros)

	Exposure 2017					
		Performing loans			Non-performing loans	
	Total	Days past due <30			Days past due	
Segment	Exposure	Without evidence	With evidence	Total	<=90 (*)	>90
Construction and CRE	6,322,862	3,896,514	129,316	4,025,830	24,220	2,224,191
Companies-Other Activities	20,815,356	17,222,362	201,228	17,423,590	81,650	2,269,358
Mortgage loans	23,596,442	22,080,629	138,049	22,218,678	67,004	1,212,466
Individuals - Others	4,795,433	4,090,869	47,205	4,138,074	80,284	543,580
Other loans	3,206,371	2,234,013	41,981	2,275,994	6,657	893,734
	58,736,464	49,524,387	557,779	50,082,166	259,815	7,143,329

(*) Credit with capital instalments or interest overdue for less than 90 days, but for which there is evidence to justify its classification as credit at risk, namely bankruptcy or liquidation of the debtor, among others.

The tables disclosed above do not include exposure related to performing loans with past due between 30 and 90 days.

(Thousands of euros)

	Impairment 2017				
		Performing loans		Non-performing loans	
	Total	Days past due		Days past due	
Segment	Impairment	<30	between 30-90	<=90 (*)	>90
Construction and CRE	921,163	27,257	1,236	3,035	889,635
Companies-Other Activities	1,282,922	87,630	35,856	22,982	1,136,454
Mortgage loans	240,666	23,116	5,184	12,447	199,919
Individuals - Others	397,003	33,446	7,782	21,675	334,100
Other loans	611,052	27,403	21,616	1,231	560,802
	3,452,806	198,852	71,674	61,370	3,120,910

(*) Credit with capital instalments or interest overdue for less than 90 days, but for which there is evidence to justify its classification as credit at risk, namely bankruptcy or liquidation of the debtor, among others.

The following tables include the detail of the overdue exposures and impairment respectively by segment, as at 31 December 2016:

(Thousands of euros)

	Exposure 2016					
		Performing loans			Non-performing loans	
	Total	Days past due <30			Days past due	
Segment	Exposure	Without evidence	With evidence	Total	<=90 (*)	>90
Construction and CRE	6,748,292	4,060,773	896,062	4,956,835	563,519	1,142,312
Companies-Other Activities	20,291,371	15,693,300	1,893,076	17,586,376	333,054	1,563,818
Mortgage loans	24,103,692	22,058,813	519,822	22,578,635	71,029	1,264,020
Individuals - Others	4,664,975	3,721,530	176,385	3,897,915	110,511	591,125
Other loans	2,971,136	1,996,372	498,510	2,494,882	38,251	431,271
	58,779,466	47,530,788	3,983,855	51,514,643	1,116,364	4,992,546

(*) Credit with capital instalments or interest overdue for less than 90 days, but for which there is evidence to justify its classification as credit at risk, namely bankruptcy or liquidation of the debtor, among others.

The tables disclosed above do not include exposure related to performing loans with past due between 30 and 90 days.

(Thousands of euros)

	Impairment 2016				
		Performing loans		Non-performing loans	
	Total	Days past due		Days past due	
Segment	Impairment	<30	between 30-90	<=90 (*)	>90
Construction and CRE	968,978	194,988	3,511	229,196	541,283
Companies-Other Activities	1,462,086	499,588	12,486	134,998	815,014
Mortgage loans	316,314	39,239	10,604	12,160	254,311
Individuals - Others	513,351	70,563	22,633	46,757	373,398
Other loans	608,178	269,212	516	14,614	323,836
	3,868,907	1,073,590	49,750	437,725	2,307,842

(*) Credit with capital instalments or interest overdue for less than 90 days, but for which there is evidence to justify its classification as credit at risk, namely bankruptcy or liquidation of the debtor, among others.

As at 31 December 2017, the following table includes the loans portfolio by segment and by year of production (date of the beginning of the operations, in the portfolio at the date of balance sheet - it does not include restructured loans):

	2017					
Year of production	**Construction and CRE**	**Companies - Other Activities**	**Mortgage loans**	**Individuals - Others**	**Other loans**	**Total**
2007 and previous						
Number of operations	13,525	25,709	293,527	518,544	469	851,774
Value (Euros '000)	1,102,287	3,293,047	11,950,816	566,768	282,030	17,194,948
Impairment constituted (Euros '000)	172,898	127,150	118,985	39,144	86,688	544,866
2008						
Number of operations	2,334	4,438	51,483	84,530	101	142,886
Value (Euros '000)	430,283	690,601	2,859,321	118,454	71,494	4,170,153
Impairment constituted (Euros '000)	53,814	36,708	37,916	9,427	9,846	147,711
2009						
Number of operations	2,342	3,835	20,171	73,416	82	99,846
Value (Euros '000)	297,134	705,530	1,016,080	91,262	57,557	2,167,563
Impairment constituted (Euros '000)	25,956	15,910	12,920	7,818	668	63,272
2010						
Number of operations	2,139	4,670	22,205	92,057	107	121,178
Value (Euros '000)	318,513	442,468	1,139,539	108,272	69,002	2,077,794
Impairment constituted (Euros '000)	24,176	21,367	7,321	6,647	13,483	72,994
2011						
Number of operations	2,084	6,168	14,505	105,969	102	128,828
Value (Euros '000)	251,558	548,450	690,366	135,493	99,878	1,725,745
Impairment constituted (Euros '000)	24,473	18,361	3,948	8,904	9,144	64,830
2012						
Number of operations	1,985	7,595	11,886	110,811	127	132,404
Value (Euros '000)	130,199	653,268	512,374	126,610	18,557	1,441,008
Impairment constituted (Euros '000)	11,940	69,121	4,523	10,514	2,298	98,396
2013						
Number of operations	2,828	11,243	12,391	157,954	261	184,677
Value (Euros '000)	248,907	1,021,859	582,308	207,984	505,504	2,566,562
Impairment constituted (Euros '000)	22,000	33,870	5,886	22,112	39,142	123,010
2014						
Number of operations	3,429	17,518	9,152	186,626	346	217,071
Value (Euros '000)	306,153	1,525,860	491,689	322,617	271,324	2,917,643
Impairment constituted (Euros '000)	9,149	54,225	4,526	33,075	19,289	120,264
2015						
Number of operations	4,696	24,652	10,533	252,867	590	293,338
Value (Euros '000)	354,769	2,457,408	651,805	597,156	377,141	4,438,279
Impairment constituted (Euros '000)	30,477	105,387	2,525	42,437	103,223	284,049
2016						
Number of operations	5,107	31,664	14,425	275,819	592	327,607
Value (Euros '000)	577,491	2,737,819	957,102	829,740	309,842	5,411,994
Impairment constituted (Euros '000)	20,440	64,001	3,090	28,886	7,371	123,788
2017						
Number of operations	8,562	102,309	25,986	389,045	4,039	529,941
Value (Euros '000)	1,150,717	5,203,244	1,973,777	1,312,089	551,122	10,190,949
Impairment constituted (Euros '000)	17,714	51,943	4,414	20,182	21,593	115,846
Total						
Number of operations	49,031	239,801	486,264	2,247,638	6,816	3,029,550
Value (Euros '000)	5,168,011	19,279,554	22,825,177	4,416,445	2,613,451	54,302,638
Impairment constituted (Euros '000)	413,037	598,043	206,054	229,146	312,745	1,759,026

