54. 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).

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 deducted anticipated dividends 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. 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 level 1 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 was extended to the end of 2017 for most of the elements, except for 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, which period ends 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.

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 2018, of 8.81% (CET1), 10.31% (Tier 1) and 12.31% (Total), including 2.25% of additional Pilar 2 requirements, 0,188% of O-SII and 1.875% of capital conservation buffer. The Bank meets all the requirements and other recommendations issued by the supervisor on this matter.

The Group 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 in Portugal and Poland and its corporate portfolio in Portugal. The Group has adopted the advanced approach (internal model) for the coverage of trading portfolio's general market risk and for exchange rate risks generated in exposures in the perimeter centrally managed from Portugal, and the standard method was used for the purposes of operational risk coverage. The capital requirements of the other portfolios/geographies were calculated using the standardised approach.

The own funds and the capital requirements determined according to the CRD IV/CRR (phased-in) methodologies 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
Ordinary own shares	(74)	(88)
Reserves and retained earnings	1,006,048	401,067
Minority interests eligible to CET1	493,796	564,042
Regulatory adjustments to CET1	(1,194,083)	(1,262,956)
	5,047,158	5,319,274
Tier 1		
Capital Instruments	1,169	4,130
Minority interests eligible to AT1	72,740	47,084
Regulatory adjustments	-	(51,214)
	5,121,067	5,319,274
Tier 2		
Subordinated debt	477,675	596,693
Minority interests eligible to CET1	148,108	146,229
Other	(58,800)	(130,345)
	566,983	612,577
Total own funds	5,688,050	5,931,851
RWA - Risk weighted assets		
Credit risk	36,974,641	35,366,357
Market risk	1,125,845	991,992
Operational risk	3,631,244	3,574,097
CVA	151,302	238,668
	41,883,032	40,171,114
Capital ratios		
CET1	12.1%	13.2%
Tier 1	12.2%	13.2%
Tier 2	1.4%	1.5%
	13.6%	14.8%

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