48. Solvency

The Bank'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, reserves and retained earnings and non-controlling interests excluding predictable dividends; 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. The additional value adjustments necessary for the prudent valuation requirements applied to all assets at fair value as well as the irrevocable payment commitments for the Deposits Guarantee Fund and the Single Resolution Fund , are also deducted.

Additional tier 1 comprises preference shares and 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 stipulates a transitional period between the own funds calculated under national law until 31 December 2013, and own funds estimated according to communitarian 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 will last until the end of 2017, with the exception of the deferred tax already recorded on the balance sheet of January 1, 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.

With the IFRS9 introduction the Bank has decided to gradually recognise the impacts, according to artº 473º-A of CRR.

According to the regulatory framework, financial institutions should report common equity tier 1, tier 1 and total capital ratios of at least 7%, 8.5% and 10.5%, respectively, including a 2.5% conservation buffer, but benefiting from a transitional period that will last until the end of 2018.

The Bank has adopted the methodologies based on internal rating models (IRB) for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of both its retail portfolio and its corporate portfolio. The Millenniumbcp has adopted the advanced approach (internal model) for the coverage of trading portfolio's general market risk and the standard method was used for the purposes of operating risk coverage.

The own funds and the capital requirements determined according to the methodologies CRD IV / CRR (phased-in) previously referred , are the following:

(Thousands of euros)

	2018 (*)	2017
Common equity tier 1 (CET1)		
Share capital	4,725,000	5,600,738
Share Premium	16,471	16,471
Reserves and retained earnings	816,664	309,136
Regulatory adjustments to CET1	(958,304)	(959,028)
	4,599,831	4,967,317
Tier 1		
Capital Instruments	1,169	1,461
Regulatory adjustments	-	(1,461)
	4,601,000	4,967,317
Tier 2		
Subordinated debt	462,696	584,186
Others	(31,498)	(115,769)
	431,198	468,417
Total own funds	5,032,198	5,435,734
RWA - Risk weighted assets		
Credit risk	29,874,167	29,533,569
Market risk	1,166,542	981,291
Operational risk	2,207,019	2,248,553
CVA	169,095	177,715
	33,416,823	32,941,128
Capital ratios		
CET1	13.8%	15.1%
Tier 1	13.8%	15.1%
Tier 2	1.3%	1.4%
Total	15.1%	16.5%

(*) The 2018 amounts include the accumulated net income.