As at 31 December 2016, the following table includes the loans portfolio by segment and by year of production (date of the beginning of the operations, in the portfolio at the date of balance sheet - it does not include restructured loans):

	2016					
Year of production	Construction and CRE	Companies - Other Activities	Mortgage loans	Individuals - Others	Other loans	Total
2006 and previous						
Number of operations	13,954	27,200	238,932	495,381	612	776,079
Value (Euros '000)	987,187	2,950,498	9,274,646	510,746	93,713	13,816,790
Impairment constituted (Euros '000)	153,796	124,394	116,516	54,484	5,822	455,012
2007						
Number of operations	2,510	4,937	74,381	89,737	105	171,670
Value (Euros '000)	340,607	988,410	4,139,184	138,278	133,037	5,739,516
Impairment constituted (Euros '000)	64,934	68,366	55,587	18,953	82,562	290,402
2008						
Number of operations	3,068	5,871	53,873	101,624	119	164,555
Value (Euros '000)	584,715	852,956	3,217,980	142,400	128,754	4,926,805
Impairment constituted (Euros '000)	70,834	72,220	42,295	22,102	11,880	219,331
2009						
Number of operations	3,040	5,011	21,614	92,642	123	122,430
Value (Euros '000)	345,427	860,420	1,130,253	111,509	124,445	2,572,054
Impairment constituted (Euros '000)	29,742	20,960	18,976	17,008	15,803	102,489
2010						
Number of operations	2,881	5,868	23,711	122,176	159	154,795
Value (Euros '000)	418,951	498,879	1,230,618	123,635	92,606	2,364,689
Impairment constituted (Euros '000)	24,085	30,112	8,578	14,556	12,872	90,203
2011						
Number of operations	2,820	8,792	15,503	139,078	155	166,348
Value (Euros '000)	263,864	731,191	732,335	145,005	30,794	1,903,189
Impairment constituted (Euros '000)	24,632	61,294	3,957	14,247	7,942	112,072
2012						
Number of operations	2,705	10,805	12,688	146,103	221	172,522
Value (Euros '000)	248,257	872,458	538,325	144,676	48,516	1,852,232
Impairment constituted (Euros '000)	14,801	75,056	4,207	12,702	3,388	110,154
2013						
Number of operations	3,854	16,364	13,289	192,661	405	226,573
Value (Euros '000)	326,763	1,261,752	633,521	288,250	473,537	2,983,823
Impairment constituted (Euros '000)	22,111	40,362	6,127	26,632	7,676	102,908
2014						
Number of operations	4,242	22,475	9,756	226,808	559	263,840
Value (Euros '000)	401,286	2,020,901	529,641	438,920	348,371	3,739,119
Impairment constituted (Euros '000)	21,645	46,060	5,110	33,894	19,369	126,078
2015						
Number of operations	5,267	27,642	11,119	306,969	840	351,837
Value (Euros '000)	591,962	3,054,775	719,689	785,720	384,592	5,536,738
Impairment constituted (Euros '000)	28,876	119,317	2,845	34,598	35,669	221,305
2016						
Number of operations	7,913	60,938	13,618	300,805	2,028	385,302
Value (Euros '000)	883,234	4,173,631	1,008,641	1,298,497	732,708	8,096,711
Impairment constituted (Euros '000)	25,776	39,645	3,696	20,123	7,682	96,922
Total						
Number of operations	52,254	195,903	488,484	2,213,984	5,326	2,955,951
Value (Euros '000)	5,392,253	18,265,871	23,154,833	4,127,636	2,591,073	53,531,666
Impairment constituted (Euros '000)	481,232	697,786	267,894	269,299	210,665	1,926,876

As at 31 December 2017, the following tables include the details of the loans portfolio subject to individual and collective impairment by segment, sector and geography:

(Thousands of euros)

	2017					
	Exposure			Impairment		
Segment	**Individual**	**Collective (*)**	**Total**	**Individual**	**Collective**	**Total**
Construction and CRE	2,386,169	3,936,693	6,322,862	791,803	129,360	921,163
Companies - Other Activities	2,221,024	18,594,332	20,815,356	1,060,142	222,780	1,282,922
Mortgage loans	59,898	23,536,544	23,596,442	24,146	216,520	240,666
Individuals - Others	111,446	4,683,987	4,795,433	59,999	337,004	397,003
Other loans	1,943,082	1,263,289	3,206,371	599,874	11,178	611,052
	6,721,619	52,014,845	58,736,464	2,535,964	916,842	3,452,806

(Thousands of euros)

	2017					
	Exposure			Impairment		
Activity sector	**Individual**	**Collective (*)**	**Total**	**Individual**	**Collective**	**Total**
Loans to Individuals	162,698	26,728,592	26,891,290	80,088	520,009	600,097
Manufacturing	425,257	4,625,822	5,051,079	121,814	64,219	186,033
Construction	1,344,209	1,779,677	3,123,886	478,654	82,601	561,255
Commerce	390,418	4,721,932	5,112,350	97,400	106,763	204,163
Real Estate Promotion	242,795	678,255	921,050	69,406	9,012	78,418
Other Services	3,228,789	11,004,089	14,232,878	1,592,021	109,310	1,701,331
Other Activities	927,453	2,476,478	3,403,931	96,581	24,928	121,509
	6,721,619	52,014,845	58,736,464	2,535,964	916,842	3,452,806

(Thousands of euros)

	2017					
	Exposure			Impairment		
Geography	**Individual**	**Collective (*)**	**Total**	**Individual**	**Collective**	**Total**
Portugal	5,029,153	38,312,708	43,341,861	2,355,933	634,035	2,989,968
Mozambique	1,141,401	96,854	1,238,255	77,884	18,649	96,533
Poland	176,648	13,605,283	13,781,931	99,610	264,158	363,768
Switzerland	374,417	-	374,417	2,537	-	2,537
	6,721,619	52,014,845	58,736,464	2,535,964	916,842	3,452,806

As at 31 December 2016, the following table includes the details of the loans portfolio subject to individual and collective impairment by segment:

(Thousands of euros)

	2016					
	Exposure			Impairment		
Segment	**Individual**	**Collective (*)**	**Total**	**Individual**	**Collective**	**Total**
Construction and CRE	2,119,430	4,628,862	6,748,292	758,593	210,385	968,978
Companies - Other Activities	3,185,584	17,105,787	20,291,371	1,152,849	309,237	1,462,086
Mortgage loans	73,302	24,030,390	24,103,692	22,330	293,984	316,314
Individuals - Others	124,418	4,540,557	4,664,975	66,963	446,388	513,351
Other loans	1,303,921	1,667,215	2,971,136	585,872	22,306	608,178
	6,806,655	51,972,811	58,779,466	2,586,607	1,282,300	3,868,907

(*) The Collective Exposure column includes the credits under individual analysis for which the Group concluded that there is no objective evidence of impairment.

