Risk and Outlook

Internal Control System

The internal control system is the set of principles, strategies, policies, systems, processes, rules and procedures established in the Group aimed at ensuring:

- Efficient and profitable performance of the activity, in the medium and long-term, ensuring the effective use of the assets and resources, the business continuity and survival of the Group, namely through an adequate management and control of the activity risks, through a prudent and correct assessment of assets and liabilities, as well as through the implementation of mechanisms for prevention and protection against errors and fraud;
- The existence of financial and managerial information which is complete, pertinent, reliable and timely, to support decision-making and control processes, both at an internal and external level;
- Observance of the applicable legal and regulatory provisions issued by the supervision authorities, including those relative to the prevention of money laundering and financing of terrorism, as well as professional and ethical standards and practices, internal and statutory rules, codes of conduct and Customer relations, guidelines of the governing bodies and recommendations of the Basel Banking Supervisory Committee and European Banking Authority (EBA), so as to preserve the image and reputation of the institution before its Customers, shareholders, employees and supervisors.

In order to achieve these objectives, the internal control system is based on the Compliance function, the risk management function and internal audit function, which are exercised by centralised Divisions and operate transversally across the Group. The Heads of these three Divisions are appointed by the Bank's Board of Directors, with the favourable opinion of the Committee for Nominations and Remunerations, which approves their technical and professional profiles as appropriate for the function at stake.

The internal control system is based on:

- A control environment supported by high integrity and honesty standards, promoting a strict compliance with the laws and regulations, by the effective enforcement of a 'check and balance' system, including adequate segregation of duties, with the objective of preventing conflicts of interest, and also by process based operational managementmodels and control activities, that allow for clear identification of the implemented controls and the assessment of their efficiency;
- A solid risk management system, aimed at the identification, evaluation, follow-up and control of all risks which might influence the Group's activities;
- An efficient information and communication system, designed to guarantee the collection, processing and transmission of relevant, encompassing and consistent data, within a timeframe and manner that allows for an effective and timely management and control of the institution's activity and risks;
- An effective monitoring and correction process, implemented with a view to ensuring the adequacy and effectiveness of the actual internal control system over time, to immediately identify any flaws (defined as the group of existing, potential or real defects, or opportunities for the introduction of improvements that will strengthen the internal control system), and ensuring the triggering of corrective action; and
- Strict compliance with all the legal and regulatory provisions in force by the Group's employees in general, and by the people who hold senior or managerial positions, including members of the management bodies, to ensure compliance with the Group's Code of Conduct and other codes of conduct applicable to the banking, financial, insurance and brokerage (of securities or derivatives) activities.

The Risk Management System, the Information and Reporting System and the Internal Control Monitoring System

The internal control system includes the following subsystems: the risk management system, the information and reporting system and the internal control monitoring system.

The risk management system corresponds to the series of integrated and permanent processes which enable the identification, assessment, monitoring and control of all material risks, derived internally or externally, to which the Group's institutions are exposed, in order to keep them at levels that are predefined by the management and supervisory bodies, and take into consideration risks related to credit, markets, interest rates, exchange rates, liquidity, compliance, operating, information systems, strategy and reputation, as well as all other risks which, in view of the specific situation of the Group's institutions, could become materially relevant.

This system is suitably planned, reviewed and documented and is supported by risk identification, assessment, monitoring and control processes, which include appropriate and clearly defined policies and procedures, aimed at ensuring that the objectives of the institution are achieved and that the necessary measures are taken to respond adequately to previously identified risks.

The information and reporting system ensures the existence of information which is substantive, up-to-date, understandable, consistent, timely and reliable, so as to enable an overall and encompassing view of the financial situation, the development of the business, the achievement of the defined strategy and objectives, the risk profile of the institution and the behaviour and prospective evolution of relevant markets.

The financial information process is supported by the accounting and management support systems which record, classify, associate and archive, in a timely, systematic, reliable, complete and consistent manner, all the operations carried out by the institutions and its subsidiaries, in accordance with the rulings and policies issued by the Executive Board of Directors.

The monitoring process includes all the control and assessment actions developed with a view to ensure the effectiveness and adequacy of the internal control system, namely through the identification of deficiencies in the system, either in terms of its design, implementation and/or use. The control and monitoring actions are implemented on a continuous basis and as an integral part of the Group's routines, being complemented with regular or exceptional autonomous assessments. Any deficiencies of material impact which might be detected through the control procedures are duly registered, documented and reported to the appropriate management and supervisory bodies.

Within this context, the internal audit function is performed by the Audit Division on a permanent and independent basis, assessing, at all times and pursuant to the established plan, the adequacy and effectiveness of the different components of the internal control system, as a whole, issuing recommendations based on the outcome of those assessments.

These subsystems of the internal control system are managed by the Risk Office and Compliance Office in terms of risk management and by the Planning, Research and ALM Division, the Accounts and Consolidation Division and the areas responsible for accounting in the different subsidiaries, for information and reporting.

The activity of the Risk Office is transversal across the Group and includes the coordination of the local risk management structures. The activity of the Compliance Office is also transversal to all Institutions of the Group, in terms of applicable compliance policies, with observance of the legal specificities of each jurisdiction. The Accounting and Consolidation Division and the Planning, Research and ALM Division receive and centralise the financial information of all subsidiaries. The Audit Division is responsible for the on-site monitoring of the internal control system, performing this duty transversally.

The Risk Office, the Compliance Office, the Accounting and Consolidation Division, the Planning, Research and ALM Division and Audit Division ensure the implementation of the procedures and means required to obtain all the relevant information for the information consolidation process at Group level - both of an accounting nature and relative to management support and risk monitoring and control - which should include:

- The definition of the contents and format of the information to be reported by the entities included in the consolidation perimeter, in accordance with the accounting policies and guidelines defined by the management body, as well as the dates when the reporting is required;
- The identification and control of the intra-Group operations;
- Assurance that the managerial information is consistent between the different entities, so that it is possible to measure and monitor the evolution and profitability of each business, verify compliance with the objectives that have been established, as well as evaluate and control the risks incurred by each entity, both in absolute and relative terms.

Main Risks and Uncertainties

Risk	Sources of risk	Risk level	Trend	Interactions
	ENVIRONMENT			
Regulatory	▪ Risks associated to products related to the conversion of the credits into Swiss francs in Poland ▪ Regular practice of conducting Stress Tests by the ECB ▪ Absence of fiscal framework for the IFRS 9 transition ▪ European Commission and ECB guidelines on NPL provisioning ▪ EBA's guidelines on IRB models	Medium	↔	▪ Total CET1 requirements in 2019: 9.625% ▪ Disclosure of LCR, NFSR and Leverage ratio ▪ Most guidelines have already been translated into our risk models, which, pursuant to continuous dialogue with the ECB, have become very conservative when compared with most banks in Europe ▪ 55% RWA density
Sovereign	▪ Trade war between USA and China ▪ Economic slowdown in the Euro Area and Portugal ▪ Brexit ▪ Low interest rates and compression of the spread for active interest rates ▪ High indebtedness of public and private sectors ▪ Exposure to Portuguese and Mozambican and Angolan sovereign debt ▪ Exposure to credits held by Mozambican entities ▪ Angola was considered an economy undergoing hyperinflation	High	↔	▪ Recovery of profitability limited by the low nominal interest rates and by the low potential growth ▪ Still high level of NPE ▪ Lower funding costs ▪ Future regularization of the ECB's monetary policy leads to pressure on public debt yields but the increasing steepness of the interest rates curve favours the banks' profitability
	FUNDING AND LIQUIDITY			
Access to WSF markets and funding structure	▪ Conditions in WSF/MMI markets and progressive replacement of the funding obtained from the ECB by funding obtained in the IMM/WSF ▪ Incentive to the placement of financial instruments with Retail investors ▪ Cost of funding related to the need to comply with MREL requirements ▪ Continuation of the deleveraging process by the internal economic agents versus growth of loans	Low	↓	▪ Balance sheet customer deposits and funds paramount in the funding structure ▪ Credit portfolio may continue to contract as a result of the NPE stock decrease ▪ Need for access to the financial markets to meet MREL requirements, although the gap is manageable
	CAPITAL			
Credit risk	▪ Still high NPA stock ▪ Execution Risk of the NPA Reduction Plans, including CRFs ▪ Exposure to real estate assets, directly or by participating in real estate investment or restructuring funds ▪ Exposure to emerging countries strongly dependent on commodities	High	↔	▪ Impact on capital ratios demand on the SREP from high level of NPE ▪ Need to decrease the workout time, for both loans and/or companies ▪ Need to decrease exposure to real estate risk, despite the positive trend in real estate prices ▪ Deterioration of the quality of loans granted directly to emerging countries or to companies in those countries or to Portuguese companies with business relationships with those countries

