55. 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 risks consist of the potential losses that might occur in a given portfolio as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering not only the correlations that exist between those instruments but also their volatility.

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	2018	2017
Central Governments or Central Banks	15,231,511	11,404,056
Regional Governments or Local Authorities	806,871	744,693
Administrative and non-profit Organisations	144,656	349,156
Multilateral Development Banks	19,139	19,432
Other Credit Institutions	2,738,662	2,915,047
Retail and Corporate customers	60,735,561	60,199,404
Other items (*)	10,072,372	11,449,727
	89,748,772	87,081,515

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 evaluation of the risk associated to the loan portfolio and quantification of the respective losses expected, considers the following methodological notes.

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 recognised stock exchange, i.e., on an organized secondary market, liquid and transparent, with public bid-ask prices, located in countries of the European Union, United States, Japan, Canada, Hong Kong or Switzerland.

In this context, it is important to refer that the Bank's 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 before 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 with 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 with the minimum periodicities in accordance with the Regulation (EU) 575/2013, in the case of offices, commercial spaces, warehouses and industrial premises.

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

For the remaining real estate (land or 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.

The following table lists the recognised External Credit Assessment Institutions (ECAI) and the external ratings equivalence to the Rating Master Scale of the Group:

	External ratings			
Internal risk grade	Fitch	S&P	Moody's	DBRS
1	AAA	AAA	Aaa	AAA
1	AA+	AA+	Aa1	AA (high)
2	AA	AA	Aa2	AA
2	AA-	AA-	Aa3	AA (low)
3	A+	A+	A1	A (high)
3	A	A	A2	A
4	A-	A-	A3	A (low)
4	BBB+	BBB+	Baa1	BBB (high)
5	BBB	BBB	Baa2	BBB
6	BBB-	BBB-	Baa3	BBB (low)
7	BB+	BB+	Ba1	BB (high)
8	BB	BB	Ba2	BB
9	BB-	BB-	Ba3	BB (low)
10	B+	B+	B1	B (high)
11	B	B	B2	B
12	≤ B-	≤ B-	≤ B3	≤ B

c) Impairment and Write-offs

The credit impairment calculation as at 31 December 2018 and 2017 integrates the general principles defined in International Financial Reporting Standards (IFRS 9 as from 1 January 2018 and IAS 39 until 31 December 2017) and the guidelines issued by the Bank of Portugal through a Circular Letter "CC/2018/00000062", in order to align the calculation process used in the Group with the best international practices in this area.

As at 31 December 2018, the financial instruments subject to impairment requirements under IFRS 9, (do not include equity instruments as accounting policy 1 C1.1.2), analysed by stage, are detailed in the following tables:

(Thousands of euros)

	31 December 2018				
	Gross exposure				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	880,560	10,657	669	-	891,886
Loans and advances to customers (note 21)	35,658,333	7,235,837	5,518,658	4	48,412,832
Debt instruments (note 22)	3,080,409	264,307	72,007	-	3,416,723
Debt instruments at fair value					
through other comprehensive income (note 23) (*)	13,797,971	-	4,887	-	13,802,858
Financial guarantees (note 46)	10,702,195	1,491,003	640,274	-	12,833,472
Total	64,119,468	9,001,804	6,236,495	4	79,357,771

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

The gross exposure to guarantees and other commitments includes the balances of guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 46.

(Thousands of euros)

	31 December 2018				
	Impairment losses				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	410	774	669	-	1,853
Loans and advances to customers (note 21)	94,542	183,932	2,573,432	-	2,851,906
Debt instruments (note 22)	4,542	507	36,660	-	41,709
Financial guarantees (note 39)	10,632	6,615	170,463	-	187,710
Total	110,126	191,828	2,781,224	-	3,083,178

(Thousands of euros)

	31 December 2018				
	Net exposure				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 20)	880,150	9,883	-	-	890,033
Loans and advances to customers (note 21)	35,563,791	7,051,905	2,945,226	4	45,560,926
Debt instruments (note 22)	3,075,867	263,800	35,347	-	3,375,014
Financial guarantees (notes 39 and 46)	10,691,563	1,484,388	469,811	-	12,645,762
Total	50,211,371	8,809,976	3,450,384	4	62,471,735

As at 1 January 2018, the financial instruments subject to impairment requirements under IFRS 9 (do not include equity instruments as accounting policy 1 C1.1.2), analysed by stage, are detailed in the following tables:

(Thousands of euros)

	1 January 2018			
	Gross Exposure			
Category	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortised cost				
Loans and advances to credit institutions (note 57)	1,062,830	2,738	-	1,065,568
Loans and advances to customers (note 57)	34,511,663	7,177,992	6,960,474	48,650,129
Debt instruments (note 57)	2,521,555	382,539	84,023	2,988,117
Debt instruments at fair value				
through other comprehensive income (*)	8,291,706	1,508,187	5,150	9,805,043
Financial guarantees	10,444,690	1,467,651	723,577	12,635,918
Total	56,832,444	10,539,107	7,773,224	75,144,775

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 C1.5.1.2.

	1 January 2018			
	Impairment losses			
Category	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortised cost				
Loans and advances to credit institutions (note 57)	441	262	-	703
Loans and advances to customers (note 57)	112,344	244,708	3,165,613	3,522,665
Debt instruments (note 57)	7,580	2,545	37,924	48,049
Financial guarantees (note 39)	9,814	10,375	125,400	145,589
Total	130,179	257,890	3,328,937	3,717,006

(Thousands of euros)

	1 January 2018			
	Net exposure			
Category	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortised cost				
Loans and advances to credit institutions (note 57)	1,062,389	2,476	-	1,064,865
Loans and advances to customers (note 57)	34,399,319	6,933,284	3,794,861	45,127,464
Debt instruments (note 57)	2,513,975	379,994	46,099	2,940,068
Financial guarantees	10,434,876	1,457,276	598,177	12,490,329
Total	48,410,559	8,773,030	4,439,137	61,622,726

AS at 31 December 2018, the maximum exposure to credit risk of financial assets not subject to impairment requirements is analysed as follows:

(Thousands of euros)

	Maximum exposure to credit risk
Financial assets held for trading (note 23)	
Debt instruments	220,047
Derivatives	696,943
Hedging derivatives (note 25)	185,525
Financial assets designated at fair value through profit or loss	
Debt instruments (note 23)	33,034
Financial assets not held for trading mandatorily at fair value through profit or loss	
Debt instruments (note 23)	16,778
Total	1,152,327

Notes:

- In the case of financial assets, excluding derivatives, it is considered that its credit risk exposure is equal to its book value;
- In the case of derivatives, the maximum exposure to credit risk is its market value, plus its potential risk ("add-on").

During 2018, the changes occurred in Loans and advances to customers - impairment losses are as follows:

(Thousands of euros)

	Financial assets at amortised cost - Loans and advances to customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment losses as at 1 January 2018	112,344	244,708	3,165,613	-	3,522,665
Change in impairment losses:					
Transfer to Stage 1	39,995	(34,753)	(5,242)	-	-
Transfer to Stage 2	(8,140)	52,265	(44,125)	-	-
Transfer to Stage 3	(4,487)	(32,534)	37,021	-	-
Changes occurred due to changes in credit risk	(48,233)	(2,782)	393,564	-	342,549
Write-offs	(8,218)	(32,515)	(635,807)	-	(676,540)
Changes due to new financial assets and derecognised financial assets and other variations	11,281	(10,457)	(337,592)	-	- (336,768)
Impairment losses as at 31 December 2018	94,542	183,932	2,573,432	-	2,851,906

During 2018, the changes occurred in Loans and advances to customers are as follows:

(Thousands of euros)

	Financial assets at amortised cost - Loans and advances to customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross amount as at 1 January 2018	34,511,663	7,177,992	6,960,474	-	48,650,129
Changes in gross book value:					
Transfer from Stage 1 to Stage 2	(1,805,394)	1,805,394	-	-	-
Transfer from Stage 1 to Stage 3	(161,037)	-	161,037	-	-
Transfer from Stage 2 to Stage 1	1,359,489	(1,359,489)	-	-	-
Transfer from Stage 2 to Stage 3	-	(481,014)	481,014	-	-
Transfer from Stage 3 to Stage 1	40,611	-	(40,611)	-	-
Transfer from Stage 3 to Stage 2	-	325,303	(325,303)	-	-
Write-offs	(8,218)	(32,515)	(635,807)	-	(676,540)
Net balance of new financial assets and derecognised financial assets and other changes	1,721,219	(199,834)	(1,082,146)	4	439,243
Gross amount as at 31 December 2018	35,658,333	7,235,837	5,518,658	4	48,412,832

As at 31 December 2018, the modified financial assets that do not result in derecognition are analysed as follows:

(Thousands of euros)

Financial assets modified during the year (with impairment losses based on expected lifetime losses)	2018
Amortised cost before changes	547,969
Impairment losses before changes	(171,010)
Net amortised cost before changes	376,959
Net gain / loss arising on changes	(13,348)
Net amortised cost after changes	363,611

(Thousands of euros)

Financial assets changed since the initial recognition at a time when the impairment loss was measured based on the expected credit losses lifetime	2018
Amortised cost of financial assets for which credit losses expected to go from "lifetime" to 12 months	67,709

As at 31 December 2018, financial assets at amortised cost, guarantees and other commitments, analysed by segment and stage, are as follows:

(Thousands of euros)