As at 31 December 2016, the following tables include the details of the loans portfolio subject to individual and collective impairment, by sector and geography:

(Thousands of euros)

	2016					
	Exposure			Impairment		
Activity sector	**Individual**	**Collective (*)**	**Total**	**Individual**	**Collective**	**Total**
Loans to Individuals	189,387	27,089,364	27,278,751	85,368	684,960	770,328
Manufacturing	260,843	4,117,389	4,378,232	98,174	87,593	185,767
Construction	990,647	2,379,746	3,370,393	400,294	134,501	534,795
Commerce	192,188	4,576,106	4,768,294	67,719	171,453	239,172
Real Estate Promotion	572,232	749,161	1,321,393	158,805	12,299	171,104
Other Services	3,745,051	10,060,467	13,805,518	1,607,959	158,625	1,766,584
Other Activities	856,307	3,000,578	3,856,885	168,288	32,869	201,157
	6,806,655	51,972,811	58,779,466	2,586,607	1,282,300	3,868,907

(Thousands of euros)

	2016					
	Exposure			Impairment		
Geography	**Individual**	**Collective (*)**	**Total**	**Individual**	**Collective**	**Total**
Portugal	6,130,870	38,100,228	44,231,098	2,458,327	1,004,630	3,462,957
Mozambique	105,654	1,375,707	1,481,361	38,115	50,696	88,811
Poland	197,002	12,496,876	12,693,878	88,094	226,974	315,068
Switzerland	373,129	-	373,129	2,071	-	2,071
	6,806,655	51,972,811	58,779,466	2,586,607	1,282,300	3,868,907

(*) The Collective Exposure column includes the credits under individual analysis for which the Group concluded that there is no objective evidence of impairment.

The following chart includes the entrances and the exits of the restructured loans portfolio:

(Thousands of euros)

	2017	**2016**
Balance on 1 January	5,059,571	5,440,684
Transfers resulted from structure changes (*)	-	(71,197)
Restructured loans in the year	718,988	888,271
Accrued interests of the restructured portfolio	48,024	7,383
Settlement restructured credits (partial or total)	(747,088)	(684,603)
Reclassified loans from restructured to normal	(282,664)	(299,580)
Others	(414,569)	(221,387)
Balance at the end of the year	4,382,262	5,059,571

(*) Banco Millennium Angola, S.A.

As at 31 December 2017, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	2017					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other Collateral (*)	Real Estate	Other Collateral (*)	Real Estate	Other Collateral (*)
< 0.5 M€						
Number	8,234	7,265	11,659	59,792	405,122	466
Value (Euros '000)	973,882	192,714	1,548,932	1,456,339	44,297,149	24,169
>= 0.5 M€ and < 1 M€						
Number	539	56	1,179	267	2,182	6
Value (Euros '000)	367,191	35,677	818,215	186,548	1,405,443	3,948
>= 1 M€ and < 5 M€						
Number	409	58	938	246	297	2
Value (Euros '000)	821,414	111,562	1,842,171	501,882	440,762	4,039
>= 5 M€ and < 10 M€						
Number	47	6	108	23	3	-
Value (Euros '000)	319,356	46,363	737,290	170,979	18,391	-
>= 10 M€ and < 20 M€						
Number	38	4	62	19	-	-
Value (Euros '000)	555,655	57,738	833,482	272,379	-	-
>= 20 M€ and < 50 M€						
Number	11	1	30	4	-	-
Value (Euros '000)	315,506	22,230	944,616	108,978	-	-
>= 50 M€						
Number	4	-	9	4	-	-
Value (Euros '000)	250,839	-	834,614	842,987	-	-
Total						
Number	9,282	7,390	13,985	60,355	407,604	474
Value (Euros '000)	3,603,843	466,284	7,559,320	3,540,092	46,161,745	32,156

(*) Includes, namely, securities, deposits and fixed assets pledges.

As at 31 December 2016, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	2016					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other Collateral (*)	Real Estate	Other Collateral (*)	Real Estate	Other Collateral (*)
< 0.5 M€						
Number	9,122	6,118	11,425	50,211	406,843	447
Value (Euros '000)	1,037,511	101,234	1,576,589	549,682	44,361,715	22,468
>= 0.5 M€ and < 1 M€						
Number	582	48	1,233	254	2,048	4
Value (Euros '000)	390,326	26,845	858,829	140,359	1,317,158	2,506
>= 1 M€ and < 5 M€						
Number	417	44	1,055	223	274	1
Value (Euros '000)	804,227	55,103	2,069,466	367,380	407,943	1,824
>= 5 M€ and < 10 M€						
Number	52	3	110	18	6	-
Value (Euros '000)	314,635	6,148	745,492	120,051	32,022	-
>= 10 M€ and < 20 M€						
Number	41	3	72	11	2	-
Value (Euros '000)	586,963	15,950	987,617	151,649	26,807	-
>= 20 M€ and < 50 M€						
Number	11	-	25	12	-	-
Value (Euros '000)	339,336	-	834,071	310,046	-	-
>= 50 M€						
Number	3	-	9	5	-	-
Value (Euros '000)	221,017	-	763,086	913,612	-	-
Total						
Number	10,228	6,216	13,929	50,734	409,173	452
Value (Euros '000)	3,694,015	205,280	7,835,150	2,552,779	46,145,645	26,798

(*) Includes, namely, securities, deposits and fixed assets pledges.

As at 31 December 2017, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	2017			
Segment/Ratio	Number of properties	Performing loans	Non-performing loans	Impairment
Construction and CRE				
Without associated collateral	n.a.	2,392,620	698,185	369,525
<60%	9,331	538,924	95,724	26,589
>=60% and <80%	4,113	359,663	148,150	26,228
>=80% and <100%	2,234	305,654	122,626	48,536
>=100%	38,406	477,589	1,183,727	450,285
Companies - Other Activities				
Without associated collateral	n.a.	13,407,838	1,282,197	695,075
<60%	44,040	1,611,046	173,476	77,424
>=60% and <80%	15,305	1,043,046	128,443	43,284
>=80% and <100%	11,758	778,326	142,199	65,057
>=100%	7,011	1,624,093	624,692	402,082
Mortgage loans				
Without associated collateral	n.a.	409,090	13,260	11,301
<60%	266,317	8,684,265	186,719	20,513
>=60% and <80%	139,291	7,692,693	223,109	18,064
>=80% and <100%	72,474	3,980,818	309,375	28,094
>=100%	32,449	1,550,105	547,008	162,694