(Continues)

(Continuation)

Risk	Sources of risk	Risk level	Trend	Interactions
		CAPITAL		
Market risk	▪ Volatility in capital markets	Low	⟷	▪ Market uncertainty ▪ Central Banks monetary policies ▪ Profitability of the assets of the pension fund ▪ Lower trading income
Operational risk	▪ Inherent to the Group's business	Low	⟷	▪ Streamlining processes ▪ Degrading controls ▪ Increased risk of fraud ▪ Data base security ▪ Business Continuity
Concentration risk	▪ Concentration of assets of some size	Medium	⟷	▪ Need to reduce the weight of the main Customers in the total credit portfolio
Reputational, legal and compliance risk	▪ Inherent to the Group's business ▪ Incentives to place financial products that enable recovery of profitability, not matching the Customers' risk profile or needs	Medium	⟷	▪ Possible complaints from Customers ▪ Possible sanctions or other unfavourable procedures resulting from inspections ▪ Unstable regulatory framework applicable to financial activities ▪ AML and counter terrorism financing rules
Profitability	▪ Low nominal interest rates ▪ Banks' obligation to fully reflect the negative value of the Euribor in mortgage loans rate ▪ More limited space to increase spreads on term deposits in new production ▪ Regulatory pressures on fees ▪ Increase of the coverage of problematic assets by impairments ▪ Exposure to emerging markets, including countries specifically affected by the fall in the commodities price ▪ Fintech competition	Medium	⟷	▪ Negative impact on the financial margin: price effect, volume effect and past due credit effect ▪ Need to continue to control operating costs ▪ Keeping adequate hedging of problematic assets by provisions ▪ Reformulation of the business model and digital transformation

Risk management

Framework

Risk appetite

The BCP Group carries out its business activities in a controlled, prudent and sustained manner, based at all times on the adequacy and compatibility between the objectives set for the business and the levels of risk tolerance defined in terms of sustainability and profitability of the business, in the long-term.

Thus, the Group establishes controls and limits on the material risks to which its activities are subject, based on its "Risk Appetite Statement" (RAS) which concurs in a relevant way for a posture of prudence and sustainability of the business, in view of its profitability, as well as the satisfaction of the different stakeholders: shareholders, customers and employees.

The RAS is composed by a set of 40 indicators considered of fundamental importance and representative of several risks classified as "material" within the formal risks' identification and quantification process, carried out at least once a year. For each of the indicators concerned, two levels of limitation are established: an 'alert level', up to which the level of risk represented is acceptable and from which corrective measures must be taken immediately (in order to that the level of risk regained to an acceptable level) and a 'level of breach', which requires immediate measures with significant impact, aimed at correcting a risk situation considered unacceptable.

Stemming from the RAS indicators, other lower-level indicators (and respective limits) are established, with a higher level of granularity, ensuring a more detailed monitoring, appropriate for a day-to-day approach to the risks' control of business processes, based on specialised metrics and with marked technical nature. All risk limits are approved by the competent Governance bodies defined in the internal regulations' documents and are periodically reviewed and updated.

Risk strategy

The above definition of RAS - as the primary set of indicators that render and materialise the risk appetite - is one of the guiding vectors of the Group's "Risk Strategy", which is approved by the Board of Directors of BCP: based on the RAS, several lines of action are established, to be developed by different organizational units of the Group, specifically identified, in order to address the mitigation or control of all material risks identified within the risks' identification and assessment process. These lines of action formally constitute the Group's Risk Strategy.

Hence, the RAS and the Risk Strategy are inseparable and central elements of the Group's risk management, both aiming to control and mitigate risks classified as "material" within the risks identification process.

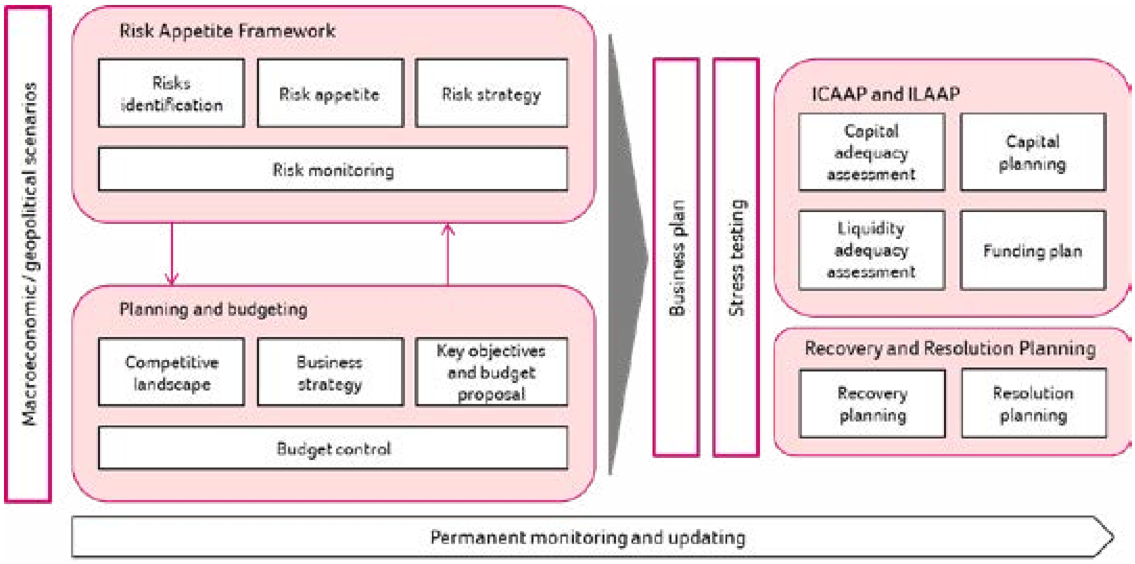
Integration between the business and risk management

The risk appetite structure - which includes the identification of material risks, the RAS and the Risk Strategy and is reviewed at least once a year (or whenever the quarterly risks monitoring concludes that there are new material risks) - provides a reference framework for the permanent monitoring of risks affecting the business and business support activities developed, for the monitoring of all variables, indicators and respective limits that are derived from RAS. Therefore, the permanent follow-up based on this structure is the result of a strong link between the risk management framework thus defined and the great diversity of methods and indicators applicable to the various activities carried out, this link being essential for the performance of the Group's risk management.

In addition, there is an interaction, in both senses, between the definition of the Group's risk appetite structure and its business objectives, represented in the business planning and budgeting. Thus, the risk appetite structure both conditions and is conditioned by the environing business objectives, just as much as the latter also influence and are influenced by the framework and limits of the risk appetite.

In its turn, the business objectives and risk appetite structures are the foundations for all activities and lines of business developed, also setting out the global controls on the Group's financial strength, such as the stress tests and the internal processes to assess capital and liquidity adequacy (ICAAP and ILAAP).

The following figure summarises the relationships described above, providing a graphic representation of the integration of risk management within the scope of the business developed by the BCP Group.



[1] Risk Appetite Framework
[2] Internal Capital Adequacy Assessment Process
[3] Internal Liquidity Adequacy Assessment Process
[4] Recovery and Resolution Planning

Internal control

The Risk Management function is an integral part of the Group's Internal Control System (SCI), along with the Compliance and Internal Audit functions, unequivocally contributing for a solid control and risk-limiting environment upon which the Group carries out its business (and business support) activities.