	31 December 2018									
		Stage 2				Stage 3				
Segment	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Individuals-Mortgage	19,749,462	2,536,079	197,808	46,836	2,780,723	429,851	551,741	981,592	-	23,511,777
Individuals-Other	5,552,362	714,557	102,982	32,516	850,055	267,829	371,734	639,563	4	7,041,984
Financial Companies	2,968,123	363,896	-	-	363,896	283,266	372,289	655,555	-	3,987,574
Non-financial comp. - Corporate	7,633,705	1,230,536	6,688	202	1,237,426	599,083	637,974	1,237,057	-	10,108,188
Non-financial comp.- SME-Corporate	9,015,943	2,041,249	25,862	3,241	2,070,352	1,088,217	622,686	1,710,903	-	12,797,198
Non-financial comp. -SME-Retail	3,381,566	1,151,099	64,964	6,624	1,222,687	558,034	357,637	915,671	-	5,519,924
Non-financial comp.-Other	282,342	173,104	351	143	173,598	31,802	58,226	90,028	-	545,968
Other loans	1,737,994	302,936	43	88	303,067	11	1,228	1,239	-	2,042,300
Total	50,321,497	8,513,456	398,698	89,650	9,001,804	3,258,093	2,973,515	6,231,608	4	65,554,913
Impairment										
Individuals-Mortgage	6,527	10,629	7,063	2,865	20,557	32,951	103,478	136,429	-	163,513
Individuals-Other	28,974	16,796	10,419	5,249	32,464	109,544	216,385	325,929	-	387,367
Financial Companies	2,266	7,318	-	-	7,318	187,600	280,991	468,591	-	478,175
Non-financial comp. - Corporate	23,010	33,240	109	5	33,354	346,914	378,883	725,797	-	782,161
Non-financial comp.- SME-Corporate	37,788	53,270	1,829	1,250	56,349	347,670	362,971	710,641	-	804,778
Non-financial comp. -SME-Retail	8,906	29,055	2,047	760	31,862	216,571	165,252	381,823	-	422,591
Non-financial comp.-Other	775	3,716	11	13	3,740	17,295	13,479	30,774	-	35,289
Other loans	1,880	6,184	-	-	6,184	11	1,229	1,240	-	9,304
Total	110,126	160,208	21,478	10,142	191,828	1,258,556	1,522,668	2,781,224	-	3,083,178
Net exposure										
Individuals-Mortgage	19,742,935	2,525,450	190,745	43,971	2,760,166	396,900	448,263	845,163	-	23,348,264
Individuals-Other	5,523,388	697,761	92,563	27,267	817,591	158,285	155,349	313,634	4	6,654,617
Financial Companies	2,965,857	356,578	-	-	356,578	95,666	91,298	186,964	-	3,509,399
Non-financial comp. - Corporate	7,610,695	1,197,296	6,579	197	1,204,072	252,169	259,091	511,260	-	9,326,027
Non-financial comp.- SME-Corporate	8,978,155	1,987,979	24,033	1,991	2,014,003	740,547	259,715	1,000,262	-	11,992,420
Non-financial comp. -SME-Retail	3,372,660	1,122,044	62,917	5,864	1,190,825	341,463	192,385	533,848	-	5,097,333
Non-financial comp.-Other	281,567	169,388	340	130	169,858	14,507	44,747	59,254	-	510,679
Other loans	1,736,114	296,752	43	88	296,883	-	(1)	(1)	-	2,032,996
Total	50,211,371	8,353,248	377,220	79,508	8,809,976	1,999,537	1,450,847	3,450,384	4	62,471,735
% of impairment coverage										
Individuals-Mortgage	0.03%	0.42%	3.57%	6.12%	0.74%	7.67%	18.75%	13.90%	0.00%	0.70%
Individuals-Other	0.52%	2.35%	10.12%	16.14%	3.82%	40.90%	58.21%	50.96%	0.00%	5.50%
Financial Companies	0.08%	2.01%	7.10%	21.98%	2.01%	66.23%	75.48%	71.48%	0.00%	11.99%
Non-financial comp. - Corporate	0.30%	2.70%	1.63%	2.67%	2.70%	57.91%	59.39%	58.67%	0.00%	7.74%
Non-financial comp.- SME-Corporate	0.42%	2.61%	7.07%	38.58%	2.72%	31.95%	58.29%	41.54%	0.00%	6.29%
Non-financial comp. -SME-Retail	0.26%	2.52%	3.15%	11.47%	2.61%	38.81%	46.21%	41.70%	0.00%	7.66%
Non-financial comp.-Other	0.27%	2.15%	3.17%	8.86%	2.15%	54.38%	23.15%	34.18%	0.00%	6.46%
Other loans	0.11%	2.04%	1.04%	0.22%	2.04%	100.00%	99.92%	99.92%	0.00%	0.46%
Total	0.22%	1.88%	5.39%	11.31%	2.13%	38.63%	51.21%	44.63%	0.00%	4.70%

As at 31 December 2018, financial assets at amortised cost, guarantees and other commitments, analysed by sector of activity and stage, are as follows:

(Thousands of euros)

	31 December 2018									
		Stage 2				Stage 3				
Sector of activity	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Loans to individuals	25,301,824	3,250,636	300,790	79,352	3,630,778	697,680	923,475	1,621,155	4	30,553,761
Non-financial comp.- Trade	4,247,942	642,117	14,849	2,904	659,870	230,067	157,920	387,987	-	5,295,799
Non-financial comp.- Construction	1,574,944	525,725	7,678	2,245	535,648	705,122	457,206	1,162,328	-	3,272,920
Non finan. comp.- Manufacturing indust.	4,474,126	903,046	16,952	1,291	921,289	146,016	169,215	315,231	-	5,710,646
Non-financial comp.-Other activities	1,349,242	320,945	2,313	502	323,760	212,992	18,897	231,889	-	1,904,891
Non-financial comp.- Other services	8,667,302	2,204,155	56,073	3,268	2,263,496	982,939	873,285	1,856,224	-	12,787,022
Other Services /Other activities	4,706,117	666,832	43	88	666,963	283,277	373,517	656,794	-	6,029,874
Total	50,321,497	8,513,456	398,698	89,650	9,001,804	3,258,093	2,973,515	6,231,608	4	65,554,913
Impairment										
Loans to individuals	35,501	27,425	17,482	8,114	53,021	142,495	319,863	462,358	-	550,880
Non-financial comp.- Trade	14,814	16,075	783	902	17,760	92,613	92,945	185,558	-	218,132
Non-financial comp.- Construction	6,299	5,719	1,099	550	7,368	265,322	263,502	528,824	-	542,491
Non-financial comp.- Manufacturing indus	17,935	18,086	1,039	132	19,257	52,154	88,621	140,775	-	177,967
Non-financial comp.-Other activities	2,407	10,089	75	70	10,234	90,586	8,189	98,775	-	111,416
Non-financial comp.- Other services	29,024	69,312	1,000	374	70,686	427,775	467,328	895,103	-	994,813
Other Services /Other activities	4,146	13,502	-	-	13,502	187,611	282,220	469,831	-	487,479
Total	110,126	160,208	21,478	10,142	191,828	1,258,556	1,522,668	2,781,224	-	3,083,178
Net exposure										
Loans to individuals	25,266,323	3,223,211	283,308	71,238	3,577,757	555,185	603,612	1,158,797	4	30,002,881
Non-financial comp.- Trade	4,233,128	626,042	14,066	2,002	642,110	137,454	64,975	202,429	-	5,077,667
Non-financial comp.- Construction	1,568,645	520,006	6,579	1,695	528,280	439,800	193,704	633,504	-	2,730,429
Non finan. comp.- Manufacturing indust.	4,456,191	884,960	15,913	1,159	902,032	93,862	80,594	174,456	-	5,532,679
Non-financial comp.-Other activities	1,346,835	310,856	2,238	432	313,526	122,406	10,708	133,114	-	1,793,475
Non-financial comp.- Other services	8,638,278	2,134,843	55,073	2,894	2,192,810	555,164	405,957	961,121	-	11,792,209
Other Services /Other activities	4,701,971	653,330	43	88	653,461	95,666	91,297	186,963	-	5,542,395
Total	50,211,371	8,353,248	377,220	79,508	8,809,976	1,999,537	1,450,847	3,450,384	4	62,471,735
% of impairment coverage										
Loans to individuals	0.15%	0.84%	3.48%	11.17%	1.28%	21.88%	37.33%	31.42%	0.00%	2.24%
Non-financial comp.- Trade	0.42%	1.92%	3.96%	11.10%	2.31%	25.48%	53.81%	37.74%	0.00%	3.54%
Non-financial comp.- Construction	0.46%	2.21%	12.08%	32.43%	2.46%	33.37%	54.17%	42.20%	0.00%	17.06%
Non finan. comp.- Manufacturing indust.	0.46%	2.90%	4.35%	12.59%	3.17%	37.91%	51.49%	44.86%	0.00%	3.81%
Non-financial comp.-Other activities	0.21%	4.54%	3.26%	3.08%	4.50%	44.69%	47.64%	44.96%	0.00%	7.10%
Non-financial comp.- Other services	0.41%	2.61%	4.61%	27.62%	2.99%	35.52%	53.44%	46.42%	0.00%	8.91%
Other Services /Other activities	0.10%	2.23%	0.42%	13.81%	2.23%	67.40%	72.88%	69.68%	0.00%	8.61%
Total	0.25%	1.83%	4.13%	14.88%	2.16%	36.05%	50.04%	43.41%	0.00%	5.36%

As at 31 December 2018, financial assets at amortised cost, guarantees and other commitments, analysed by geography and stage, are as follows:

(Thousands of euros)

	31 December 2018									
		Stage 2				Stage 3				
Geography	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Portugal	35,135,414	7,451,625	241,597	40,889	7,734,111	2,966,505	2,524,585	5,491,090	4	48,360,619
Poland	13,457,252	622,012	137,888	45,848	805,748	260,144	316,334	576,478	-	14,839,478
Mozambique	1,250,611	439,819	19,213	2,913	461,945	27,866	132,596	160,462	-	1,873,018
Switzerland	478,220	-	-	-	-	3,578	-	3,578	-	481,798
Total	50,321,497	8,513,456	398,698	89,650	9,001,804	3,258,093	2,973,515	6,231,608	4	65,554,913
Impairment										
Portugal	31,379	124,608	5,442	1,429	131,479	1,126,917	1,272,926	2,399,843	-	2,562,701
Poland	67,895	24,838	12,879	7,398	45,115	108,280	200,123	308,403	-	421,413
Mozambique	10,094	10,762	3,157	1,315	15,234	20,652	49,619	70,271	-	95,599
Switzerland	758	-	-	-	-	2,707	-	2,707	-	3,465
Total	110,126	160,208	21,478	10,142	191,828	1,258,556	1,522,668	2,781,224	-	3,083,178
Net exposure										
Portugal	35,104,035	7,327,017	236,155	39,460	7,602,632	1,839,588	1,251,659	3,091,247	4	45,797,918
Poland	13,389,357	597,174	125,009	38,450	760,633	151,864	116,211	268,075	-	14,418,065
Mozambique	1,240,517	429,057	16,056	1,598	446,711	7,214	82,977	90,191	-	1,777,419
Switzerland	477,462	-	-	-	-	871	-	871	-	478,333
Total	50,211,371	8,353,248	377,220	79,508	8,809,976	1,999,537	1,450,847	3,450,384	4	62,471,735
% of impairment coverage										
Portugal	0.09%	1.67%	2.25%	3.49%	1.70%	37.99%	50.42%	43.70%	0.00%	5.30%
Poland	0.50%	3.99%	9.34%	16.14%	5.60%	41.62%	63.26%	53.50%	0.00%	2.84%
Mozambique	0.81%	2.45%	16.43%	45.16%	3.30%	74.11%	37.42%	43.79%	0.00%	5.10%
Switzerland	0.16%	0.00%	0.00%	0.00%	0.00%	75.66%	0.00%	75.66%	0.00%	0.72%
Total	0.22%	1.88%	5.39%	11.31%	2.13%	38.63%	51.21%	44.63%	0.00%	4.70%

As at 31 December 2018, the exposure by type of financial instrument, internal rating (attributed in Portugal and Poland) and by stage, is analysed as follows:

(Thousands of euros)

	31 December 2018							
	Gross Exposure							
	Higher quality (GR 1-6)	Average quality (GR 7-9)	Lower quality (GR 10-12)	Procedural (GR 13/14/15)	Not classified (without risk grade)	Total	Impairment losses	Net exposure
Financial assets at amortised cost								
stage 1	25,159,396	8,953,561	2,853,215	35	1,181,364	38,147,571	90,088	38,057,483
stage 2	1,205,609	1,583,594	3,037,028	474,487	774,553	7,075,271	170,144	6,905,127
stage 3	2,549	10,477	96,250	5,246,346	73,159	5,428,781	2,538,296	2,890,485
POCI	-	-	-	-	4	4	-	4
	26,367,554	10,547,632	5,986,493	5,720,868	2,029,080	50,651,627	2,798,528	47,853,099
Debt instruments at fair value through other comprehensive income								
stage 1	13,708,187	83,940	-	-	5,843	13,797,970	-	13,797,970
stage 3	-	-	-	-	4,887	4,887	4,887	-
	13,708,187	83,940	-	-	10,730	13,802,857	4,887	13,797,970
Guarantees and other commitments								
stage 1	6,664,521	2,619,025	759,108	24	402,415	10,445,093	9,186	10,435,907
stage 2	205,729	304,644	609,108	49,856	295,250	1,464,587	6,451	1,458,136
stage 3	60	5	25,145	609,961	3,617	638,788	169,948	468,840
	6,870,310	2,923,674	1,393,361	659,841	701,282	12,548,468	185,585	12,362,883
Total	46,946,051	13,555,246	7,379,854	6,380,709	2,741,092	77,002,952	2,989,000	74,013,952

As at 1 January 2018, financial assets at amortised cost, guarantees and other commitments, analysed by segment and stage, are as follows:

(Thousands of euros)

	1 January 2018								
		Stage 2				Stage 3			
Segment	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	Total
Gross Exposure									
Individuals-Mortgage	18,940,165	2,544,822	225,522	67,963	2,838,307	417,142	932,928	1,350,070	23,128,542
Individuals-Other	5,242,695	709,880	118,694	51,042	879,616	271,078	515,368	786,446	6,908,757
Financial Companies	1,819,540	286,848	349	51	287,248	601,270	287,533	888,803	2,995,591
Non-financial comp. - Corporate	6,808,612	1,279,814	6,929	9,310	1,296,053	455,905	809,351	1,265,256	9,369,921
Non-financial comp.- SME-Corporate	8,825,340	2,116,165	17,775	103,904	2,237,844	1,349,797	1,099,257	2,449,054	13,512,238
Non-financial comp. -SME-Retail	3,197,172	1,004,850	26,485	28,895	1,060,230	505,550	522,673	1,028,223	5,285,625
Non-financial comp.-Other	209,327	162,273	400	56,878	219,551	100	58	158	429,036
Other loans	3,497,887	210,559	-	1,512	212,071	-	64	64	3,710,022
Total	48,540,738	8,315,211	396,154	319,555	9,030,920	3,600,842	4,167,232	7,768,074	65,339,732
Impairment									
Individuals-Mortgage	6,346	13,694	8,390	4,477	26,561	33,187	173,371	206,558	239,465
Individuals-Other	30,392	19,538	10,471	10,022	40,031	116,274	296,198	412,472	482,895
Financial Companies	4,303	7,880	17	1	7,898	388,428	207,317	595,745	607,946
Non-financial comp. - Corporate	26,054	30,790	443	2,850	34,083	134,765	449,866	584,631	644,768
Non-financial comp.- SME-Corporate	33,629	58,728	1,591	41,274	101,593	430,177	664,906	1,095,083	1,230,305
Non-financial comp. -SME-Retail	11,769	28,878	1,211	6,260	36,349	205,307	229,025	434,332	482,450
Non-financial comp.-Other	6,847	2,585	9	5,316	7,910	3	49	52	14,809
Other loans	10,839	3,216	-	249	3,465	-	64	64	14,368
Total	130,179	165,309	22,132	70,449	257,890	1,308,141	2,020,796	3,328,937	3,717,006
Net exposure									
Individuals-Mortgage	18,933,819	2,531,128	217,132	63,486	2,811,746	383,955	759,557	1,143,512	22,889,077
Individuals-Other	5,212,303	690,342	108,223	41,020	839,585	154,804	219,170	373,974	6,425,862
Financial Companies	1,815,237	278,968	332	50	279,350	212,842	80,216	293,058	2,387,645
Non-financial comp. - Corporate	6,782,558	1,249,024	6,486	6,460	1,261,970	321,140	359,485	680,625	8,725,153
Non-financial comp.- SME-Corporate	8,791,711	2,057,437	16,184	62,630	2,136,251	919,620	434,351	1,353,971	12,281,933
Non-financial comp. -SME-Retail	3,185,403	975,972	25,274	22,635	1,023,881	300,243	293,648	593,891	4,803,175
Non-financial comp.-Other	202,480	159,688	391	51,562	211,641	97	9	106	414,227
Other loans	3,487,048	207,343	-	1,263	208,606	-	-	-	3,695,654
Total	48,410,559	8,149,902	374,022	249,106	8,773,030	2,292,701	2,146,436	4,439,137	61,622,726
% of impairment coverage									
Individuals-Mortgage	0.03%	0.54%	3.72%	6.59%	0.94%	7.96%	18.58%	15.30%	1.04%
Individuals-Other	0.58%	2.75%	8.82%	19.64%	4.55%	42.89%	57.47%	52.45%	6.99%
Financial Companies	0.24%	2.75%	5.02%	2.14%	2.75%	64.60%	72.10%	67.03%	20.29%
Non-financial comp. - Corporate	0.38%	2.41%	6.39%	30.62%	2.63%	29.56%	55.58%	46.21%	6.88%
Non-financial comp.- SME-Corporate	0.38%	2.78%	8.95%	39.72%	4.54%	31.87%	60.49%	44.71%	9.11%
Non-financial comp. -SME-Retail	0.37%	2.87%	4.57%	21.67%	3.43%	40.61%	43.82%	42.24%	9.13%
Non-financial comp.-Other	3.27%	1.59%	2.33%	9.35%	3.60%	2.70%	85.29%	32.89%	3.45%
Other loans	0.31%	1.53%	6.29%	16.46%	1.63%	0.00%	100.00%	100.00%	0.39%
Total	0.27%	1.99%	5.59%	22.05%	2.86%	36.33%	48.49%	42.85%	5.69%

As at 1 January 2018, financial assets at amortised cost, guarantees and other commitments, analysed by sector of activity and stage, are as follows:

(Thousands of euros)