As at 31 December 2016, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	2016			
Segment/Ratio	Number of properties	Performing loans	Non-performing loans	Impairment
Construction and CRE				
Without associated collateral	n.a.	2,623,640	572,377	335,981
<60%	9,440	651,488	62,593	31,177
>=60% and <80%	3,558	376,367	148,279	48,787
>=80% and <100%	2,290	432,887	92,814	68,083
>=100%	39,362	958,081	829,766	484,950
Companies - Other Activities				
Without associated collateral	n.a.	12,993,008	1,062,494	707,851
<60%	36,660	1,830,677	115,842	105,523
>=60% and <80%	13,370	1,075,359	101,104	58,065
>=80% and <100%	10,516	697,979	122,288	48,271
>=100%	8,500	1,797,476	495,144	542,376
Mortgage loans				
Without associated collateral	n.a.	80,268	8,283	6,719
<60%	257,170	8,287,300	143,948	20,873
>=60% and <80%	137,791	7,462,388	185,475	18,938
>=80% and <100%	81,980	4,520,200	291,601	34,685
>=100%	43,992	2,418,488	705,741	235,099

As at 31 December 2017, the following table includes the fair value and the accounting net value of the properties arising from recovered loans, by asset and aging:

(Thousands of euros)

	2017					
	Assets arising from recovered loans results (note 27)		Assets belong to investments funds and real estate companies (note 27)		Total	
Asset	Value of the asset	Book value	Value of the asset	Book value	Value of the asset	Book value
Land						
Urban	610,976	560,413	378,754	378,754	989,730	939,167
Rural	10,065	7,679	3,476	3,476	13,541	11,155
Buildings in development						
Commercials	6,289	5,683	37,651	37,651	43,940	43,334
Mortgage loans	60,147	55,980	9,095	9,095	69,242	65,075
Others	721	721	-	-	721	721
Constructed buildings						
Commercials	366,978	325,130	35,581	35,581	402,559	360,711
Mortgage loans	673,157	604,417	10,564	10,564	683,721	614,981
Others	4,562	4,365	5,238	5,238	9,800	9,603
	1,732,895	1,564,388	480,359	480,359	2,213,254	2,044,747

As at 31 December 2017, the following table includes the accounting net value of the properties arising from recovered loans, by aging:

(Thousands of euros)

	2017					
		Past due since the lieu / execution				
Asset	Number of properties (*)	<1 year	>=1 year and <2,5 years	>=2,5 years and <5 years	>=5 years	Total
Land						
Urban	2,199	133,797	430,081	147,790	227,499	939,167
Rural	221	5,496	3,146	931	1,582	11,155
Buildings in development						
Commercials	70	-	1,303	38,409	3,622	43,334
Mortgage loans	525	8,392	28,410	8,524	19,749	65,075
Others	2	-	660	-	61	721
Constructed buildings						
Commercials	1,892	64,511	84,207	123,326	88,667	360,711
Mortgage loans	7,313	221,922	222,576	120,948	49,535	614,981
Others	19	4,072	9	4,575	947	9,603
	12,241	438,190	770,392	444,503	391,662	2,044,747

(*) quantified by autonomous fraction

As at 31 December 2016, the following table includes the fair value and the accounting net value of the properties arising from recovered loans, by asset and aging:

(Thousands of euros)

	2016					
	Assets arising from recovered loans results (note 27)		Assets belong to investments funds and real estate companies (note 27)		Total	
Asset	Value of the asset	Book value	Value of the asset	Book value	Value of the asset	Book value
Land						
Urban	652,374	574,518	400,618	400,618	1,052,992	975,136
Rural	15,523	12,021	-	-	15,523	12,021
Buildings in development						
Commercials	-	-	44,634	44,634	44,634	44,634
Others	674	674	-	-	674	674
Constructed buildings						
Commercials	239,084	207,589	41,855	41,855	280,939	249,444
Mortgage loans	749,929	649,284	24,417	24,417	774,346	673,701
Others	178,912	150,934	6,643	6,643	185,555	157,577
Others	-	-	3,817	3,817	3,817	3,817
	1,836,496	1,595,020	521,984	521,984	2,358,480	2,117,004

As at 31 December 2016, the following table includes accounting net value of the properties arising from recovered loans, by aging:

(Thousands of euros)

	2016					
		Past due since the lieu / execution				
Asset	Number of properties (*)	<1 year	>=1 year and <2.5 years	>=2.5 years and <5 years	>=5 years	Total
Land						
Urban	2,358	271,988	212,774	142,385	347,989	975,136
Rural	188	7,209	1,527	920	2,365	12,021
Buildings in development						
Commercials	2	-	-	-	44,634	44,634
Others	2	617	-	-	57	674
Constructed buildings						
Commercials	1,695	33,848	65,991	79,047	70,558	249,444
Mortgage loans	7,609	343,610	178,169	79,199	72,723	673,701
Others	406	18,082	26,612	65,203	47,680	157,577
Others	3	-	-	-	3,817	3,817
	12,263	675,354	485,073	366,754	589,823	2,117,004

(*) quantified by autonomous fraction

As at 31 December 2017, the following table includes the distribution of the loans portfolio by segment and degrees of internal risk, attributable in Portugal and Poland:

(Thousands of euros)

	2017					
Degrees of risk	Construction and CRE	Companies Other Activities	Mortgage loans	Individuals Others	Other Credits	Total
Higher quality						
1	-	5	-	-	-	5
2	785	14,129	3,731,944	370,962	35	4,117,855
3	11,305	783,892	6,149,038	160,147	413	7,104,795
4	139,500	2,334,630	3,396,057	465,816	81,546	6,417,549
5	140,312	2,056,968	2,360,270	600,628	277,690	5,435,868
6	452,348	2,824,037	1,675,172	531,259	61,167	5,543,983
Average quality						
7	267,550	1,817,529	1,130,634	566,873	127,622	3,910,208
8	208,980	2,024,037	772,348	413,752	210,153	3,629,270
9	448,418	1,838,660	775,519	291,502	192,259	3,546,358
Lower quality						
10	351,335	950,325	574,963	165,486	177,512	2,219,621
11	579,056	754,776	387,282	116,550	23,044	1,860,708
12	616,191	1,486,475	795,848	199,112	97,586	3,195,212
Procedural						
13	35,238	19,844	175,471	63,359	365	294,277
14	41,959	105,621	75,056	32,573	31,828	287,037
15	2,228,501	2,453,383	1,429,561	610,372	772,710	7,494,527
Not classified (without degree of risk)	440,046	1,338,979	155,784	46,962	84,746	2,066,517
	5,961,524	20,803,290	23,584,947	4,635,353	2,138,676	57,123,790

As at 31 December 2016, the following table includes the distribution of the loans portfolio by segment and degrees of internal risk, attributable in Portugal and Poland:

(Thousands of euros)