Within the SCI, the Risk Management and Compliance functions form the Group's Risk Management System (SGR), which materialises in an integrated and comprehensive set of resources, standards and processes that ensure an appropriate framework to the nature and materiality of the risks underlying the activities carried out, so that the Group's business objectives are achieved in a sustainable and prudent manner

In this sense, the SCI and the SGR provide the Group with the ability to identify, evaluate, monitor and control the risks - internal or external - to which the Group is exposed, in order to ensure that they remain at acceptable levels and within the limits defined by the management body.

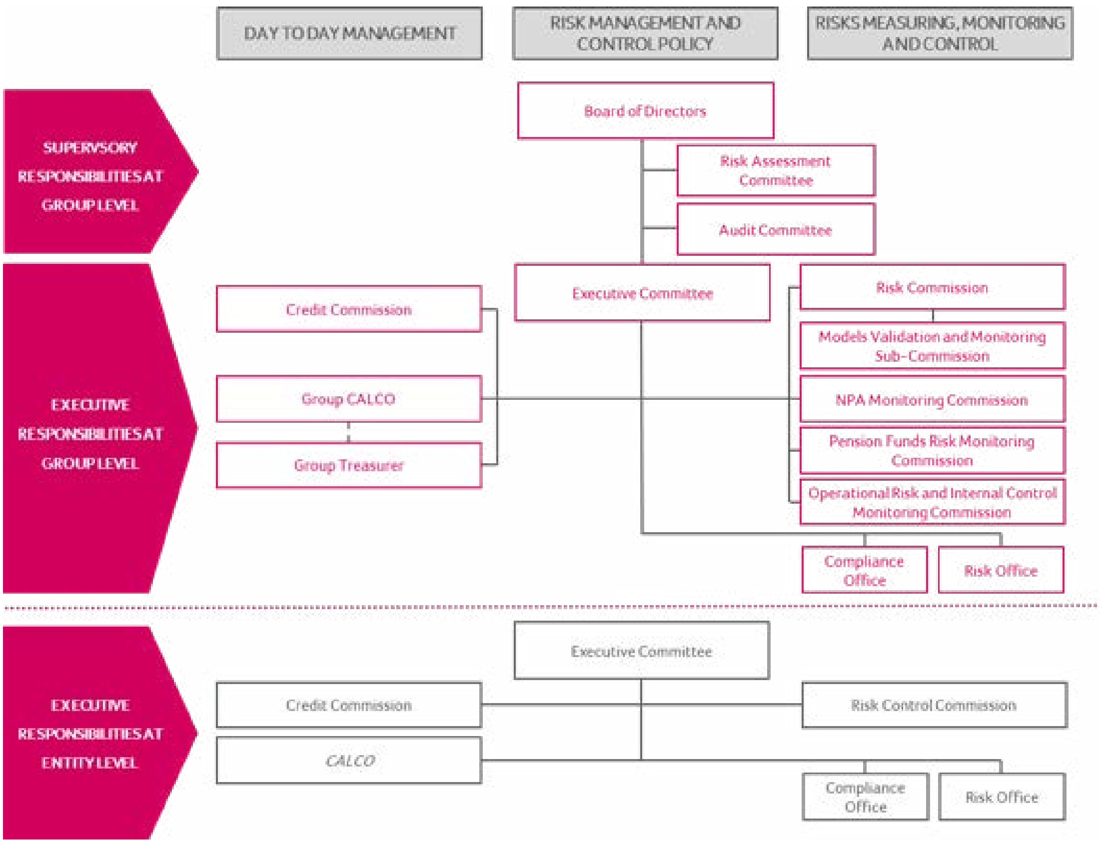
Thus, the SGR embodies the second line of defence in relation to the risks that impend over the Group's capital and liquidity. Under this approach, the first line of defence is ensured, on a day-to-day basis, by all the Group's organizational units - based on adequate training and awareness of risks, as well as on the framing of activities through a complete and detailed regulations' structure - while the third line of defence is developed through the internal supervision/independent review function (IRF) ensured by the Internal Audit function.

It should also be mentioned that the SCI:

- Is supported by an information and communication system that ensures the collection, processing, sharing and disclosure – both internal and external - of relevant, comprehensive and consistent data about the business, the activities carried out and the impending risks on the latter, in a timely and reliable way. This data processing and management information infrastructure is aligned with the principles of the Basel Committee with respect to efficient aggregation of risk and risk reporting data (BCBS 239 - Principles for effective risk data aggregation and risk reporting);
- Is continuously monitored by the Group, the insufficient internal control situations being registered - under the form of recommendations/ deficiencies or improvement opportunities – for correction/elimination and regulatory reporting.

Risk management Governance

The following figure represents the SGR's Governance, as at 31/12/2018, exerted through various organizational bodies and units with specific responsibilities in the area of risk management or internal supervision.



The composition, capacities and responsibilities of the management and supervision bodies that intervene in the risk management governance - besides those of the Board of Directors (BoD) and its Executive Committee (EC) – are the following:

Risks Assessment Committee

The Risks Assessment Committee is composed of four non-executive Directors and has the following capacities:

- Advising the BoD on risk appetite and risk strategy, accompanying and intervening in the definition and review of the Group's Risk Appetite Framework and providing an opinion on its adequacy to the BoD;
- Monitoring the evolution of the RAS metrics, verifying their alignment with defined thresholds and levels and monitoring the action plans designed to ensure compliance with the established risk limits;
- Advising the BoD on the policies regarding the risks' identification, management and control within the Group, monitoring the global risk levels in order to ensure that those are compatible with the goals, the available financial resources and the approved strategies for the development of the Group's activities;
- Monitoring the capital and liquidity planning processes (ICAAP and ILAAP), providing an opinion to the BoD concerning the respective conclusions, as well as analysing and approving the conclusions of the regular follow-up on these processes;
- Monitoring and intervening in the Recovery Plan review, providing an opinion to the BoD on the respective adequacy.

Within the resolution planning, the Risks Assessment Committee approves its annual work plan and monitors its execution.

The Risk Officer functionally reports to this Committee and participates in its meetings, presenting the evolution of the key risk metrics and indicators, as well as all incidences, changes and evolutions relative to the SGR.

Audit Committee

The BoD's Audit Committee is composed of three non-executive directors. Within the risk management governance, this Committee has global corporate supervising capacities - e.g. in what concerns the risk levels follow-up - as well as those that are attributed within the SCI, namely:

- Supervising and controlling of the SGR's and the SCI's effectiveness (and, also, of the Internal Audit System);
- Analysing and regularly following-up of the financial statements and the main prudential indicators, the risk reports prepared by the Risk Office, the Compliance Office's activity, the handling of claims and complaints and the main correspondence exchanged with the supervisory authorities;
- Issuing of a prior opinion concerning the entity defined by the Bank to assess the adequacy and effectiveness of the SCI.
- The Audit Committee holds regular meetings with the Heads of the Audit Division, the Risk Office and the Compliance Office.
- The Risk Officer participates in this Committee's regular meetings, reporting on the evolution of the main indicators and metrics concerning risks and credit impairment, as well as on the implementation status of the recommendations that concern the SGR, issued within the scope of internal control or by the supervisory/regulatory authorities.

Risk Commission

This EC committee is responsible for defining, at an executive level, the framework and the risk management policies and instruments within the Group, establishing the respective principles, rules, limits and practices for the Group Entities, taking into account the defined risk thresholds.

The Risk Commission monitors the overall levels of credit, market, liquidity and operational risk, as well as all other risks considered materially relevant for the Group, ensuring that the risk levels are compatible with the goals, available financial resources and strategies that have been approved for the development of the Group's activity. This Commission also validates the compliance of risk management with all the applicable laws and regulations.

The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO), as well as, optionally, the Chief Operations Officer (COO) and the EC members responsible for the Corporate/Investment Banking and the Retail business (Chief Corporate Officer/CCorpO and Chief Retail Officer/CRetO, respectively) are members of this Commission.

Other members of the Commission are the Risk Officer, the Compliance Officer and the Heads of the following Divisions: Treasury, Markets and International (DTMI), Credit (DCR), Rating (DRAT), Models Validation and Monitoring Office (GAVM) and Regulatory and Supervision Monitoring Office (GARS). The Head of the Audit Division (DAU) is a permanently invited member of the Risk Commission, without voting rights.