	1 January 2018								
		Stage 2				Stage 3			
Sector of activity	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	Total
Gross Exposure									
Loans to individuals	24,150,612	3,254,702	344,216	119,005	3,717,923	688,219	1,448,295	2,136,514	30,005,049
Non-financial comp.- Trade	4,291,610	654,571	8,591	19,903	683,065	122,954	202,485	325,439	5,300,114
Non-financial comp.- Construction	1,280,528	954,626	1,944	19,854	976,424	763,616	665,353	1,428,969	3,685,921
Non finan. comp.- Manufacturing indust.	4,626,518	606,459	15,376	38,105	659,940	162,183	170,097	332,280	5,618,738
Non-financial comp.-Other activities	1,384,664	243,255	877	22,015	266,147	218,487	38,108	256,595	1,907,406
Non-financial comp.- Other services	7,457,132	2,104,194	24,801	99,109	2,228,104	1,044,114	1,355,295	2,399,409	12,084,645
Other Services /Other activities	5,349,674	497,404	349	1,564	499,317	601,269	287,599	888,868	6,737,859
Total	48,540,738	8,315,211	396,154	319,555	9,030,920	3,600,842	4,167,232	7,768,074	65,339,732
Impairment									
Loans to individuals	36,739	33,231	18,861	14,499	66,591	149,461	469,568	619,029	722,359
Non-financial comp.- Trade	17,300	13,459	966	4,291	18,716	41,412	117,030	158,442	194,458
Non-financial comp.- Construction	7,829	21,557	112	5,821	27,490	229,547	391,695	621,242	656,561
Non-financial comp.- Manufacturing industries	20,439	18,091	924	5,036	24,051	55,731	102,726	158,457	202,947
Non-financial comp.-Other activities	8,986	10,396	38	16,942	27,376	102,572	15,816	118,388	154,750
Non-financial comp.- Other services	23,745	57,478	1,214	23,610	82,302	340,990	716,579	1,057,569	1,163,616
Other Services /Other activities	15,141	11,097	17	250	11,364	388,428	207,382	595,810	622,315
Total	130,179	165,309	22,132	70,449	257,890	1,308,141	2,020,796	3,328,937	3,717,006
Net exposure									
Loans to individuals	24,113,873	3,221,471	325,355	104,506	3,651,332	538,758	978,727	1,517,485	29,282,690
Non-financial comp.- Trade	4,274,310	641,112	7,625	15,612	664,349	81,542	85,455	166,997	5,105,656
Non-financial comp.- Construction	1,272,699	933,069	1,832	14,033	948,934	534,069	273,658	807,727	3,029,360
Non finan. comp.- Manufacturing indust.	4,606,079	588,368	14,452	33,069	635,889	106,452	67,371	173,823	5,415,791
Non-financial comp.-Other activities	1,375,678	232,859	839	5,073	238,771	115,915	22,292	138,207	1,752,656
Non-financial comp.- Other services	7,433,387	2,046,716	23,587	75,499	2,145,802	703,124	638,716	1,341,840	10,921,029
Other Services /Other activities	5,334,533	486,307	332	1,314	487,953	212,841	80,217	293,058	6,115,544
Total	48,410,559	8,149,902	374,022	249,106	8,773,030	2,292,701	2,146,436	4,439,137	61,622,726
% of impairment coverage									
Loans to individuals	0.15%	1.02%	5.48%	12.18%	1.79%	21.72%	32.42%	28.97%	2.41%
Non-financial comp.- Trade	0.40%	2.06%	11.24%	21.56%	2.74%	33.68%	57.80%	48.69%	3.67%
Non-financial comp.- Construction	0.61%	2.26%	5.78%	29.32%	2.82%	30.06%	58.87%	43.47%	17.81%
Non finan. comp.- Manufacturing indust.	0.44%	2.98%	6.01%	13.22%	3.64%	34.36%	60.39%	47.69%	3.61%
Non-financial comp.-Other activities	0.65%	4.27%	4.33%	76.96%	10.29%	46.95%	41.50%	46.14%	8.11%
Non-financial comp.- Other services	0.32%	2.73%	4.90%	23.82%	3.69%	32.66%	52.87%	44.08%	9.63%
Other Services /Other activities	0.28%	2.23%	5.02%	15.99%	2.28%	64.60%	72.11%	67.03%	9.24%
Total	0.27%	1.99%	5.59%	22.05%	2.86%	36.33%	48.49%	42.85%	5.69%

As at 1 January 2018, financial assets at amortised cost, guarantees and other commitments, analysed by geography and stage, are as follows:

(Thousands of euros)

	1 January 2018								
		Stage 2				Stage 3			
Geography	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	Total
Gross Exposure									
Portugal	34,806,803	7,117,280	203,736	75,462	7,396,478	3,298,058	3,745,047	7,043,105	49,246,386
Poland	12,003,400	787,665	152,833	50,198	990,696	300,180	403,355	703,535	13,697,631
Mozambique	1,312,061	410,168	39,585	193,895	643,648	2,604	18,830	21,434	1,977,143
Switzerland	418,474	98	-	-	98	-	-	-	418,572
Total	48,540,738	8,315,211	396,154	319,555	9,030,920	3,600,842	4,167,232	7,768,074	65,339,732
Impairment									
Portugal	40,101	119,083	2,851	2,401	124,335	1,211,345	1,783,969	2,995,314	3,159,750
Poland	70,985	32,928	15,759	9,103	57,790	95,746	223,370	319,116	447,891
Mozambique	16,556	13,298	3,522	58,945	75,765	1,050	13,457	14,507	106,828
Switzerland	2,537	-	-	-	-	-	-	-	2,537
Total	130,179	165,309	22,132	70,449	257,890	1,308,141	2,020,796	3,328,937	3,717,006
Net exposure									
Portugal	34,766,702	6,998,197	200,885	73,061	7,272,143	2,086,713	1,961,078	4,047,791	46,086,636
Poland	11,932,415	754,737	137,074	41,095	932,906	204,434	179,985	384,419	13,249,740
Mozambique	1,295,505	396,870	36,063	134,950	567,883	1,554	5,373	6,927	1,870,315
Switzerland	415,937	98	-	-	98	-	-	-	416,035
Total	48,410,559	8,149,902	374,022	249,106	8,773,030	2,292,701	2,146,436	4,439,137	61,622,726
% of impairment coverage									
Portugal	0.12%	1.67%	1.40%	3.18%	1.68%	36.73%	47.64%	42.53%	6.42%
Poland	0.59%	4.18%	10.31%	18.13%	5.83%	31.90%	55.38%	45.36%	3.27%
Mozambique	1.26%	3.24%	8.90%	30.40%	11.77%	40.33%	71.46%	67.68%	5.40%
Switzerland	0.61%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.61%
Total	0.27%	1.99%	5.59%	22.05%	2.86%	36.33%	48.49%	42.85%	5.69%

As at 1 January 2018, the exposure by type of financial instrument, internal rating (attributed in Portugal and Poland) and by stage, is analysed as follows:

(Thousands of euros)

	1 January 2018							
	Gross Exposure							
	Higher quality (GR 1-6)	Average quality (GR 7-9)	Lower quality (GR 10-12)	Procedural (GR 13/14/15)	Not classified (without risk grade)	Total	Impairment losses	Net exposure
Financial assets at amortised cost								
stage 1	24,234,962	8,542,294	2,991,570	20,482	1,009,402	36,798,710	103,295	36,695,415
stage 2	990,971	1,229,959	3,577,893	412,385	756,870	6,968,078	172,889	6,795,189
stage 3	701	229	40,517	6,909,473	72,798	7,023,718	3,189,037	3,834,681
	25,226,634	9,772,482	6,609,980	7,342,340	1,839,070	50,790,506	3,465,221	47,325,285
Debt instruments at fair value through other comprehensive income								
stage 1	6,506,338	309,947	-	-	1,475,421	8,291,706	-	8,291,706
stage 2	1,490,425	17,712	-	-	50	1,508,187	-	1,508,187
stage 3	-	-	-	-	5,150	5,150	5,150	-
	7,996,763	327,659	-	-	1,480,621	9,805,043	5,150	9,799,893
Guarantees and other commitments								
stage 1	6,214,881	2,203,989	751,382	89	841,152	10,011,493	7,791	10,003,702
stage 2	75,952	265,699	680,268	22,966	374,211	1,419,096	9,236	1,409,860
stage 3	6	-	12,383	707,867	2,666	722,922	125,393	597,529
	6,290,839	2,469,688	1,444,033	730,922	1,218,029	12,153,511	142,420	12,011,091
Total	39,514,236	12,569,829	8,054,013	8,073,262	4,537,720	72,749,060	3,612,791	69,136,269

As at 31 December 2018, financial assets at amortised cost, guarantees and other commitments subject to individual and collective impairment, by segment, by sector of activity and by geography, are presented in the following tables:

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	32,662	23,479,115	23,511,777	12,457	151,056	163,513
Individuals-Other	166,397	6,875,587	7,041,984	65,687	321,680	387,367
Financial Companies	642,869	3,344,705	3,987,574	465,974	12,201	478,175
Non-financial comp. - Corporate	1,501,024	8,607,164	10,108,188	723,778	58,383	782,161
Non-financial comp.- SME-Corporate	1,373,461	11,423,737	12,797,198	605,480	199,298	804,778
Non-financial comp. -SME-Retail	673,122	4,846,802	5,519,924	297,067	125,524	422,591
Non-financial comp.-Other	212,836	333,132	545,968	30,260	5,029	35,289
Other loans	253,244	1,789,056	2,042,300	6,278	3,026	9,304
Total	4,855,615	60,699,298	65,554,913	2,206,981	876,197	3,083,178

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	199,059	30,354,702	30,553,761	78,144	472,736	550,880
Non-financial comp.- Trade	385,710	4,910,089	5,295,799	143,915	74,217	218,132
Non-financial comp.- Construction	1,049,175	2,223,745	3,272,920	472,074	70,417	542,491
Non finan. comp.- Manufacturing indust.	253,945	5,456,701	5,710,646	107,082	70,885	177,967
Non-financial comp.-Other activities	256,896	1,647,995	1,904,891	91,200	20,216	111,416
Non-financial comp.- Other services	1,814,718	10,972,303	12,787,021	842,315	152,496	994,811
Other Services /Other activities	896,113	5,133,761	6,029,874	472,252	15,225	487,477
Total	4,855,616	60,699,296	65,554,912	2,206,982	876,192	3,083,174

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	3,833,290	44,527,329	48,360,619	2,046,862	515,839	2,562,701
Poland	172,336	14,667,142	14,839,478	87,960	333,453	421,413
Mozambique	846,411	1,026,607	1,873,018	69,453	26,146	95,599
Switzerland	3,578	478,220	481,798	2,707	758	3,465
Total	4,855,615	60,699,298	65,554,913	2,206,982	876,196	3,083,178

The balances Gross Exposure and Collective Impairment include the loans subject to individual analysis for which the Group has concluded that there is no objective evidence of impairment.