	2016					
Degrees of risk	Construction and CRE	Companies Other Activities	Mortgage loans	Individuals Others	Other Credits	Total
Higher quality						
1	-	2	-	-	-	2
2	2,033	19,519	4,018,844	341,842	-	4,382,238
3	3,281	119,768	2,599,096	98,061	361	2,820,567
4	45,395	1,594,023	5,259,247	230,697	14,699	7,144,061
5	146,495	1,510,764	3,119,117	697,564	313,173	5,787,113
6	381,357	2,539,932	1,900,010	517,556	22,233	5,361,088
Average quality						
7	220,504	1,708,236	1,481,423	523,515	97,764	4,031,442
8	349,773	2,397,122	899,127	366,992	50,565	4,063,579
9	338,060	1,731,824	768,276	290,138	161,730	3,290,028
Lower quality						
10	672,034	978,908	686,832	193,492	200,950	2,732,216
11	208,538	532,768	377,493	113,588	14,080	1,246,467
12	864,728	1,655,436	625,830	156,357	78,252	3,380,603
Procedural						
13	19,964	66,622	175,318	53,030	-	314,934
14	31,403	110,015	96,273	32,841	55	270,587
15	2,500,535	3,516,179	1,908,378	815,257	832,366	9,572,715
Not classified (without degree of risk)	391,079	1,788,807	167,208	33,454	146,788	2,527,336
	6,175,179	20,269,925	24,082,472	4,464,384	1,933,016	56,924,976

Credit concentration risk

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined and described in the document Credit Principles and Guidelines, approved by the Bank's management body. This policy applies to all Group entities by the transposition of the respective definitions and requirements into the internal rulings of each entity. Through the document mentioned above, the Group defined the following guidelines relating to the control and management of credit concentration risk:

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:

1) Corporate single-name exposures (Large exposures);
2) Exposures to sovereign risks;
3) Exposures to Institutions (banks/financial institutions);
4) Exposure to sectors of activity;
5) Geographic concentration (country risk).

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

Except for case 4), 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 for single-name concentration are presented in the following table, which indicates the single-name limit established in 2017 (for any given Customer/Group of Customers), as the Net Exposure weight on the consolidated Own Funds:

Risk quality	Risk grade	Max Net exposure as a % of COF
High quality	1 – 5	8.0%
Average/good quality	6 – 7	6.0%
Average low/quality	8 - 9	4.0%
Low quality	10 – 11	1.0%
Restricted credit	12 or worse	0.5%

As at 31 of December 2017 there were 4 Economic Groups with net exposure above the limits approved for the respective risk grade, which compares with 8 Customers by the end of 2016. For each client with 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.

Risk grades: 1 – 3 - Very low risk ; 4 – 6 - Low risk; 7 - 12 - Average (or lower quality) risk.

(*) Net exposure = EAD x LGD, assuming that PD=1 and considering LGD=45% whenever own estimates for LGD do not exist.
(**) NPE = Non-performing exposures
(***) "Risk Appetite" indicators.

The following tables present the concentration limits to Sovereigns, Institutions, activity sectors and geographies, as well as the measurements of these concentrations as at 31 December 2017:

Counterparties	Limit (% of COF)	Net exposure % weight
Sovereigns	Very low risk 25%; low risk 10%; average (or lower quality) risk 7.5%	Sovereign 1: 3.8% (very low risk); Sovereign 2: 0.4% (low risk); Sovereign 3: 0.01% (low risk); Sovereign 4: 0.01% (very low risk)
Institutions	Very low risk 10%; low risk 5%; average (or lower quality) risk 2.5%	Institution 1 (very low risk): 2.7%; Institution 2 (average or lower quality risk): 2.0%; Institution 3 (low risk): 0.7%; Institution 4: 0.7%; Institution 5: 0.6%; Institution 6: 0.6%; Institution 7: 0.6%; Institution 8: 0.5%; Institution 9: 0.5%; Institution 10: 0.5%; Institution 11: 0.4%; Institution 12: 0.3%; Institution 13: 0.3%; Institution 14: 0.3%; Institution 15: 0.3%; Institution 16: 0.2%; Institution 17: 0.2%; Institution 18: 0.2%; Institution 19: 0.2%; Institution 20: 0.2%

Portfolios	Limit (% of COF)	Net exposure % weight
Country risk	Very low risk 40%; low risk 20%; average (or lower quality) risk 10%	Country 1 (very low risk): 4.9% ; Country 2 (very low risk): 2.7% ; Country 3 (very low risk): 2.6% ; Country 4 (average or lower quality risk): 2.5% ; Country 5 (very low risk): 2.3% ; Country 6 (very low risk): 1.8% ; Country 7 (very low risk): 1.5% ; Country 8: 1.3% ; Country 9: 0.8% ; Country 10: 0.6% ; Country 11: 0.5% ; Country 12: 0.3% ; Country 13: 0.2% ; Country 14: 0.2% ; Country 15: 0.2%
Sectors of activity	40% of the Group entity's Own Funds	Portugal: Other corporate services 28.4%; Other activities 19.2%; Construction 17.9%; Financial and insurance activities 16.2%; wholesale and retail trade and repairs 16.2% Poland: Wholesale and retail trade and repairs 25.2%; Transporting ansd storage 12.1%; Financial and insurance activities 10.5%

COF = Consolidated Own Funds

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

Market risk

Market risks consist in losses that may occur as a result of changes in rates (interest or exchange rates) and / or in the prices of different financial instruments, considering not only the correlations between them but also their volatilities.

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

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

The definition of these areas allows for an effective separation of the trading and banking portfolios management, as well as for a proper allocation of each operation to the most appropriate management area, according to its context and strategy.

In order to ensure that the risk levels incurred in the different portfolios of the Group comply with the predefined levels of tolerance to risk, various market risks limits are established, at least yearly, being applicable to all portfolios of the risk management areas over which the risks are incident. These limits are monitored on a daily basis (or intra-daily, in the case of financial markets) by the Risk Office.

Stop Loss limits are also defined for the financial markets areas, based on multiples of the risk limits defined for those areas, aimed at limiting the maximum losses that might occur. When these limits are reached, a review of the strategy and of the assumptions relative to the management of the positions in question is mandatory.

Trading book market risks (Positions allocated to the Trading Management Area and not, specifically, to the accounting Trading Book)

The Group uses an integrated market risk measurement that allows for the monitoring all of the risk subtypes that are considered relevant. This measurement includes the assessment of the following types of risk: general risk, specific risk, non-linear risk and commodity risk. Each risk subtype is measured individually using an appropriate risk model and the integrated measurement is built from the measurements of each subtype without considering any kind of diversification between the four subtypes (worst-case scenario approach).

For the daily measurement of general market risk (relative to interest rate risk, exchange rate risk, equity risk and price risk of credit default swaps) a VaR (value-at-risk) model is used, considering a time horizon of 10 business days and a significance level of 99%.

For non-linear risk, an internally-developed methodology is applied, replicating the effect that the main non-linear elements of options might have in P&L results of the different portfolios in which these are included, similarly to what is considered by the VaR methodology, using the same time horizon and significance level.

Specific and commodity risks are measured through standard methodologies defined in the applicable regulations, with an appropriate change of the time horizon considered.