NPA(*) Monitoring Commission

This EC Commission has the responsibility of monitoring the evolution of credit risk, under various aspects:

- Monitoring of the NPA Reduction Plan, including its operational scope and the fulfilment of the quantitative goals assumed; besides the NPE reduction, the Commission also monitors the disinvestment process of the real estate portfolio and other assets received in lieu of payment as the result of credit recovery processes (foreclosed assets) and other non-performing assets;
- Analysis of the credit recovery processes' performance;
- Portfolio's quality and main performance and risk indicators;
- Impairment, including the main cases of individual impairment analysis.

The CEO, the CRO, the CRetO and the COO are members of this Commission, as well as, optionally, the CFO. The Heads of the following Divisions are also members of this Commission: Risk Office (ROFF), DCR, DRAT, Specialised Monitoring (DAE), Retail Recovery (DRR), Specialised Recovery (DRE), Legal Advisory and Litigation (DAJC), Management Information (DIG) and Specialised and Real-Estate Credit (DCEI). The Head of the Audit Division (DAU) is a permanently invited member of the Risk Commission, without voting rights.

(*) Non-performing assets.

Pension Funds Risk Monitoring Commission

This EC commission has the following competences:

- Assessing the performance and risk of the Group's Pension Funds in Portugal;
- Establish, for those, the appropriate investment policies and hedging strategies.

The Commission members are the CEO, the CFO, the CRO and any other members of the EC that wish to participate in the Commission's meetings. The other Commission's members are the Heads of the following Divisions: ROFF, Research, Planning and ALM (DEPALM), Wealth Management (DWM) and Human Resources (DRH). Representatives of the Pension Funds management entity and of Ocidental Pensões also participate in the Commission's meetings, by invitation and without voting rights.

Internal Control and Operational Risk Monitoring Comission [*]

This EC Commission is responsible for defining the operational risk management framework and for ensuring its enforcement at the Group's operations. It also has monitoring functions of all matters related to operational risks, to the SCI and to IT and outsourcing risks. Furthermore, this Commission has the responsibility for promoting and radiating a control and awareness culture concerning the operational risks.

The permanent members of this Commission are the CRO and the COO. The other EC members may take part in this Commission's meetings if they so do wish. The remaining members of the Commission are the Risk Officer, the Compliance Officer and the Heads of the IT Division (DIT) and of the Operations Division (DO). Depending on specific matters of processes to be addressed by this body, the respective macro-process owners may participate in the Commission's meetings. The Head of the Audit Division (DAU) is a permanently invited member of the Risk Commission, without voting rights.

Credit Commission

This body stems from the EC and its functions are to assess and decide on credit granting to Customers of Banco Comercial Português, in accordance with the competences established by internal regulation ('Credit Granting, Monitoring and Recovery'). This commission also issues advisory opinions on credit proposals from subsidiary Group entities.

The members of this Commission are the CEO, the CFO (optional), the CCorpO, the CRetO, the CRO and the COO (optional), as well as the Heads of DCR, DAJC and DRAT, the level 3 credit managers, two members of the subsidiaries' Credit Commissions (whenever proposals originated in those entities are analysed) and the coordinating managers of the proposing areas. The Company's Secretary, the Risk Officer and the Compliance Officer are permanently invited members of this Commission, without voting rights.

Group CALCO

The Group CALCO - also referred to as the Capital, Assets and Liabilities Management Commission - is responsible for the management of the Group's overall capital, for assets and liabilities management and for the definition of liquidity management strategies at a consolidated level. Specifically, the Group CALCO is responsible for the structural management of interest rate and liquidity risks, including, among others, the following aspects:

- Establishment of management guidelines for assets, liabilities and off-balance sheet items at consolidated level;
- Definition of the capital allocation and risk premium policies;
- Definition of transfer pricing policy, in particular with regard to liquidity premiums;
- Monitoring of the capital and liquidity indicators, of the Recovery Plan indicators and of the execution of the Liquidity Plan;
- Definition of policies and strategies to access wholesale funding markets and definition of the liquidity buffer composition;

[*] This Commission merged with the Compliance Commission at the beginning of the second quarter of 2019, adopting the designation "Compliance and Operational Risk Committee", the CEO, the CRetO, and the head of the Quality and Network Support Division (DQAR) becoming members of this Commission. The AML Officer and the Compliance Division managers responsible for matters under discussion are also members of this Committee, without voting rights.

- Definition of the investment policy of the Investment Portfolio and monitoring of its performance;
- Definition of the strategy and positioning within the scope of the interest rate risk management, as well as of the respective policies and limits, taking into account the market conditions at any given moment.

The Group CALCO meets every month and is composed of the following executive Directors: CEO (optional), CFO, CCorpO, CRetO, CRO and COO (optional). The other members of the Group CALCO are the Risk Officer, the Chief Economist and the Heads of DEPALM, DIG and DTMI, the responsible for the ALM Department of DEPALM and 2 representatives nominated by the Retail and the Corporate & Investment Banking Commissions.

Risk Office

The Risk Office (ROFF) is the structure unit responsible for the risk control function at Group level, promoting the overall alignment of concepts and procedures concerning risk monitoring and assessment. The ROFF is responsible for informing the Risks Assessment Committee and the Risk Commission on the general risk level, for proposing measures to improve the control environment and for the implementation of controls which assure compliance with the approved limits. The ROFF has the following functions:

- Supporting the establishment of risk management policies and methodologies for the identification, measurement, limitation, monitoring, mitigation and reporting of the different types of risk;
- Proposing and implementing a set of metrics for the different types of risk;
- Coordinating the NPA Reduction Plan;
- Ensuring the existence of a body of rules and procedures to support risk management, as well as of an effective IT platform and a database for the robust and complete management of risk;
- Controlling, on an ongoing basis, the evolution of the different risks and compliance with the applicable policies, regulations and limits;
- Participating in the Internal Control System;
- Preparing information relative to risk management for internal and market disclosure;
- Supporting the works of the following Commissions: Risk, NPA Monitoring, pension Funds Risk Monitoring, Internal Control and Operational Risk Monitoring.

The Risk Officer is appointed by the BoD, reporting on a line basis to that body and its EC, also reporting functionally to the Risks Assessment Committee.

Compliance Office

The main task of the Compliance Office (COFF) is to ensure the adoption, by all Group entities, of the internal and external laws and regulations that frame their activity, so as to contribute to mitigate the risk of sanctions imposed upon the Group entities.

While exercising these functions, the Compliance Office issues binding decisions upon the respective recipients, aiming at the lawful and regulatory compliance of the different business and business support areas.

Within the scope of opinions and the associated analyses produced at request of several Group areas and Divisions, the COFF identifies and evaluates the various types of risks – either in corporate processes or in those that refer to products and services –, issues proposals for the correction of processes and risks mitigation, permanently analyses the general supervisory environment and, in general, provides specialised support in matters of control and regulatory compliance. It is also responsible for the preparation and submission of reports to the management body, at least once a year, identifying the compliance flaws verified and the recommendations issued for their correction.

The COFF intervenes and actively participates in the training policy of employees, namely, through training actions in Compliance, for the entire universe of the Group, also maintaining a high knowledge of compliance issues – notably, in what concerns the Anti Money Laundering and Counter-Terrorism Financing (AML/CTF) and the prevention of market abuse – for the development of an internal control culture within the Group.

Operational Risk management has been under the responsibility of the Compliance Office since the end of the first quarter of 2019, given the strong component of normative workload and procedures' management involved in the activity of the second line of defence to deal with this type of risk .

The Compliance Officer performs his/her duties with independence, in a permanent and effective way. Such duties include:

- The definition of the compliance tools that are appropriate for the communication and information process, for the regulations' monitoring process and for defining the policy principles and guidelines, so as to achieve a proactive and preventive action and risks' assessment, namely, in what concerns the control and monitoring of the compliance risks, the AML/CTF prevention and the mitigation of reputational risk in all entities of the Group, aiming at the alignment of concepts, procedures and goals for these matters;
- To ensure the adoption, by all Group entities, of the policies, principles and procedure defined by the COFF and the nomination of a local Compliance Officer in each subsidiary.