As at 1 January 2018, financial assets at amortised cost, guarantees and other commitments subject to individual and collective impairment, by segment, by sector of activity and by geography, are presented in the following tables:

(Thousands of euros)

	1 January 2018					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	39,580	23,088,962	23,128,542	15,844	223,621	239,465
Individuals-Other	190,037	6,718,720	6,908,757	73,833	409,062	482,895
Financial Companies	881,447	2,114,144	2,995,591	594,127	13,819	607,946
Non-financial comp. - Corporate	1,336,252	8,033,669	9,369,921	584,341	60,427	644,768
Non-financial comp.- SME-Corporate	2,500,908	11,011,330	13,512,238	989,669	240,636	1,230,305
Non-financial comp. -SME-Retail	836,994	4,448,631	5,285,625	320,173	162,277	482,450
Non-financial comp.-Other	219,763	209,273	429,036	8,044	6,765	14,809
Other loans	73,783	3,636,239	3,710,022	1,978	12,390	14,368
Total	6,078,764	59,260,968	65,339,732	2,588,009	1,128,997	3,717,006

(Thousands of euros)

	1 January 2018					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	229,617	29,775,432	30,005,049	89,677	632,682	722,359
Non-financial comp.- Trade	372,837	4,927,277	5,300,114	90,782	103,676	194,458
Non-financial comp.- Construction	1,414,493	2,271,428	3,685,921	551,922	104,639	656,561
Non finan. comp.- Manufacturing indust.	329,353	5,289,385	5,618,738	117,949	84,998	202,947
Non-financial comp.-Other activities	267,529	1,639,877	1,907,406	123,920	30,830	154,750
Non-financial comp.- Other services	2,509,704	9,574,941	12,084,645	1,017,654	145,962	1,163,616
Other Services /Other activities	955,231	5,782,628	6,737,859	596,104	26,211	622,315
Total	6,078,764	59,260,968	65,339,732	2,588,008	1,128,998	3,717,006

(Thousands of euros)

	1 January 2018					
	Gross Exposure			Impairment losses		
Geography	Individual	Collective	Total	Individual	Collective	Total
Portugal	4,862,921	44,383,465	49,246,386	2,417,300	742,450	3,159,750
Poland	204,812	13,492,819	13,697,631	93,759	354,132	447,891
Mozambique	1,011,031	966,112	1,977,143	76,950	29,878	106,828
Switzerland	-	418,572	418,572	-	2,537	2,537
Total	6,078,764	59,260,968	65,339,732	2,588,009	1,128,997	3,717,006

The balances Gross Exposure and Collective Impairment include the loans subject to individual analysis for which the Group has concluded that there is no objective evidence of impairment.

As at 31 December 2018, 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):

	2018					
Year of production	Construction and CRE	Companies - Oth. Activities	Mortgage loans	Individuals - Other	Other loans	Total
2008 and previous						
Number of operations	17,356	27,714	322,834	611,393	478	979,775
Value (Euros '000)	1,084,845	3,584,254	13,454,506	1,034,717	50,947	19,209,269
Impairment constituted (Euros '000)	168,452	163,012	135,942	26,295	771	494,472
2009						
Number of operations	2,077	3,273	18,789	73,636	64	97,839
Value (Euros '000)	237,103	685,307	903,711	114,823	7,638	1,948,582
Impairment constituted (Euros '000)	23,915	14,271	7,467	4,585	176	50,414
2010						
Number of operations	2,001	4,058	20,615	106,117	64	132,855
Value (Euros '000)	183,439	488,464	1,014,984	192,961	9,896	1,889,744
Impairment constituted (Euros '000)	19,436	15,042	6,723	3,872	594	45,667
2011						
Number of operations	1,960	5,450	13,584	122,165	43	143,202
Value (Euros '000)	98,288	464,657	618,493	193,887	11,437	1,386,762
Impairment constituted (Euros '000)	13,435	14,889	4,167	5,624	568	38,683
2012						
Number of operations	1,861	5,812	11,104	132,350	259	151,386
Value (Euros '000)	108,842	514,859	457,504	182,500	17,890	1,281,595
Impairment constituted (Euros '000)	9,720	90,442	6,146	7,281	338	113,927
2013						
Number of operations	2,833	8,494	11,479	167,727	116	190,649
Value (Euros '000)	139,013	966,916	514,301	230,884	144,862	1,995,976
Impairment constituted (Euros '000)	21,422	54,113	7,606	14,703	17,363	115,207
2014						
Number of operations	3,216	13,391	8,545	212,415	224	237,791
Value (Euros '000)	181,713	1,074,423	436,849	313,691	220,795	2,227,471
Impairment constituted (Euros '000)	9,084	43,856	6,413	24,582	819	84,754
2015						
Number of operations	4,850	20,901	9,886	292,179	448	328,264
Value (Euros '000)	265,538	1,782,911	586,031	517,277	224,327	3,376,084
Impairment constituted (Euros '000)	32,095	145,900	4,230	41,267	7,020	230,512
2016						
Number of operations	5,389	27,322	13,692	289,145	382	335,930
Value (Euros '000)	416,921	2,528,360	858,463	693,072	206,116	4,702,932
Impairment constituted (Euros '000)	31,960	119,846	4,202	37,250	4,137	197,395
2017						
Number of operations	6,189	31,197	25,233	306,462	440	369,521
Value (Euros '000)	696,026	3,046,700	1,834,789	877,639	262,900	6,718,054
Impairment constituted (Euros '000)	45,668	92,627	5,114	31,016	6,008	180,433
2018						
Number of operations	14,010	132,610	32,879	634,048	4,017	817,564
Value (Euros '000)	1,942,173	8,159,206	2,723,382	1,933,972	803,583	15,562,316
Impairment constituted (Euros '000)	29,250	143,454	4,332	31,428	17,731	226,195
Total						
Number of operations	61,742	280,222	488,640	2,947,637	6,535	3,784,776
Value (Euros '000)	5,353,901	23,296,057	23,403,013	6,285,423	1,960,391	60,298,785
Impairment constituted (Euros '000)	404,437	897,452	192,342	227,903	55,525	1,777,659

In the year of the current production, are included operations that, by their nature, are contractually subject to renewals. In these cases, the date of the last renewal is considered, namely for overdraft operations, secured current account and factoring operations.

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 - Oth. Activities	Mortgage loans	Individuals - Other	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

In the year of the current production, are included operations that, by their nature, are contractually subject to renewals. In these cases, the date of the last renewal is considered, namely for overdraft operations, secured current account and factoring operations.

As at 31 December 2018, 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:

	2018					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other real Collateral (*)	Real Estate	Other Collateral (*)	Real Estate	Other real Collateral (*)
< 0.5 M€						
Number	7,509	8,674	10,699	67,843	412,381	471
Value (Euros '000)	926,993	221,851	1,531,245	1,583,305	45,077,642	24,357
>= 0.5 M€ and < 1 M€						
Number	638	57	1,314	293	2,450	5
Value (Euros '000)	432,714	36,504	915,079	205,129	1,586,158	2,876
>= 1 M€ and < 5 M€						
Number	436	56	1,055	224	372	2
Value (Euros '000)	875,232	99,842	2,081,256	425,434	561,752	2,916
>= 5 M€ and < 10 M€						
Number	68	3	118	24	4	-
Value (Euros '000)	479,873	19,280	803,674	162,992	24,124	-
>= 10 M€ and < 20 M€						
Number	32	4	59	17	-	-
Value (Euros '000)	430,715	58,495	791,756	255,092	-	-
>= 20 M€ and < 50 M€						
Number	26	-	27	3	-	-
Value (Euros '000)	757,027	-	802,373	86,423	-	-
>= 50 M€						
Number	3	-	8	2	-	-
Value (Euros '000)	176,677	-	669,380	688,193	-	-
Total						
Number	8,712	8,794	13,280	68,406	415,207	478
Value (Euros '000)	4,079,231	435,972	7,594,763	3,406,568	47,249,676	30,149