The following table presents the values at risk for the trading book between 31 December 2017 and 2016, as measured by the above methodologies:

(Thousands of euros)

	2017	Average	Maximum	Minimum	2016
Generic Risk (VaR)					
Interest Rate Risk	2,450	2,946	5,790	834	3,855
FX Risk	790	835	497	443	354
Equity Risk	36	145	11	24	37
Diversification effects	730	827	490	308	325
	2,546	3,099	5,808	993	3,921
Specific Risk	100	386	1,026	81	440
Non Linear Risk	7	7	67	1	8
Commodities Risk	6	18	24	3	16
Global Risk	2,659	3,510	6,925	1,078	4,385

In order to check the appropriateness of the internal VaR model to the assessment of the risks involved in the positions held, several validations are conducted over time, of different scopes and frequency, which include back testing, the estimation of the effects of diversification and the analysis of the comprehensiveness of the risk factors.

As a complement to the VaR assessment, the Group continuously tests a broad range of stress scenarios analysing the respective results with a view to identify risk concentrations that have not been captured by the VaR model and, also, to test for other possible dimensions of loss.

Interest rate risk

The interest rate risk derived from 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 and discriminated by exposure currency.

Variations of market interest rates influence the Group's net interest income, both in the short term and medium/long term, affecting its economic value in a long term perspective. The main risk factors arise from the repricing mismatch of portfolio positions (repricing risk) and from the risk of variation in market interest rates (yield curve risk). Besides this, but with less impact, there is the risk of unequal variations in different reference rates 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 each of the relevant contracts, with the respective expected cash-flows (principal and interest, without the spread component but including costs for liquidity, capital, operational and other) being projected according to the repricing dates, thus calculating the impact on economic value resulting from alternative scenarios of change of market interest rate curves.

The interest rate sensitivity of the balance sheet, by currency, is calculated as the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows simulating parallel shifts of the market interest rates.

The following tables show the expected impact on the banking book economic value of parallel shifts of the yield curve by +/- 100 and +/- 200 basis points, for each of the main currencies in which the Group holds material positions:

(Thousands of euros)

	2017			
Currency	- 200 bp (*)	- 100 bp (*)	+ 100 bp	+ 200 bp
CHF	2,604	2,604	3,815	7,555
EUR	(62,356)	(64,565)	210,712	409,920
PLN	(27,614)	(14,137)	13,840	27,386
USD	(26,289)	(12,915)	12,423	24,405
	(113,655)	(89,013)	240,790	469,266

(Thousands of euros)

	2016			
Currency	- 200 bp (*)	- 100 bp (*)	+ 100 bp	+ 200 bp
CHF	3,662	3,662	4,929	9,774
EUR	12,055	18,765	79,381	156,355
PLN	19,346	9,639	(8,953)	(17,274)
USD	9,198	(8,630)	8,448	40,601
	44,261	23,436	83,805	189,456

(*) Decrease in rates scenario, limited to non-negative rates (which implies effective variations of lesser amplitude than 100 bp, especially in shorter periods).

As described in accounting policy 1 b), the financial statements of the Group's subsidiaries and associates residing abroad are prepared in their functional currency and translated into Euros at the end of each financial period. The exchange rates used for the conversion of balance sheet foreign currency amounts are the ECB reference rates at the end of each period. In foreign currency conversion of results, are calculated average exchange rates according to the closing exchange rates of each month of the year. The rates used by the Group are as follows:

	Closing exchange rates (Balance sheet)		Average exchange rates (Income statement)	
Currency	2017	2016	2017	2016
AOA	199.0190	174.8900	189.7275	180.8171
BRL	3.9775	3.4305	3.6296	3.8609
CHF	1.1704	1.0739	1.1117	1.0925
MOP	9.6669	8.4204	9.6669	8.4204
MZN	70.4400	75.3100	71.6902	69.4927
PLN	4.1756	4.4103	4.2514	4.3756
USD	1.2006	1.0541	1.1344	1.1047

Foreign exchange and equity risk in the banking book

The exchange rate risk of the banking book is transferred internally to the Trading area (Treasury), in accordance with the risk specialisation model followed by the Group for the management of the exchange rate risk of the Balance Sheet. The exposures to exchange rate risk that are not included in this transfer – the financial holdings in subsidiaries, in foreign currency - are covered by market operations, taking into account the policy defined and the availability and conditions of the instruments.

As at 31 December 2017, the Group's financial holdings in USD, CHF and PLN were hedged. On a consolidated basis, these hedges are identified, in accounting terms, as 'Net investment hedges', in accordance with the IFRS nomenclature. On an individual basis, hedge accounting is also carried out, in this case through a 'Fair Value Hedge' methodology.

Regarding equity risk, the Group maintains a series of equity positions of a small size and low risk in the investment portfolio, which are not held for trading purposes. The management of these positions is carried out by a specific area of the Group, with the respective risk being controlled on a daily basis, through the indicators and limits defined for market risks.

As at 31 December 2017, the information of net investments, considered by the Group in total or partial hedging strategies on subsidiaries and on hedging instruments used, is as follows:

		2017			
Company	Currency	Net Investment Currency '000	Hedging instruments Currency '000	Net Investment Euros '000	Hedging instruments Euros '000
Banque Privée BCP (Suisse) S.A.	CHF	81,839	81,839	69,926	69,926
BCP Finance Company	USD	1	1	1	1
bcp holdings (usa), Inc.	USD	44,734	44,734	37,261	37,261
Bank Millennium, S.A.	PLN	2,570,017	2,570,017	615,484	615,484

The information on the gains and losses in exchange rates on the loans to cover the investments in foreign institutions, accounted for as exchange differences, is presented in the statement of changes in equity. The ineffectiveness generated in the hedging operations is recognised in the statement of income, as referred in the accounting policy 1 e).

The transfer to Portugal of funds, including dividends, which are owed by BCP's subsidiaries or associates in third countries, particularly outside the European Union, are, by their nature, subject to the exchange restrictions and controls that are in force at any time in the country of subsidiaries or associates. In particular, as regards Angola and Mozambique, countries in which the Group holds a minority investment in Banco Millennium Angola and a majority investment in BIM - Banco Internacional de Moçambique, being the case of, export of foreign currency requires prior authorization of the competent authorities, which depends, namely, on the availability of foreign exchange by the central bank of each country. At the date of preparation of this report, there are no outstanding amounts due to the aforementioned requirements.

Liquidity risk

Evaluation of the Group’s liquidity risk is carried out using indicators defined by the supervisory authorities on a regular basis and other internal metrics for which exposure limits are also defined.

The evolution of the Group’s liquidity situation for short-term time horizons (up to 3 months) is reviewed daily on the basis of two indicators defined in-house, immediate liquidity and quarterly liquidity. These measure the maximum fund-taking requirements that could arise on a single day, considering the cash-flow projections for periods of 3 days and of 3 months, respectively.