The Compliance Officer is appointed by the BoD, reporting on a line basis to that body and its EC, also reporting functionally to the Audit Committee.

Main developments and activies 2018

Within the scope of the control, monitoring and follow-up of the various risks to which the Group is subject, as well as of the activities carried out by the Risk Management function in response to internal or external requests or imperatives, the main developments and activities in 2018 are summarised as follows:

- Revision of the RAS metrics, with the update of tolerance limits for various risks and the introduction of new indicators targeting the IT risks inherent to the strategy of the "digital business" and internal control;
- Participation in the review of the Strategic Plan and in the Budget for 2019, in particular, in what concerns the goals for the reduction of NPE (non-performing exposures) and of assets received in the context of credit recovery (foreclosed assets);
- Coordination of the implementation and updates of the NPA (non-performing assets) Reduction Plan, including the launching and closing of the sale of 5 credit portfolios, as well as the regular reporting to the Supervision concerning the fulfilment of the plan;
- Coordination of the tasks relative to the Stress Testing promoted by the European Central Bank (ECB);
- Participation in the Group's Recovery Plan;
- Reinforcement of the liquidity risk follow-up and monitoring capabilities, through the creation of the Liquidity Risk Management area within the Risk Office;
- Participation in the Bank's project of alignment with BCBS 239 ('Principles for effective risk data aggregation and risk reporting');
- Coordination of the tasks related to the ECB's inspection to the valuation processes of collateral and of real estate and unlisted financial assets (foreclosed assets), associated to credits to Corporate credits;
- Revision and expansion, with improvements, of the internal regulations concerning the management and control of IT risks, stemming from the integration of these risks within the operational risk framework;
- Preparation and implementation of internal regulation and of risk and performance indicators for the monitoring of outsourced services;
- Approval for the permanent partial use (PPU) of the Standardised Approach for the treatment of credit exposures related to tariffs' credits over the electricity national system well as for the treatment of intra-group credit exposures;
- Follow-up and developments of the internal models used within the Group, namely:
    - Collaboration in the response and data collections required by the TRIM inspection (*Targeted Review of Internal Models*) for market risks;
    - Approval of the material changes to the LGD/ELBE models (*Loss Given Default*; *Expected Loss Best Estimate*) for Retail used in Portugal;
    - Development of methodological changes to the VaR (Value-at-risk) internal model and application for approval of those changes to the Supervision;
    - Submission to the ECB of a request for approval concerning material changes to the ELBE model for Retail positions of Bank Millennium (Poland);

- Response to the TRIMIX/Corporate to the PD models (probability of default) for low default portfolios (LDP);
- Submission of a material changes' application concerning the implementation of the new default definition, in accordance with the ECB's 'Process Guidance' (from June 2018);
- Development and implementation of the data model for the new Banco de Portugal's credits central register (*Central de Responsabilidades de Crédito*) within the scope of the AnaCredit Project;
- Participation in phase 1 of the '2019 EBA Benchmarking' exercise;
- Coordination of the works relative to the ECB's 'Liquidity Deep Dive' , running since September 2018;
- Participation in the implementation of the 'Model risk management' project, relative to the inventory and the cataloguing of all of the Bank's risk models;
- Implementation of the monitoring process for 'Leveraged Transactions', in accordance with the guidelines issued by the ECB;
- Start of the 2019 ICAAP and ILAAP, with the execution of the risks' identification and respective taxonomy update.

Credit risk

The materialisation of this risk arises from the losses occurred in the loan portfolio, due to the incapacity of borrowers (or their guarantors, when applicable), issuers of securities or contractual counterparts to comply with their credit obligations. This type of risk is very relevant, representing the largest part of the Group's overall exposure to risk.

The control and mitigation of this risk are carried out through a solid and reliable structure of risk analysis and assessment, based on internal rating systems suited to the different business segments, through a model for the early detection of potential default of the portfolio, through processes regarding the management and follow-up of the collateral value and through structural units that are exclusively dedicated to credit recovery, for non-performing situations.

Evolution and breakdown of the loan portfolio

The next table presents the Group's credit portfolio between 31/12/2017 and 31/12/2018, in terms of EAD (Exposure at Default)[*], in the three main geographies where the Group operates (Portugal, Poland and Mozambique), which represented around 99.1% of the Group's EAD by 31/12/2018.

(Million euros)

Geography	Dec 18	Dec 17	Change	
			Amount	%
Portugal	49,625	47,405	2,220	4.7%
Poland	19,093	17,488	1,605	9.2%
Mozambique	2,025	1,879	146	7.8%
TOTAL	70,743	66,772	3,971	5.9%

In 2018, the growth of the Group's credit portfolio, in euros (EUR), was higher than in 2017 (+ 5.9% vs. + 1.4%). Although the weight of the domestic portfolio in the Group's total portfolio is decisive (70%), the growth of the group's portfolio in 2018 was due, to a large extent, to the growth of Bank Milennium, in Poland.

The increase in Portugal's portfolio occurred alongside the continuation of the NPE (Non-performing exposures) Reduction Plan, which essentially focuses on the domestic portfolio and still conditions the growth of the Corporate portfolio in Portugal, which was slightly negative (-2.8%). Hence, the net growth of the Retail portfolio in Portugal, which reached around 356 million euros, should be highlighted, as well as the growth of Public Debt held, supported by profitability targets in the placement of liquidity surpluses.

In what concerns the credit portfolios of Poland and Mozambique, these have registered annual relative growth rates higher than for Portugal, with significant extents of + 9.2% and + 7.8%, respectively (in EUR).

[*] Without impairment deduction to the exposures treated prudentially under the Standardised Approach (STD).

The growth of the Polish portfolio, measured in EUR, was quite relevant, despite the depreciation of the Zloty (PLN) against the Euro (EUR), of around 2.8% between December 2017 and December 2018. The local portfolio expressed in that currency represented approximately 77% (Dec 2018) and 76% (Dec 2017) of the total (expressed in EUR).

For Bank Millennium’s portfolio denominated in Swiss francs (CHF), the downward trend continued, especially in the second part of the year: the weight of about 20% in December 2017 fell to less than 18% in December of 2018 (of the total EAD of this geography, expressed in EUR). This reduction was of around 140 million euros (around CHF 312 million) and the variation in EUR was affected by the CHF appreciation vis-à-vis the EUR, by almost 4% in 2018. This portfolio’s evolution brings a decrease in credit risk with FX origin (potential appreciation of CHF against PLN) and was caused by the portfolio’s natural erosion (the generation of new credit operations in this currency was discontinued since 2010).

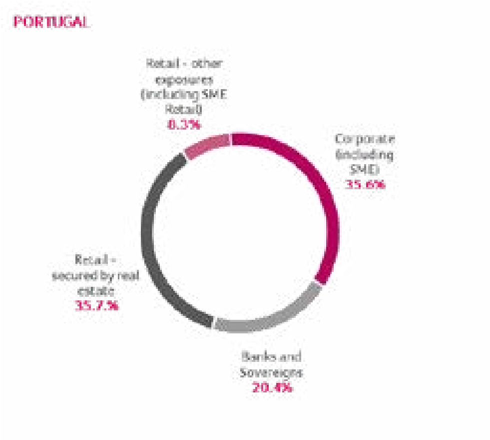
It should also be noted that the growth of the portfolio in Poland occurred for all risk classes, except for the segment of credits secured by real estate mortgages, which remained essentially constant. For the evolution in this segment, the natural reduction (i.e. by the effect of time) of the portfolio expressed in CHF referred to above, was decisive. Besides this, a highlight should be made on the strong growth registered in the Sovereign Debt portfolio, especially in the second half of 2018.