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

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 real Collateral (*)	Real Estate	Other Collateral (*)	Real Estate	Other real 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 2018, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	31 December 2018				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	1,919,046	714,764	537,137	234,797
<60%	9,267	397,422	217,356	90,602	31,083
>=60% and <80%	4,269	490,779	82,968	109,921	23,882
>=80% and <100%	2,132	162,694	54,044	96,652	29,928
>=100%	15,197	263,815	151,302	819,524	428,196
Companies - Other Activities					
Without associated collateral	n.a.	14,681,508	2,224,191	1,597,121	1,045,994
<60%	47,980	1,374,701	447,465	233,219	80,416
>=60% and <80%	16,575	902,710	244,641	151,310	51,077
>=80% and <100%	13,894	709,089	202,621	143,773	70,388
>=100%	8,657	1,115,491	357,817	723,141	487,563
Mortgage loans					
Without associated collateral	n.a.	231,962	5,098	10,469	7,999
<60%	272,952	8,057,885	952,664	201,100	30,362
>=60% and <80%	145,013	7,210,271	1,031,242	236,650	29,324
>=80% and <100%	67,132	3,286,948	616,158	251,569	29,570
>=100%	28,216	1,343,396	219,650	375,142	115,204

As at 1 January 2018, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	1 January 2018				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	2,083,997	749,908	903,739	419,283
<60%	8,703	326,283	246,476	85,772	24,494
>=60% and <80%	3,359	193,619	143,375	163,915	31,995
>=80% and <100%	2,069	89,822	182,921	160,284	53,834
>=100%	11,901	168,907	247,013	1,042,934	443,955
Companies - Other Activities					
Without associated collateral	n.a.	15,472,983	1,586,081	1,790,752	1,018,913
<60%	42,479	1,138,439	368,552	250,503	87,389
>=60% and <80%	15,397	800,458	267,183	171,720	60,707
>=80% and <100%	12,087	585,056	161,075	156,480	72,560
>=100%	6,891	779,776	343,049	1,115,139	731,383
Mortgage loans					
Without associated collateral	n.a.	266,679	49,697	14,176	13,204
<60%	266,761	7,764,782	905,337	223,142	30,201
>=60% and <80%	139,571	6,649,171	1,019,794	262,125	26,212
>=80% and <100%	73,125	3,327,519	654,942	351,238	36,957
>=100%	32,652	1,277,085	250,529	582,800	181,153

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)

	31 December 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 2018, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 27), by type of asset:

(Thousands of euros)

	2018					
	Assets arising from recovered loans results (note 27)		Assets belong to investments funds and real estate companies (note 27)		Total	
Asset	Appraised value	Book value	Appraised value	Book value	Appraised value	Book value
Land						
Urban	528,954	477,795	267,943	267,943	796,897	745,738
Rural	29,362	26,466	32,760	32,760	62,122	59,226
Buildings in development						
Commercials	25,937	23,348	34,754	34,754	60,691	58,102
Mortgage loans	51,070	44,107	-	-	51,070	44,107
Other	61	61	-	-	61	61
Constructed buildings						
Commercials	344,455	307,941	23,692	23,692	368,147	331,633
Mortgage loans	474,032	417,164	6,994	6,994	481,026	424,158
Other	6,109	6,050	2,851	2,851	8,960	8,901
Other assets	4,050	4,050	-	-	4,050	4,050
	1,464,030	1,306,982	368,994	368,994	1,833,024	1,675,976

As at 31 December 2017, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 27), by type of asset:

(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	Appraised value	Book value	Appraised value	Book value	Appraised value	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
Other	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
Other	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

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 in force limits, as at 31 December 2018, for single-name concentration are presented in the following table, which indicates the single-name limit for any given Customer/Group of Customers, as the Net Exposure weight over 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	0.8%
Restricted credit	12 or worse	0.4%

As at 31 December 2018 there were 3 Economic Groups with net exposure above the limits approved for the respective risk grade, less one client in that situation than by the end of 2017. 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 are not available.
(**) NPE = Non-performing exposures
(***) "Risk Appetite" indicators.

The following tables present the concentration limits to Sovereigns, Institutions, countries and activity sectors, as well as the measurements of these concentrations as at 31 December 2018:

Counterparties	Limit (% of COF)	Net exposure % weight
Sovereigns	Very low risk 25%; low risk 10%; average (or lower quality) risk 7.5%	Sovereign 1: 1.4% (very low risk); Sovereign 2: 0.8% (low risk); Sovereign 3: 0.4% (low risk); Sovereign 4: 0.1% (very low risk)
Institutions	Very low risk 10%; low risk 5%; average (or lower quality) risk 2.5%	Institution 1: 2.8% (very low risk); Institution 2 (average or lower quality risk): 1.9%; Institution 3: (very low risk) 1.0%; Institution 4: 0.8% (low risk); Institution 5: 0.6% (very low risk); Institution 6: 0.6% ; Institution 7: 0.6%; Institution 8: 0.5%; Institution 9: 0.4%; Institution 10: 0.4%; Institution 11: 0.3%; Institution 12: 0.3%; Institution 13: 0.2%; Institution 14: 0.2%; Institution 15: 0.2%; 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): 4.1%; Country 2 (average or lower quality risk): 2.8%; Country 3 (very low risk): 2.4%; Country 4 (very low risk): 2.4%; Country 5 (low risk): 2.1%; Country 6: 1.9%; Country 7: 1.6%; Country 8: 1.3% ; Country 9: 0.9% ; Country 10: 0.7% ; Country 11: 0.6% ; Country 12: 0.6% ; Country 13: 0.5% ; Country 14: 0.4% ; Country 15: 0.3%
Sectors of activity	40% of the Group entity's Own Funds	Portugal: Other corporate services: 26.2%; Other activities: 18.3%; Wholesale and retail trade and repairs: 17.9%; Construction: 16.5%; Financial and insurance activities: 15.6% Poland: Wholesale and retail trade and repairs: 26.3%; Transporting and storage: 11.5%; Financial and insurance activities: 8.9%; Other corporate services: 7.2%

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 of the potential losses that might occur in a given portfolio as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering not only the correlations that exist between those instruments but also their volatility.

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

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

The definition of these areas allows for an effective management separation of the trading and banking books, as well as for the correct allocation of each operation to the most suitable management area, according to its respective context and strategy.

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 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 - including interest rate risk, exchange rate risk, equity risk and price risk of credit default swaps (indexes) - 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 table below presents the amounts at risk for the Trading Book, as at 31 December 2018 and 2017, and measured by the methodologies referred to above:

(Thousands of euros)

	2018	Maximum	Average	Minimum	2017
Generic Risk (VaR)	3,040	5,407	2,817	1,661	2,546
Interest Rate Risk	3,125	5,160	2,573	1,760	2,450
FX Risk	363	495	784	305	790
Equity Risk	34	89	52	66	36
Diversification effects	(483)	(336)	(592)	(471)	(730)
Specific Risk	47	389	115	19	100
Non-Linear Risk	0	17	10	0	7
Commodities Risk	5	7	3	1	6
Global Risk	3,091	5,579	2,945	1,746	2,659

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 identifying 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 evaluation of 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, although 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)

	2018			
Currency	- 200 bp (*)	- 100 bp (*)	+ 100 bp	+ 200 bp
CHF	1,822	1,822	2,879	5,694
EUR	(20,095)	(24,812)	128,633	251,343
PLN	16,936	7,841	(7,100)	(13,523)
USD	(28,136)	(13,800)	13,280	26,077
	(29,473)	(28,949)	137,692	269,591

(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

(*) 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 placed 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	2018	2017	2018	2017
AOA	352.8610	199.0190	298.2603	189.7275
BRL	4.4377	3.9775	4.3064	3.6296
CHF	1.1267	1.1704	1.1518	1.1117
MOP	9.2211	9.6669	9.2211	9.6669
MZN	70.5000	70.4400	71.6463	71.6902
PLN	4.2966	4.1756	4.2635	4.2514
USD	1.1434	1.2006	1.1828	1.1344

Foreign exchange and equity risk in the banking book

The exchange rate risk of the banking book is transferred internally to the Trading area, in accordance with the risk specialization 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 hedged on a case-by-case basis through market operations, taking into consideration the defined policy and the conditions and availability of instruments.

As at 31 December 2018, the Group's investments in convertible foreign currencies were fully 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 set of positions of small size and low risk equity positions, essentially 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' control.

As at 31 December 2018, 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:

		2018			
		Net Investment	Hedging instruments	Net Investment	Hedging instruments
Company	Currency	Currency '000	Currency '000	Euros '000	Euros '000
Banque Privée BCP (Suisse) S.A.	CHF	79,922	79,922	70,936	70,936
Bank Millennium, S.A.	PLN	2,570,017	2,570,017	598,151	598,151

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. These hedging relationships were considered effective during 2018, as referred in the accounting policy 1 C4).

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 quarterly 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.

The Liquidity Coverage Ratio (LCR) stood at 218% at the end of December 2018 on a consolidated basis, comfortably above the minimum requirement of 100%, supported by highly liquid asset portfolios in an amount compatible with prudent management of the Group's short-term liquidity, evolved favourably compared to the same date last year (158%).

At the same time, the Group has a strong stable financing base, characterized by the large share of customer deposits in the funding structure, collateralized financing and medium and long-term instruments, which enabled the stable financing ratio (NSFR - Net Stable Funding Ratio) as determined in 31 December 2018 to stand at 133% (124% as at 31 December 2017).

In 2018, in consolidation basis, there was an increase Euros 313,403,000 in wholesale financing requirements, mainly attributable to the opposite impacts of the increase in sovereign debt portfolios in Portugal and Poland, on the one hand, and a new reduction of the commercial gap in Portugal and cash flow from operations, on the other.

