8. SECURITISATION OPERATIONS

8.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2017, the Group had six ongoing credit securitisation operations originated by the operation in Portugal. Four operations are traditional securitisation operations and the other two are synthetic securitisation operations.

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

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

After 2007, market conditions to place this kind of transactions deteriorated significantly or even ceased to exist. Consequently, the Bank began retaining in its books the totality of the bonds issued within the scope of each credit securitisation operation (from the senior tranche to the first loss tranche). So as to maximise its liquidity, the bank used the senior tranche of each operation carried out as an eligible asset for refinancing operations with the Eurosystem. The securitisations carried out in this context have been liquidated as the Bank's liquidity position was improving. In December 2017, the Bank held in its portfolio only portions of little relevance of market transactions, which were placed on the market and were still underway.

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

As an investor, the Group does not hold, and given its profile and investment policy is not expected to hold, any significant position in securitisation transactions. In any case, pursuant to article 449 f), the Bank has a broad risk management and controlling operation, based on models established across a wide range of credit products, including monitoring credit and market risks of securitisation positions. In this context, and being a Bank with IRB methodology approved by the regulator for securitisation positions, the provisions of Part III, Title II, Chapter 5 are observed, with emphasis on the risk weights resulting from articles 261 and 262 of the CRR , thus sustaining an adequate level of own funds. On the other hand, the book value reflects at each moment the market risk component of the security, allowing an adequate assessment of the risk return profile of the underlying asset. Any changes in the risk of these positions are thus subject to rigorous monitoring with reflection not only on the level of own funds but also on the Bank's results. Such changes are also considered and monitored under stress testing scenarios. Currently, under the terms of article 449 (g) of the CRR, given the insignificance of risks involved, there is no specific hedging or personal protection transaction to reduce the risk of securitization positions held. The specific need for hedging will always depend on the level of risk and of the amounts involved, as this analysis and follow-up will be carried out on a case-by-case basis.

It should also be noted that the Bank does not hold any position in re-securitisations, but it should be pointed out that the procedures for monitoring credit and market risk changes are identical to those mentioned here, with the corresponding risk weights predicted in the CRR. In general, the entity of the Group that acts as Originator (BCP, in most cases) also intervenes as Servicer and, usually, as Transaction Manager.

The main features of the securitisation operations 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 operations as at 31 December 2017, are summarised in Table 52.

TABLE 52 – 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
Securitised assets (in million euros)	1,000.0
Significant credit risk transfer [1]	No

	MAGELLAN No. 2
Identification of the securitisation operation	Magellan Mortgages No. 2 Limited
Initial objective of the securitisation operation	Securing funding and risk management [2]
Form of the securitisation operation	Traditional securitisation
	Credit lender (Banco Comercial Português, S. A. and Banco de Investimento Imobiliário, S. A.)
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	24 October 2003
Legal maturity	18 July 2036
Step-up clause (date)	18 October 2010
Revolving (years)	N.A
Securitised 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
Securitised 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
Securitised assets (in million euros)	1,500.0
Significant credit risk transfer [1]	No

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

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

[1] For regulatory purposes.

[2] The Class A Notes of this operation, in December 31 2017, could be pledged by the Bank as collateral within the Eurosystem in the scope of its financing operations.

The main features of the asset securitisation operations originated in the Group at the end of 2017 and 2016 are summarised in Table 53.

TABLE 53 - MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS

	Traditional							
	Magellan 1		Magellan 2		Magellan 3		Magellan 4	
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
INFORMATION ON THE TRANSACTIONS								
Amounts in debt (in million euros)	100	129	127	158	380	432	410	474
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION								
"Implicit support" situations	N.A.	N.A.	N.A.	N.A.	Yes*	Yes*	N.A.	N.A.
Assets assigned (per institution)/Securitised assets (total) (%)	3%	3%	3%	4%	10%	10%	11%	11%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

	Synthetic			
	Caravela SME 3		Caravela SME 4	
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
INFORMATION ON THE TRANSACTIONS				
Amounts in debt (in million euros)	1,840	2,295	991	963
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION				
"Implicit support" situations	N.A.	N.A.	N.A.	N.A.
Assets assigned (per institution)/Securitised assets (total) (%)	48%	52%	26%	22%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.