Calculation of these indicators involves adding to the liquidity position of the day under analysis the estimated future cash flows for each day of the respective time horizon (3 days or 3 months) for the transactions as a whole brokered by the markets areas, including the transactions with customers of the Corporate and Private networks that, for their dimension, have to be quoted by the Trading Room. The amount of assets in the Bank’s securities portfolio considered highly liquid is added to the calculated value, leading to determination of the liquidity gap accumulated for each day of the period under review.

In parallel, the evolution of the Group’s liquidity position is calculated on a regular basis identifying all the factors that justify the variations that occur. This analysis is submitted to the Capital and Assets and Liabilities Committee (CALCO) for appraisal, in order to enable the decision making that leads to the maintenance of financing conditions adequate to the continuation of the business.

In addition, the Risks Commission is responsible for controlling the liquidity risk. This control is reinforced with the monthly execution of stress tests, to characterize the Bank's risk profile and to ensure that the Group and each of its subsidiaries, fulfil its obligations in the event of a liquidity crisis. These tests are also used to support the liquidity contingency plan and management decisions.

In 2017, there was a reduction of Euros 3,264,484,000 in the wholesale funding requirements on a consolidated basis for which contributed mainly the capital increase, the reduction of the commercial gap in Portugal and the resources released by the commercial activity, whose overall effect was mitigated by the growth of the consolidated portfolio of securities.

The reduction in liquidity needs was accompanied by the change in the financing structure through the repayment of the remaining portion of the CoCos (Euros 700,000,000), a significant decrease in the use of repos in Portugal (Euros 1,490,215,000, for a balance of Euros 827,832,000) and the reduction of collateralized funding with the ECB (decrease of Euros 870,000,000, to Euros 4,000,000,000 corresponding to the balance of the targeted longer-term refinancing operations, named TLTRO).

In net terms, the funding requirements with the ECB were reduced by Euros 1,387,674,000 to Euros 3,048,618,000 simultaneously with a strengthening of the liquidity buffer with the ECB for Euros 9,227,641,000, plus Euros 2,113,840,000 compared to December 2016. Considering other assets highly liquid or convertible into eligible collateral with the ECB in the short term, the buffer would amount to Euros 11,051,641,000, which compares favorably as a year-on-year 2016 of Euros 9,113,801,000.

Regarding medium-long term indebtedness, in May the Bank proceeded to refinance in advance its single live issue of mortgage bonds put on the market, for a new five-year issue in the amount of Euros 1,000,000,000 in the same instrument, thus returning to the debt market about three years after the placement of a MTN issue, amortized in February 2017. In November, the Bank returned to the market with the placement of Euros 300,000,000 of 10-year subordinated debt in an issue that qualifies as Tier 2 equity instrument. Throughout the year it also subscribed new loans to banks of Euros 330,000,000, bringing the Group's balance of medium-long term with banks to Euros 1,712,779,000. Bank Millennium in Poland, also, issued subordinated debt in the amount of PLN 700,000,000 at the end of year, refinancing issuance of the same amount. In consolidated terms, medium and long-term debt maturing in the coming years continued to decrease, totaling only Euros 640,906,000 by 2021.

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

(Thousands of euros)

	2017	2016
European Central Bank	7,431,756	8,592,234
Other Central Banks	3,216,224	3,204,850
	10,647,980	11,797,084

As at 31 December 2017, the amount discounted in the European Central Bank amounted to Euros 4,000,000,000 (31 December 2016: Euros 4,870,000,000). As at 31 December 2017 and 2016 no amounts were discounted in Other Central Banks. The amount of eligible assets for funding operations in the European Central Banks includes securities issued by SPEs concerning securitization operations in which the assets were not derecognised at a consolidated level. Therefore, the respective securities are not recognised in the securities portfolio.

The evolution of the ECB's Monetary Policy Pool, the net borrows at the ECB and liquidity buffer is analysed as follows:

(Thousands of euros)

	2017	2016
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy (i)	7,431,756	8,592,234
Outside the pool of ECB monetary policy	5,344,503	3,457,859
	12,776,259	12,050,093
Net borrowing at the ECB (ii)	3,048,618	4,436,292
Liquidity buffer (iii)	9,727,641	7,613,801

i) Corresponds to the amount reported in COLMS (Bank of Portugal application).
ii) Includes, as at 31 December 2017, the value of funding with ECB net of interest associated with negative financing rate applied to TLTRO (Euros 17,954,000), of deposits with the Bank of Portugal and other liquidity of the Eurosystem (Euros 1,277,481,000), plus the minimum cash reserves (Euros 344,053,000).
iii) Collateral eligible for ECB, after haircuts, less net financing at the ECB.

Liquidity coverage ratio

The BCP Group structurally improved its liquidity profile by recording a credit transformation ratio on deposits calculated in accordance with Bank of Portugal Instruction No. 16/2004 on 31 December 2017 of 94% and on 31 December 2016 this ratio was set at 99%.

The Basel Committee published the definition of the Liquidity Coverage Ratio (LCR) in 2014, and the Delegated Act by the European Commission was adopted in early October 2015, which introduced, in relation to CRD IV / CRR, new metrics and calculation criteria implemented in the European Union. The adoption of the new framework defines a minimum requirement of 80% for this ratio by the end of 2017 and 100% as at 1 January 2018. The LCR ratio of the BCP Group comfortably stood above the regulamentar limit indicating 158% at the end of 2017 (31 December 2016: 124%), supported by highly liquid asset portfolios of value compatible with prudent management of the Group's short-term liquidity.

Net stable funding ratio

The definition of the Net stable funding ratio (NSFR) was approved by the Basel Committee in October 2014. As regards this ratio, the Group presents a stable financing base obtained by the high weight of customer deposits into the funding structure, by collateralized financing and medium and long-term instruments, which allowed that the levels of stable financing ratio established in December 2017 set the NSFR at124% (31 December 2016: 112%).

According to the Notice n.º28/2014 of the Bank of Portugal, which focuses on the guidance of the European Banking Authority on disclosure of encumbered assets and unencumbered assets (EBA/GL/2014/3), and taking into account the recommendation made by the European Systemic Risk Board, the following information regarding the assets and collaterals, is presented as follows:

(Thousands of euros)

	2017			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution, of which:	12,542,681	n/a	60,204,359	n/a
Equity instruments	-	-	1,946,587	1,946,587
Debt securities	2,222,056	2,222,056	11,029,696	11,019,693
Other assets	-	-	8,744,647	n/a

(Thousands of euros)

	2016			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution, of which:	15,302,927	n/a	57,835,396	n/a
Equity instruments	-	-	2,092,596	2,092,596
Debt securities	3,372,166	3,372,166	9,425,437	9,418,975
Other assets	-	n/a	8,138,305	n/a

(Thousands of euros)

	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
Collateral received	**2017**	**2016**	**2017**	**2016**
Collateral received by the reporting institution	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	-	-	50,471	151,932
Other assets	-	-	-	-
Own debt securities issued other than own covered bonds or ABSs encumbered	-	-	-	-

(Thousands of euros)

	Carrying amount of selected financial liabilities	
Encumbered assets, encumbered collateral received and matching liabilities	**2017**	**2016**
Matching liabilities, contingent liabilities and securities lent	8,957,873	11,356,280
Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	11,885,777	14,915,249

The encumbered assets are mostly related to collateralized financing, in particular the ECB's, repo transactions, issuance of covered bonds and securitization programs. The types of assets used as collateral of these financing transactions are divided into portfolios of loans to clients, supporting securitization programs and covered bonds issues, whether placed outside the Group, whether to improve the pool of collateral with the ECB, and Portuguese sovereign debt, which collateralize repo transactions in the money market. The funding raised from the IEB is collateralized by Portuguese public debt and bonds issues of the public sector entities.