In terms of the financing structure, the increase in liquidity needs was almost entirely supplied to the money market, with a net increase Euros 356,618,000, to a balance of Euros 1,168,237,000, as a result of the increase in the interbank market of Euros 754,345,000 (to a balance of Euros 738,133,000), and a reduction of Euros 397,728,000 in the repos resource, to a balance of Euros 430,105,000 at the end of the year.

The value of collateralised borrowings with the ECB remained at Euros 4,000,000,000, corresponding to the balance of the longer-term refinancing operations called TLTRO, which will reach maturity in 2020. Net funding with the ECB, which deducts the liquidity deposited with the Bank of Portugal above minimum cash reserves requirements and other liquidity denominated in euros, as well as the interest associated with the negative financing rate applied to TLTRO, continued its progressive reduction path in 2018, at Euros 396,620,000 to a balance of Euros 2,651,998,000.

The growth of the ECB's eligible assets portfolios allowed a significant strengthening of the liquidity buffer with the Eurosystem, which at the end of 2018 reached Euros 14,260,533,000 (vs. Euros 9,727,641,000 in December 2017).

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

(Thousands of euros)

	2018	2017
European Central Bank	7,248,348	7,431,756
Other Central Banks	5,608,093	3,216,224
	12,856,441	10,647,980

As at 31 December 2018, the amount discounted in the European Central Bank amounted to Euros 4,000,000,000 (31 December 2017: Euros 4,000,000,000). As at 31 December 2018, the amount discounted with Banco de Moçambique was Euros 1,275,000 (zero amount as at 31December 2017). As at 31 December 2018 and 2017 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)

	2018	2017
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy (i)	7,248,348	7,431,756
Outside the pool of ECB monetary policy	9,664,184	5,344,503
	16,912,532	12,776,259
Net borrowing at the ECB (ii)	2,651,998	3,048,618
Liquidity buffer (iii)	14,260,534	9,727,641

i) Corresponds to the amount reported in COLMS (Bank of Portugal application).
ii) Includes, as at 31 December 2018, the value of funding with ECB net of interest associated with negative financing rate applied to TLTRO (Euros 40,206,000) of deposits with the Bank of Portugal and other liquidity of the Eurosystem (Euros 1,671,612,000), plus the minimum cash reserves (Euros 363,815,000).
iii) Collateral eligible for ECB, after haircuts, less net financing at the ECB.

Loans to deposits ratio

The BCP Group structurally improved its liquidity profile by recording as at 31 December 2018 a credit transformation ratio on deposits calculated in accordance with Bank of Portugal Instruction No. 16/2004 (current version) of 87% and as at 31 December 2017 this ratio was set at 93% (according to the current version of the Instruction as at 31 December 2018).

Liquidity coverage ratio

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 100% from1 January 2018. The LCR ratio of the BCP Group comfortably stood above the reglementary limit indicating 218% at the end of December 2018 (31 December 2017: 158%), 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 2018 set the NSFR at 133% (31 December 2017: 124%).

Encumbered assets

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 considering the recommendation made by the European Systemic Risk Board, the following information regarding the assets and collaterals, is presented as follows:

(Thousands of euros)

	2018			
	Encumbered assets		Unencumbered assets	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution, of which:	10,981,675	n/a	62,475,453	n/a
Equity instruments	-	-	71,853	71,853
Debt securities	1,739,649	1,740,137	15,520,632	15,522,488
Other assets	-	-	7,697,410	n/a

(Thousands of euros)

	2017			
	Encumbered assets		Unencumbered assets	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
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)

	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	2018	2017	2018	2017
Collateral received by the reporting institution	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	-	-	164,835	50,471
Other assets	-	-	-	-
Own debt securities issued other than own covered bonds or ABSs encumbered	-	-	-	-

(Thousands of euros)

Encumbered assets, encumbered collateral received and matching liabilities	Carrying amount of selected financial liabilities 2018	2017
Matching liabilities, contingent liabilities and securities lent	6,845,902	8,957,873
Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	10,088,945	11,885,777

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 7,697,410,000 (31 December 2017: Euros 8,744,647,000) 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 the previous tables correspond to the position as at 31 December 2018 and 31 December 2017 reflecting 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 2018 amounts to Euros 14,260,533,000 (31 December 2017: Euros 9,727,641,000).

BCP Group has currently two covered bond programmes in place, the Euros 12.5 billion BCP Covered Bond Programme ("BCP Programme"), and the Euros 2.0 BII Covered Bond Programme ("BII Programme"), with Euros 8.2 billion and Euros 895 million of covered bonds outstanding, respectively. The BCP Programme is backed by a Euros 11.4 billion portfolio of residential mortgages, providing an overcollateralization ("OC") of 38.5% that is above the minimum of 14% currently required by rating agencies. The BII Programme is backed by its own Euros 1,020 million cover pool of essentially residential mortgages, corresponding to an OC of 14% that is above the minimum OC of 12.5% currently required by rating agencies.

The Portuguese covered bond legislation ensure covered bond holders benefit from dual-recourse over the issuer together with a special preferential claim over the respectively assigned residential mortgage portfolios, with precedence over any other creditors, with covered bond law superseding the general bankruptcy regulation. Residential mortgages in a cover pool are subject to certain eligibility criteria inscribed in the Portuguese covered bond legislation, which include a maximum LTV of 80%, delinquency of no more than 90 days, and them being first lien mortgages (or if otherwise, all preceding liens being in the cover pool) over properties located in the EU. Both the BCP Programme and the BII Programme documentation limit property location to Portugal.

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

(Thousands of euros)

	2018						
	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	2,753,839	-	-	-	-	-	2,753,839
Loans and advances to CI							
Repayable on demand	326,707	-	-	-	-	-	326,707
Other loans and advances	-	848,082	42,500	635	-	669	891,886
Loans and advances to customers	-	-	8,156,009	8,824,309	29,417,461	2,015,053	48,412,832
Financial assets (*)	-	851,837	1,379,095	8,786,323	4,115,078	730,414	15,862,747
	3,080,546	1,699,919	9,577,604	17,611,267	33,532,539	2,746,136	68,248,011
Liabilities							
Resources from CI	-	1,965,667	284,043	4,682,096	820,990	-	7,752,796
Resources from costumers	30,592,203	11,210,405	10,233,768	614,111	14,200	-	52,664,687
Debt securities issued	-	74,027	55,027	1,252,639	298,701	-	1,680,394
Subordinated debt	-	-	133,709	441,492	461,584	27,021	1,063,806
	30,592,203	13,250,099	10,706,547	6,990,338	1,595,475	27,021	63,161,683

(*) Financial assets at fair value through profit or loss (excluding loans and advances to customers at fair value and trading derivatives) and Financial assets at fair value through other comprehensive income.

Operational Risk

The operational risk management system adopts the "3 Lines of Defence" model and is based on an integrated structure of end-to-end processes, considering that a vision which is transversal to the functional units of the organisational structure is the most suitable approach for the perception of risks and to estimate the effects of the corrective measures introduced for their mitigation. Furthermore, this processes model also underlies other strategic initiatives related to the management of this risk such as the actions to improve operating efficiency and the management of business continuity. Hence, all the Group's subsidiaries have their own processes structure, which is periodically adjusted according to business evolution, in order to ensure suitable coverage of the business activities (or business support activities) developed.

The responsibility for the day-to-day processes' management lies with the 1st Line of Defence: the process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective Key Risk Indicators (KRI), to perform the Risks Self-Assessment (RSA) exercises, as well as to identify and implement suitable actions to mitigate operational risk exposures, thus contributing to the strengthening of control mechanisms and the improvement of the internal control environment. The periodic revision of the main processes in each geography is ensured by local structure units.

The Risk Office is part of the 2nd Line of Defence and is responsible for implementing the risk policies defined for the Group, for developing and proposing methodologies for managing this risk, for supervising their implementation and for challenging the 1st Line of Defence regarding the risk levels incurred, reporting to the Operational Risk and Internal Control Monitoring Committee.

In 2018, the usual operational risk management activities continued to be carried out by the various players involved in the management of this risk, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as at the appropriate reporting tasks, either to the Group's management bodies or within regulatory duties. The results of the RSA exercises evidence a robust control environment, demonstrating the Group's commitment to operational risk management through the continuous development of improvement actions that help mitigate exposures to this risk. Regarding the operational losses registered, it should be highlighted that their pattern was not different from what is usual and expected, with a higher frequency of losses of low amounts, without concentration in significant amounts. It should also be noted that the average ratio between gross losses and the relevant indicator for TSA (gross income) has consistently presented values below 1%, which compares very favourably with international benchmarking and attests the robustness of the operational control environment of the Group. The monitoring of KRI has allowed to identify opportunities for improvement that, together with the RSA exercises and the process of identification and registration of losses, provide for an effective management of this risk.

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, there are no relevant covenants related to a possible downgrade of BCP.