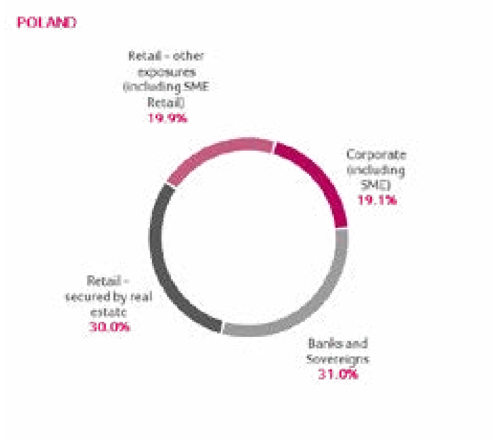
The relative growth of Banco Internacional de Moçambique's (BIM) credit portfolio in 2018 was also considerable, with the absolute growth reaching around 146 million euros. For the part of the portfolio denominated in meticais (MZN) - representing around 77% of the total portfolio, expressed in EUR, at the end of 2018 – the growth in local currency was of about 10 900 million MZN (around +10 , 5%), with virtually no FX effect.

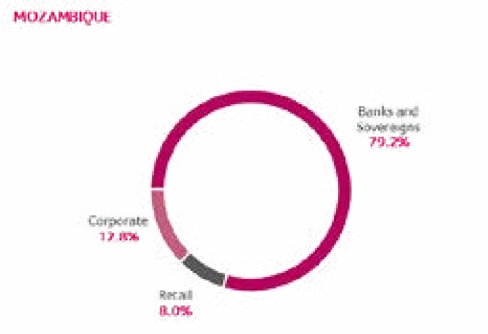
As for the Mozambican portfolio denominated in US dollars (USD), representing around 20% of the total portfolio of that country (in EUR, at the end of 2018), its growth was negative in original currency (-7.5%, approximately), although this decrease was partially offset by the strong appreciation of the USD against the EUR in 2018 (around 5.0%).

In this geography, a highlight is made on the growth of the "Banks and Sovereigns" segments, which more than compensated for the decrease in the portfolio of the remaining segments. With regard to BIM’s Corporate segment, which includes the State-owned enterprises and the Small Medium Enterprises (SME), the portfolio reduction was offset by direct financing to the Mozambican State. As for the Retail portfolio, there was a significant contraction in 2018, reflecting a conservative credit policy adopted by the bank in the face of the country's economic environment. Indeed, the granting of new loans was framed in a context of strong prudence on the part of the Bank, given the incipient economic growth in this geography.

The portfolio breakdown by risk classes is illustrated by the following graphs, representative of the portfolio structure as of 31/12/2018:







The breakdown of the credit portfolio in Portugal in what concerns the weight of the various risk segments, shows as main variations: the increase in the "Banks and Sovereigns" segments, given the aforementioned growth of the Public Debt portfolio; a slight reduction in the Corporate segment, still due to the reduction of the NPE portfolio; the maintenance of the weight of the Retail segments (ca. 45% in Dec 2017 vs. ca. 44% in Dec 2018).

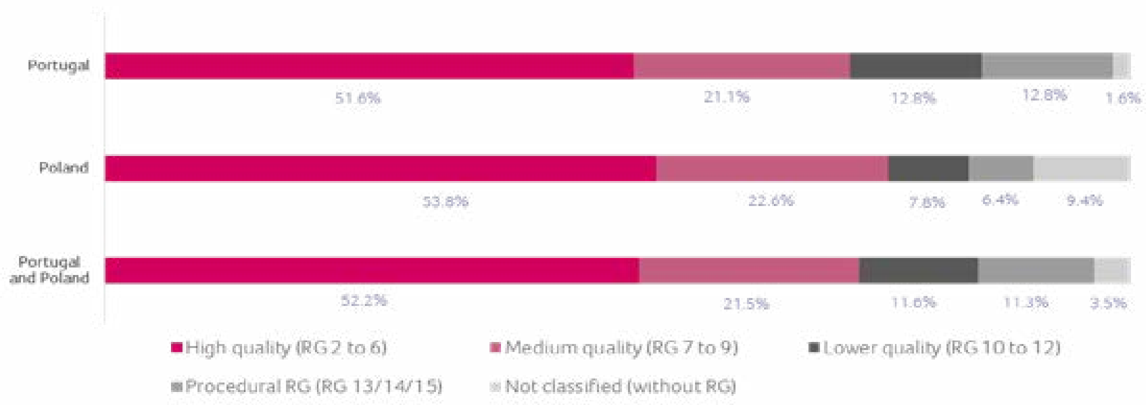
Regarding the distribution Bank Millennium's portfolio (in Poland) by risk segments, there are no significant changes in the respective weights between December 2017 and December 2018, except for the class of positions secured by mortgage guarantees in which it a slight reduction in weight occurred (from 33.2% to 30.0%). Since the "Other retail positions" segment registered a slight increase in weight (from 17.9% to 19.9%), the Retail segment's weight, as a whole, remained practically constant (at around 50.0% of this geography's portfolio).

In what concerns the Mozambican portfolio, the aforementioned substitution of credit to State-owned companies by direct financing to the State resulted in an inverse variation of the weights of "Banks and Sovereigns" and Corporate segments, along with a contraction of the Retail segment.

Probability of Default (PD) and Loss Given Default (LGD)

The main credit risk assessment parameters used in the calculation of Risk Weighted Assets (RWA) under the Internal Ratings Based (IRB) method - the Probability of Default (PD) and Loss Given Default (LGD) – assigned to the credit operations' portfolio have been showing a positive evolution, reflecting a clear trend towards of improvement of the portfolio's quality.

The following chart presents the portfolio distribution (in terms of EAD) by the risk grades assigned to the credit operations debtors, as at 31/12/2018. These risk grades (RG) are those defined in an internal scale, transversal to the Group (Rating Masterscale), with 15 rating grades degrees, corresponding to different levels of the debtors' PD.



Banks and Sovereigns and Specialised Lending not included

As illustrated by the graph above, the weight of EAD corresponding to medium and higher quality risk grades, in the two geographies as a whole, accounted for 73.6% of the total EAD, compared to the equivalent weights of 69.8% and 64.2% on 31/12/2017 and 31/12/2016, respectively. This positive evolution results, in particular, from the evolution of the debtors' RG in Portugal.

Regarding the weight of the exposure of customers with procedural RG (without access to new credit), for the two geographies, it decreased from 14.8% on 31/12/2017 to 11.3% % as of 31/12/2018. In Portugal, this reduction of the portfolio with procedural RG, between the same dates, was even greater: from 17.1% (in 2017) to 12.8% (in 2018). This reduction in the weight of credit positions whose debtors are classified with procedural GR is also due to the continued and effective execution of the NPE Reduction Plan, referred ahead.

Regarding the LGD parameters - which represent the own estimates for the expected losses in the case of Default and, to a large extent, reflect not only the efficiency of credit recovery according to the different types of credit segments/products, but also the levels of collateralisation of credit operations - the following table shows the respective weighted average values of EAD as of 31/12/2017 and 31/31/2018:

	Mortgages	SME Retail	Retail (other)	SME Corporate	Real Estate Promotion	Corporate	GLOBAL AVERAGE
2018	16.5%	34.5%	33.9%	40.7%	43.8%	45.7%	**28.2%**
2017	18.5%	35.8%	35.8%	43.0%	48.0%	44.6%	30.7%

Thus, the LGD parameters in Portugal improved in 2018 for virtually all segments, reflecting a decrease in credit risk. The only exception was the LGD applicable to the Corporate segment (companies with a turnover of 50 million euros or more), for which the increase of the expected loss in case of default was not relevant.

In Poland, for the two portfolio segments for which own estimates of LGD are applied - the qualified renewable retail positions (overdrafts and credit cards, basically) and mortgages - the weighted average values calculated for LGD were of 64.7% and 34.1%, respectively, on 31/12/2018. These levels of LGD do not show any significant variation compared to the homologous values calculated on 31/12/2017 which were, respectively, of 65.0% and 33.9%.