N.A.- Not Applicable

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

8.2. GROUP ACCOUNTING POLICIES

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

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

• The SPE’s activities are being mainly carried out in favour of the Group, according to its specific business needs, so that the Group benefits from the operation of the SPE;

• The Group has the power to decide to obtain most of the benefits of the SPE’s activities, or, by establishing auto-pilot mechanisms, the entity delegated such decision-making powers;

• The Group has the right to obtain most of the benefits of the SPE's activities and is therefore exposed to the SPE's underlying risks;

• The Group holds most residual or property risks of the SPE or its assets, so as to benefit from its activities.

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

Within the scope of the application of such policy, the accounting consolidation perimeter included the SPE resulting from the traditional securitisation operations Magellan no. 2 and 3. On the other hand, the Group did not consolidate into its accounts the SPEs that also resulted from the traditional securitisation operations Magellan no. 1 and 4.

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

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

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

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

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

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

8.3. OWN FUNDS REQUIREMENTS

On 31 December 2017, the Group held securitisation positions both as an investor and as an originator entity. For some of the securitisation positions as an originator there was no significant credit risk transfer, according to the criteria defined in the CRR, articles 243 and 244, Section 2, Chapter 5, Title II, Part III and, therefore, the own funds requirements were determined as if these securitisations had not occurred.

The computation of the own funds requirements of the securitisation operations by the end of 2017 was made according to Section 3, Chapter 5, Title II, Part III of the CRR.

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

The ECAI used in 2017 to compute the own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

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

The risk weighted assets for securitisation operations computed according to the IRB approach, at the end of 2017 and 2016, are shown in Tables 39 and 40.

TABLE 54 - SECURITISATION OPERATIONS: IRB APPROACH (TRADITIONAL)

(Thousand euros)

Traditional securitisation	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value		Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%				Risk weighted assets	
				Internal ratings approach		1250%			
			Amounts deducted from own funds (-)	12% - 18%	100%	Position subject to notation	Position not subject to notation	31 Dec. 17	31 Dec. 16
TOTAL EXPOSURES (=A+B+C)		6,720			6,620		100	3,781	17,261
A - LENDER ENTITY: TOTAL EXPOSURES									
B - INVESTOR: TOTAL EXPOSURES		6,720			6,620		100	3,781	17,261
B.1 - Balance sheet items		6,720			6,620		100	3,781	17,261
Most senior		6,620			6,620			2,456	16,005
Mezzanine									
First loss		100					100	1,325	1,256
B.2 - Off-balance sheet items and derivatives									
C - SPONSOR: TOTAL EXPOSURES									

TABLE 55 - SECURITISATION OPERATIONS: IRB APPROACH (SYNTHETIC)

(Thousand euros)

Synthetic Securitisation	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value		Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%		Risk weighted assets	
			Amounts deducted from own funds (-)	Regulatory formula approach			
					Average risk weight (%)	31 Dec. 17	31 Dec. 16
TOTAL EXPOSURES (=A+B+C)	3,115,217	2,831,345		2,831,345	12%	346,888	388,916
A - LENDER ENTITY: TOTAL EXPOSURES	3,115,217	2,831,345		2,831,345	12%	346,888	388,916
A.1 - Balance sheet items	2,831,345	2,547,473		2,547,473	11%	290,113	330,929
Most senior	2,538,479	2,538,479		2,538,479	7%	177,694	212,038
Mezzanine	281,623						
First loss	11,242	8,994		8,994	1250%	112,420	118,891
A.2 - Off-balance sheet items and derivatives	283,872	283,872		283,872	20%	56,774	57,987
A.3 - Early amortisation							
B - INVESTOR: TOTAL EXPOSURES							
C - SPONSOR: TOTAL EXPOSURES							

On 31 December 2017 and 2016 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.