Hedge accounting

As at 31 December 2018, the table below includes the detail of the hedging instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(Thousands of euros)

	2018			
	Hedging instruments			
		Book value		
Type of hedging	Notional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	4,001,174	12,662	77,787	(32,377)
	4,001,174	12,662	77,787	(32,377)
Cash flows hedging				
Foreign exchange risk				
Currency and interest rate swap	3,516,676	28,051	87,700	5,068
Interest rate risk				
Interest rate swaps	12,725,086	81,677	7,604	107,337
	16,241,762	109,728	95,304	112,405
Hedging of net investments in foreign entities				
Foreign exchange risk				
Currency and interest rate swap	596,165	664	4,809	17,333
	596,165	664	4,809	17,333
Total	20,839,101	123,054	177,900	97,361

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 31 December 2017, the table below includes the detail of the hedging instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(Thousands of euros)

	2017			
	Hedging instruments			
		Book value		
Type of hedging	Notional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
Interest rate swaps	6,730,228	20,444	53,744	11,171
Other	450,000	-	12,899	(14,775)
	7,180,228	20,444	66,643	(3,604)
Cash flows hedging				
Foreign exchange risk				
Currency swap	89,800	12,501	-	-
Currency and interest rate swap	3,686,980	197,644	42,352	11,508
Interest rate risk				
Interest rate swaps	744,085	2,012	2	593
	4,520,865	212,157	42,354	12,101
Hedging of net investments in foreign entities				
Foreign exchange risk				
Currency and interest rate swap	595,827	-	22,288	(30,143)
	595,827	-	22,288	(30,143)
Total	12,296,920	232,601	131,285	(21,646)

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

As at 31 December 2018, the table below includes the detail of the hedged items:

(Thousands of euros)

		2018						
		Hedged items						
		Book value		Cumulative value of the adjustments			Cash flow hedge reserve / Currency translation reserve	
Type of hedging	Balance sheet item	Assets	Liabilities	Assets	Liabilities	Change in fair value (A)	Hedging relationships in effect	Hedging relationships discontinued
Fair value hedge								
Interest rate risk								
Interest rate swaps	(B)	462,400	-	5,306	-	444	n.a.	n.a.
	(C)	3,484,435	-	(65,176)	-	37,021	n.a.	n.a.
	(D)	-	260,000	-	2,797	(3,796)	n.a.	n.a.
	(E)	-	180,650	-	7,417	1,679	n.a.	n.a.
	(F)	-	2,517	-	11	20	n.a.	n.a.
	(G)	-	7,685	-	137	196	n.a.	n.a.
		3,946,835	450,852	(59,870)	10,362	35,564	n.a.	n.a.
Cash flows hedging								
Foreign exchange risk								
Currency and interest rate swap	(B)	3,577,938	-	-	-	(5,068)	(9,074)	(7,051)
Interest rate risk								
Interest rate swaps	(B)	12,214,683	-	-	-	(107,337)	63,219	50,648
		15,792,621	-	-	-	(112,405)	54,145	43,597
Hedging of net investments in foreign entities								
Foreign exchange risk								
- Bank Millennium, S.A.		n.a.	n.a.	n.a.	n.a.	(17,333)	17,333	-
Total		19,739,456	450,852	(59,870)	10,362	(94,174)	71,478	43,597

(A) Fair value changes used to calculate the ineffectiveness of the hedge

(B) Financial assets at amortised cost - Loans and advances to customers

(C) Financial assets at fair value through other comprehensive income

(D) Financial liabilities at amortised cost - Resources from credit institutions

(E) Financial liabilities at amortised cost - Resources from customers

(F) Financial liabilities at amortised cost - Non subordinated debt securities issued

(G) Financial liabilities at amortised cost - Subordinated debt

As at 31 December 2017, the table below includes the detail of the hedged items:

(Thousands of euros)

		2017						
		Hedged items						
							Cash flow hedge reserve / Currency translation reserve	
	Balance sheet item	Book value		Cumulative value of the adjustments		Change in fair value (A)	Hedging relationships in effect	Hedging relationships discontinued
Type of hedging		Assets	Liabilities	Assets	Liabilities			
Fair value hedge								
Interest rate risk								
Interest rate swaps	(B)	468,090	-	4,886	-	(1,167)	n.a.	n.a.
	(C)	1,027,868	-	(27,564)	-	6,573	n.a.	n.a.
	(D)	-	4,760,000	-	(11,566)	(9,907)	n.a.	n.a.
	(E)	-	205,438	-	9,119	7,700	n.a.	n.a.
	(F)	-	62,900	-	9,046	(1,427)	n.a.	n.a.
	(G)	-	263,350	-	39,369	(3,701)	n.a.	n.a.
		1,495,958	5,291,688	(22,678)	45,968	(1,929)	n.a.	n.a.
Cash flows hedging								
Foreign exchange risk								
Currency and interest rate swap	(B)	3,522,198	-	-	-	(11,508)	(14,432)	(12,083)
Interest rate risk								
Interest rate swaps	(B)	12,295,988	-	-	-	50,511	158,547	70,690
		15,818,186	-	-	-	39,003	144,115	58,607
Hedging of net investments in foreign entities								
Foreign exchange risk								
Bank Millennium, S.A.		n.a.	n.a.	n.a.	n.a.	30,143	(30,143)	n.a.
Total		17,314,144	5,291,688	(22,678)	45,968	67,217	113,972	58,607

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

(B) Financial assets at amortised cost - ' Loans and advances to customers

(C) Financial assets at fair value through other comprehensive income

(D) Financial liabilities at amortised cost - Resources from credit institutions

(E) Financial liabilities at amortised cost - Resources from customers

(F) Financial liabilities at amortised cost - Non subordinated debt securities issued

(G) Financial liabilities at amortised cost - Subordinated debt

The table below shows the reconciliation of each equity component and an analysis of other comprehensive income attributable to hedge accounting, with reference to 31 December 2018:

(Thousands of euros)

	Cash flow hedge reserve		Exchange differences	
	2018	2017	2018	2017
Balance as at 1 January 2018	(26,514)	(40,454)	4,450	34,593
Amounts recognised in other comprehensive income:				
Hedging cash flows - foreign exchange risk				
Changes in fair value of currency swaps	4,951	11,508	-	-
Foreign exchange changes	746	(2,274)	-	-
Others	4,691	4,706	-	-
Hedging of net investments - foreign exchange risk				
Reclassified to the income statement	-	-	17,333	(30,143)
Balance as at 31 December 2018	(16,126)	(26,514)	21,783	4,450

The table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income, with reference to 31 December 2018:

(Thousands of euros)

	2018					
				Amounts reclassified from reserves to results for the following reasons:		
Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
Interest rate swaps	(D)	n.a.	3,187		n.a.	n.a.
		n.a.	3,187		n.a.	n.a.
Cash flows hedging						
Foreign exchange risk						
Currency and interest rate swap	(D)	5,068	(4,636)		-	-
Interest rate risk						
Interest rate swaps	(D)	43	-	(E)	23,004	-
		5,111	(4,636)		23,004	-
Hedging of net investments in foreign entities						
Foreign exchange risk						
Currency and interest rate swap	(F)	17,333	-		-	-
		17,333	-		-	-
Total		22,444	(1,449)		23,004	-

The table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income, with reference to 31 December 2017:

(Thousands of euros)

	2017					
				Amounts reclassified from reserves to results for the following reasons:		
Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
Interest rate swaps	(D)	n.a.	(5,533)		n.a.	n.a.
Other	(D)	n.a.	n.a.		n.a.	n.a.
		n.a.	(5,533)		n.a.	n.a.
Cash flows hedging						
Foreign exchange risk						
Currency and interest rate swap	(D)	11,508	(4,706)		-	-
Interest rate risk						
Interest rate swaps	(D)	593	-	(E)	26,586	-
		12,101	(4,706)		26,586	-
Hedging of net investments in foreign entities						
Foreign exchange risk						
Currency and interest rate swap	(F)	(30,143)	-	-	-	-
		(30,143)	-		-	-
Total		(18,042)	(10,239)		26,586	-

(A) Income Statement item in which the ineffectiveness of the hedge was recognised
(B) Income Statement item in which the reclassified amount was recognised
(C) but which are no longer expected to occur
(D) Net gains / (losses) from hedge accounting operations
(E) Interest income
(F) Net gains / (losses) from foreign exchange

The table below shows the detail of hedging instruments, as at 31 December 2018, by maturity:

(Thousands of euros)

	2018					
	Remaining period				Fair value	
Type of hedging	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps						
Notional	-	24,500	3,976,674	4,001,174	12,662	77,787
Fixed interest rate (average)		3.44%	1.05%	1.07%		
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	52,367	205,511	12,467,208	12,725,086	81,677	7,604
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Currency and interest rate swap	336,794	570,475	2,609,407	3,516,676	28,051	87,700
Hedging derivatives related to net investment in foreign operations:						
OTC Market:						
Currency and interest rate swap	58,059	76,034	462,072	596,165	664	4,809
Total derivatives traded by OTC Market:	447,220	876,520	19,515,361	20,839,101	123,054	177,900

The table below shows the detail of hedging instruments, as at 31 December 2017, by maturity:

(Thousands of euros)

	2017					
	Remaining period				Fair value	
Type of hedging	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps						
Notional	-	5,288	6,724,940	6,730,228	20,444	53,744
Fixed interest rate (average)		0.00%	0.00%	0.00%		
Other	450,000	-	-	450,000	-	12,899
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	76,396	249,784	12,467,904	12,794,084	3,756	46,054
Cash flow hedging derivatives related to currency risk changes:						
OTC Market:						
Currency swap	89,800	9,932	-	99,732	12,501	-
Foreign exchange rate and interest rate swap	492,427	412,928	2,781,626	3,686,981	197,644	42,352
Hedging derivatives related to net investment in foreign operations:						
OTC Market:						
Currency and interest rate swap	-	224,675	371,152	595,827	-	22,288
Total derivatives traded by OTC Market:	1,108,623	902,607	22,345,622	24,356,852	234,345	177,337