Main credit risk indicators

The quarterly evolution of the main credit risk indicators, between 31/12/2017 and 31/12/2018, for the Group and the portfolios of Portugal, Poland and Mozambique:

	Dec .18	Sep. 18	Jun. 18	Mar. 18	Dec. 17
CONSOLIDATED					
NPE/Credit to clients (gross)	**10,9%**	12,3%	13,2%	14,0%	15,0%
NPL > 90 days / Credit to clients (gross)	**6,1%**	7,4%	8,0%	8,5%	8,9%
Past due credit > 90 days / Credit to clients (gross)	**3,8%**	4,8%	5,2%	5,5%	5,8%
Past due credit / Credit to clients (gross)	**4,1%**	5,0%	5,5%	5,7%	5,9%
Impairment / Credit to clients (gross)	**5,7%**	6,3%	6,6%	6,8%	6,5%
PORTUGAL					
NPE/Credit to clients (gross)	**12,9%**	14,7%	15,8%	16,5%	17,8%
NPL > 90 days / Credit to clients (gross)	**7,1%**	8,8%	9,5%	10,2%	10,7%
Past due credit > 90 days / Credit to clients (gross)	**4,5%**	5,8%	6,3%	6,7%	7,0%
Past due credit / Credit to clients (gross)	**4,7%**	5,9%	6,5%	6,8%	7,1%
Impairment / Credit to clients (gross)	**6,4%**	7,1%	7,5%	7,7%	7,5%
POLAND					
NPL > 90 days / Credit to clients (gross)	**2,5%**	2,7%	2,7%	2,7%	2,8%
Past due credit > 90 days / Credit to clients (gross)	**1,9%**	1,9%	2,0%	2,0%	2,0%
Past due credit / Credit to clients (gross)	**2,4%**	2,4%	2,5%	2,5%	2,4%
Impairment / Credit to clients (gross)	**3,4%**	3,5%	3,6%	3,7%	3,1%
MOZAMBIQUE					
NPL > 90 days / Credit to clients (gross)	**16,4%**	15,9%	15,9%	14,7%	14,3%
Past due credit > 90 days / Credit to clients (gross)	**5,4%**	5,5%	5,3%	5,3%	5,0%
Past due credit / Credit to clients (gross)	**5,5%**	5,9%	6,0%	5,8%	5,5%
Impairment / Credit to clients (gross)	**11,3%**	9,6%	8,7%	9,6%	9,7%

NPL = *Non-performing Loans*

Credit to clients (gross) = Direct credit to clients, including credit associated to credit operations under the form of securities, before impairment and fair value adjustments.

The evolution of these indicators in 2018 was favourable in Portugal and Poland, as well as at a consolidated level. The improvement in the credit portfolio quality measured by the 'NPE/Gross Credit' ratio was of great relevance in Portugal, this indicator having a reduction of practically 5 percentage points. This positive variation resulted mainly from the reduction of NPE, as well as from the growth of the credit portfolio based on prudent granting criteria, with a view to preserve the quality of the portfolio in the long run, strengthening the Bank's capacity to face up to eventual downturn periods in the future.

It should also be noted that the 'NPL ratio> 90 days/Total credit' in Portugal and in Poland improved favourably in 2018, along with the reinforcement of provisioning of the portfolio. Only in Mozambique there was a slight worsening of credit risk indicators, in the context of the adjustment that this geography's economy is still experiencing.

NPA/NPE Reduction Plan

The Group's NPA Reduction Plan continued to be implemented during the first half of 2018 – under its two components of NPE and foreclosed assets (FA) - focusing mainly on non-performing credit portfolios and on real estate properties held for sale in Portugal.

The NPA Reduction Plan is framed by a specific Governance model and by a robust management framework, organized by specialised areas of credit recovery and based on systematically defined recovery strategies – either stemming from automated analysis and decision models (for Retail) or based in the relationship of recovery managers with their Corporate clients, allowing for tailor-made solutions. Also, in what concerns the FA, the circuits and procedures established have as priority the speed of the reception-preparation-sale cycle and the enhancement of the properties' values, in order to facilitate the sale of these assets.

The NPA Reduction Plan also benefits from a technological environment that provides specific IT infrastructures for the activities connected with credit recovery and NPE reduction, and is monitored thorough the Operational Plan for NPA Reduction, that defines initiatives aiming at accelerating and conferring effectiveness to the recovery or sales' processes (both of loans and real estate properties), distributed throughout the several phases of the recovery and NPA reduction processes: prevention; collection; executions; FA reception and treatment; sales.

The fulfilment of the reduction targets for each area involved in NPA reduction is measured monthly, both through management information and regarding the specific focus areas defined in the Operational Plan referred to above, with reporting to the top management.

The Bank's NPA Reduction Plan has registered very positive results, higher than initially projected. The annual review of the Plan occurred in March 2018, with upwards adjusted targets, to reduction levels higher than those established in the previous review. Subsequently, in August 2018, an extraordinary interim revision of the goals was carried out, with even higher levels of ambition.

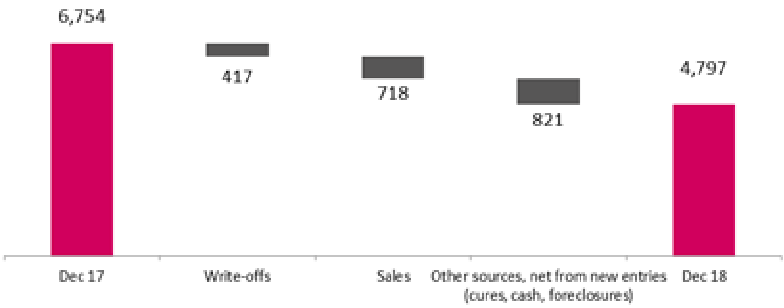
The following table presents the evolution of NPE volumes between 31 /12/2017 and 31/12/2018, for the Group and for Portugal:

(Million euros)

	Dec. 18	Sep. 18	Jun. 18	Mar. 18	Dec. 17
CONSOLIDATED	5,548 - 27.6%	6,308	6,665	7,122	7,658
PORTUGAL	4,797 - 29.0%	138	5,913	6,282	6,754

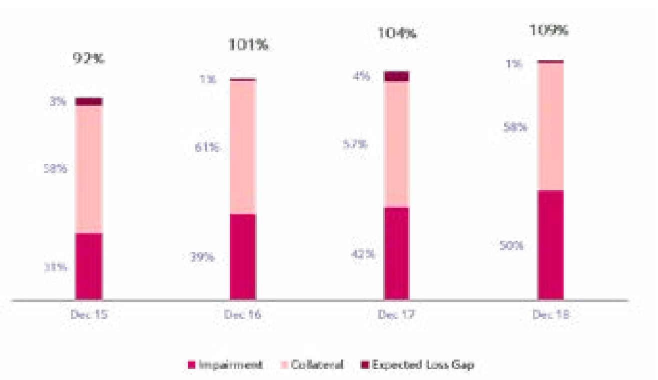
Thus, the Group's NPE reduction in 2018 reached 2,110 million euros, which represents a decrease of 27.6%. In Portugal, the reduction was of 1,957 million euros (-29.0%) and in international operations it reached 154 million euros (-17.0%). This development clearly demonstrates the Group's commitment to the implementation of the NPE Reduction Plan, as well as the effectiveness of its measures and design.

The next chart shows a breakdown of the NPE reduction in Portugal in 2018, by the different reduction sources at stake.



As regards the sources of reduction shown in the graph above, it should be noted that the heading "Other sources, net of new entries" includes "cure" situations, i.e. exposures which, in 2018, were no longer classified as NPE, due to the extinction of the cause for the entry into default.

It should also be highlighted that the coverage of the NPE portfolio by impairment, collateral and Expected Loss Gap - both for Portugal and at consolidated level - reached around 109% on 31/12/2018 (against 103% and 104% % on 31/12/2017, for the Group and Portugal, respectively). In Portugal, the NPE coverage at the end of 2018 was practically all ensured by impairment and collaterals, and the weight of the Expected Loss Gap was reduced, as shown in the graph below (on December 18). In the evolution between Dec/17 and Dec/18, the considerable growth in NPE coverage due to impairment should also be noted, increasing from 42% to 50%.