The balance other assets in the amount of Euros 8,744,647,000 (31 December 2016: Euros 8,138,305,000) although unencumbered, are mostly related to the Group's activity, namely: investments in associates and subsidiaries, tangible fixed assets and investment property, intangible assets, assets associated with derivatives and deferred tax assets and current taxes.

The amounts presented in these tables correspond to the position as at 31 December 2017 and 2016 and reflect the high level of collateralisation of the wholesale funding of the Group. The buffer of eligible assets for the ECB, after haircuts, less net borrowing at the ECB, as at 31 December 2017 amounts to Euros 9,727,641,000 (31 December 2016: Euros 7,613,801,000).

The 2016 values have been restated and presented in accordance with the guidance of the European Banking Authority on the disclosure of encumbered assets and unencumbered assets (EBA / GL / 2014/3) by the median of the quarterly values, except for the buffer of ECB eligible assets after haircuts, less net borrowing at the ECB.

The analysis of the balance sheet items by maturity dates is as follows:

(Thousands of euros)

	2017						
	At sight	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undetermined maturity	Total
Assets							
Cash and deposits at Central Banks	2,167,934	-	-	-	-	-	2,167,934
Loans and advances to CI							
Repayable on demand	295,532	-	-	-	-	-	295,532
Other loans and advances	-	287,211	761,485	6,872	10,000	-	1,065,568
Loans and advances to customers	-	-	10,232,795	8,653,310	29,047,473	3,021,845	50,955,423
Financial assets (*)	-	1,680,610	1,984,923	4,550,200	3,497,399	798,785	12,511,917
Financial assets held to maturity	-	23,674	50,859	219,249	118,017	-	411,799
	2,463,466	1,991,495	13,030,062	13,429,631	32,672,889	3,820,630	67,408,173
Liabilities							
Resources from CI	-	1,312,660	368,751	4,736,613	1,069,333	-	7,487,357
Resources from costumers	25,447,443	11,847,196	12,193,616	1,685,362	14,200	-	51,187,817
Debt securities issued	-	118,228	346,372	1,419,171	1,114,308	-	2,998,079
Subordinated debt	-	-	67,307	599,854	466,266	27,092	1,160,519
	25,447,443	13,278,084	12,976,046	8,441,000	2,664,107	27,092	62,833,772

(*) Financial assets held for trading, Other financial assets held for trading at fair value through profit or loss and Financial assets available for sale.

Operational Risk

The approach to operational risk management is based on the business process structure and an end-to-end processes structure, both for business and business support processes. Process management is the responsibility of the Process Owners, who are the first parties responsible for the risks assessment and for strengthening the performance within the scope of their processes. Process Owners are responsible for the updating of all of the relevant documentation concerning the processes, for ensuring the effective adequacy of all of the existing controls through direct supervision or by delegation on the departments responsible for the controls in question, for coordinating and taking part in the risks self-assessment exercises and for detecting improvement opportunities and implementing improvements, including mitigating measures for the most significant exposures.

Within the operational risk model implemented in the Group, there is a systematic process of capturing data on operational losses that systematically characterizes the loss events in terms of their causes and effects. From the analysis of the historical information and its relationships, processes involving greater risk are identified and mitigation measures are launched to reduce the critical exposures.

COVENANTS

The contractual terms of instruments of wholesale funding encompass obligations assumed by entities belonging to the Group as debtors or issuers, concerning general duties of societary conduct, maintenance of banking activity and the inexistence of special guarantees constituted for the benefit of other creditors ("negative pledge"). These terms reflect essentially the standards internationally adopted for each type of instrument.

The terms of the Group's participation in securitization operations involving its own assets are subject to mandatory changes in case the Group stops respecting certain rating criteria. The criteria established in each transaction results mainly from the existing risk analysis at the moment that the transaction was set, being these methodologies usually applied by each rating agency in a standardised way to all the securitization transactions involving the same type of assets.

Regarding the Covered Bond Programs of Banco Comercial Português and Banco de Investimento Imobiliário that are currently underway, there are no relevant covenants related to a possible downgrade of BCP.

53. SOLVENCY

The Group's own funds are determined according to the established regulation, in particular, according to Directive 2013/36/EU and Regulation (EU) 575/2013, approved by the European Parliament and the Council (CRD IV / CRR), and Banco de Portugal Notice No.6/2013.

Total capital includes tier 1 and tier 2. Tier 1 comprises common equity tier 1 (CET1) and additional tier 1.

Common equity tier 1 includes: (i) paid-up capital, share premium, hybrid instruments subscribed by the Portuguese State within the scope of the Bank's recapitalization process and not reimbursed, reserves and retained earnings and non-controlling interests; ii) and deductions related to own shares and loans to finance the acquisition of shares of the Bank, the shortfall of value adjustments and provisions to expected losses concerning risk-weighted exposure amounts calculated according to the IRB approach and goodwill and other intangible assets. Reserves and retained earnings are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, to the extent related to own credit risk. The minority interests are only eligible up to the amount of the Group's capital requirements attributable to the minorities. In addition, the deferred tax assets arising from unused tax losses carried forward 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.

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

Tier 2 includes the subordinated debt that is compliant with the Regulation and the minority interests related to minimum total capital requirements of institutions that are not totally owned by the Group. Additionally, 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 own funds estimated according to EU law, in order to exclude some elements previously considered (phase-out) and include new elements (phase-in). The transitional period for the majority of the elements lasted until the end of 2017, with the exception of the deferred tax already recorded on the balance sheet of 1 January 2014, and the subordinated debt and all the hybrid instruments not eligible to own funds, according to the new regulation, that have a longer period ending in 2023 and 2021, respectively.

CRD IV/CRR establishes Pilar 1 capital requirements of 4.5%, 6% and 8% for CET1, Tier 1 and Total Capital, respectively. However, under the scope of SREP, European Central Bank notified BCP about the need to comply with phased-in capital ratios, during 2017 of 8.15% (CET1), 9.65% (Tier 1) and 11.65% (Total), that include 2.4% of additional Pilar 2 requirements and 1.25% of capital conservation buffer. The Bank meets all the requirements and other recommendations issued by the supervisor on this matter.