In what concerns the on-balance assets received as the result of credit recovery (foreclosed assets - FA), the next table shows the evolution of its stock – with a breakdown regarding the different asset types - between December 2014 and December 2018, before impairment:

(Million euros)

	Dec. 18	Sep. 18	Jun. 18	Dec. 17	Dec. 16	Dec. 15	Dec.14
Real estate properties	1,474	1,510	1,664	1,778	1,782	1,448	1,263
Real estate Funds and companies	330	408	435	466	538	460	450
Other assets (non-Real estate)	156	138	142	95	75	55	55
SUB-TOTAL - Portugal	1,960	2,056	2,241	2,339	2,395	1,963	1,769
Other geographies Foreclosed Assets	58	43	45	37	18	37	33
GROUP TOTAL	2,019	2,099	2,286	2,376	2,413	2,000	1,802

The figures in this table show a clearly decreasing trend for the FA stock since December 2017, due not only to the effort in profitable sales of this kind of assets, but also to the reduction in their inflow as result of credit recovery processes, given the contraction of the non-performing loan portfolio and the sale of collateralized credits portfolios of the Corporate segment.

Hence, after a period in which the FA stock registered a growth resulting from the reduction of NPE (2014-2016), there has been a trend of reduction of this portfolio, with acceleration of this trend in the last year: a reduction of 378 million in 2018 compared to a reduction of 56 million euros in 2017.

In 2018, in Portugal, the total sales volume of FA real estate reached around 670 million euros, compared to 430 million euros in 2017 (+ 56.3%). It should also be noted that the sales values of these assets in 2018 were 14.8% higher than the respective balance sheet value (vs. 12.9% in 2017), so this NPA reduction did not cause a negative impact on P&L.

The positive performance in the reduction of real estate FA is part of a favourable evolution of the real estate market, which limits the risk of real estate FA still on-balance in Portugal (real estate and investment funds/real estate companies), and the profits made before on the sale of these assets demonstrates the Bank's prudence in its valuation.

Credit concentration risk

The figures concerning credit concentration, as at 31/12/2018, measured by the weight in total exposure of the 20 largest Group performing exposures, in terms of EAD and excluding the risk classes of Banks and Sovereigns (as well as NPE Client Groups), are presented in the following chart:

Client Groups	Exposure weight in total (EAD)
Client group 1	1.3%
Client group 2	0.7%
Client group 3	0.6%
Client group 4	0.5%
Client group 5	0.5%
Client group 6	0.4%
Client group 7	0.4%
Client group 8	0.4%
Client group 9	0.3%
Client group 10	0.3%
Client group 11	0.3%
Client group 12	0.3%
Client group 13	0.3%
Client group 14	0.2%
Client group 15	0.2%
Client group 16	0.2%
Client group 17	0.2%
Client group 18	0.2%
Client group 19	0.2%
Client group 20	0.2%
TOTAL	7.9%

The set of 20 largest non-NPE exposures accounted for 7.9% of total EAD as of 31/12/2018. At the end of 2017, this weight reached 9.5%, so the evolution of the concentration of credit risk in 2018, thus measured, was favourable. In absolute terms, the joint EAD of the 20 largest non-NPE clients decreased by approximately 763 million euros.

It should be noted that, in addition to the compliance with the regulatory limits relative to Large Exposures, the Group has specific goals defined for the control of credit concentration, materialised into RAS metrics. Besides, metrics for specific concentration types are monitored regularly: single-name, by sectors of activity, by country, for Institutions and for Sovereign risks.

For all cases, the concentration limits definition depends on the internal/external risk grade attributed to the clients at stake and consider their respective Net Exposure (= LGD x EAD, with LGD =45% whenever an own estimate does not exist or is not applicable).

In the case of the single-name concentration, the limits are only defined for performing clients, since the NPE are covered by the NPA Reduction Plan. For clients with exposure above the established limit excess, specific reduction plans are drawn-up.

Operational risk

Operational risk materializes in the occurrence of losses resulting from failures or inadequacies of internal processes, systems or people, or resulting from external events.

In the management of this type of risk, the Group adopts duly documented principles and practices, which are expressed in control mechanisms subject to continuous improvement. This framework has a variety of features, such as: functions segregation, definitions for lines of responsibility and respective authorisations, tolerance limits for exposures to risks, appropriate internal regulations' framework (including ethical codes and codes of conduct), risks self-assessment (RSA) exercises, key risk indicators (KRI), access controls (physical and logical), reconciliation activities, exception reports, loss events data capture, a structured process for new products approval, contingency plans, contracting of insurance (for the total or partial transfer of risk), follow-up of the Bank's outsourcing contracts and internal training on processes, products and systems.

The operational risk management system adopts the 3 lines of defence model and is based on a 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 structure 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 management of operational risk lies with the 1^{st} line of defence which is composed of process owners (seconded by process managers), whose mission is to characterise the operational losses captured under their processes, to monitor the respective KRI, to perform the 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 review of the processes structure in each geography is ensured by local structure units.

The Risk Office and the Compliance Office represent the $2.^{nd}$ Line of Defence, which implements the defined risk policy for the Group, having the responsibility of proposing and developing methodologies for managing this risk, supervising its implementation and challenging the 1^{st} Line of Defence regarding the levels of risks incurred, reporting to the Operational Risk Monitoring and Internal Control Committee.

In 2018, the usual tasks of operational risk management continued to be carried out by the various participants in the management of this risk, aiming at an effective and systematic identification, assessment, mitigation and control of exposures, as well as at the corresponding reporting duties, either to the Group's management bodies or within the regulatory sphere. At the end of the first quarter of 2019, the responsibility for managing operational risk was transferred to the Compliance Office, taking into account the strong normative and procedural aspects related to the management of this risk by the 2^{nd} line of defence.

The mobilization of the Bank to reinvent the banking experience, based on new technologies, presents significant challenges in the management of operational risk, the highlights of which are the strengthening of the security of the digital banking channels, the strengthening of mechanisms for potential frauds' prevention and detection, the responsible management of personal data and the fulfilment of the legally prescribed information duties on sales through digital banking channels. In order to strengthen the mechanisms for a more efficient control of risk and to enable the Bank to confidently face these challenges, a number of initiatives have been launched, among which the following should be highlighted:

- Updating and revision of internal regulations and of the risk and performance indicators for the monitoring of outsourced services , within the scope of the processes in which these occur;
- The entry into force of internal regulations that determine principles, lines of action, responsibilities and methodologies for IT risk management;

- Definition and inclusion in the RAS of new metrics, with the objective of monitoring the evolution of the exposure to IT Risk
- Collaboration of the risk management function in tasks related to the ECB's inspection of ICT risks (Information and Communication Technologies).

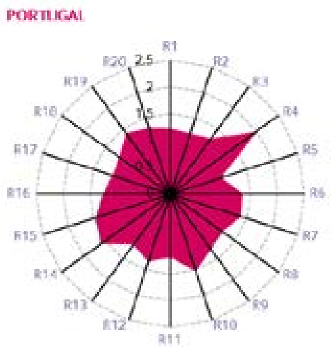
Risks self-assessment (RSA)

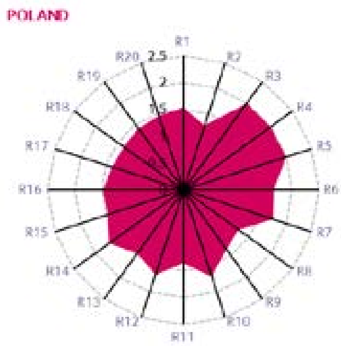
The objective of the RSA exercises is to promote the identification and mitigation (or elimination) of risks, either actual or potential, in each process, through the assessment of each of the 20 subtypes of operational risk considered. These assessments are positioned in a risk tolerance matrix, considering the worst case event that might occur in each process, for three different scenarios. This allows for:

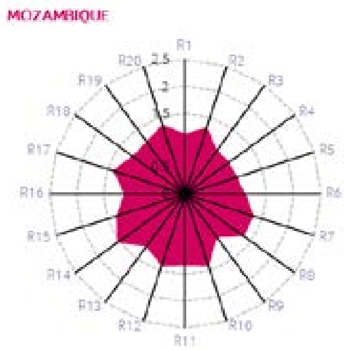
- The assessment of the risks exposure of the different processes, not considering the influence of existing controls (Inherent Risk);
- The determination of the influence of the existing control environment in reducing the level of exposure (Residual Risk);
- The identification of the impact of the improvement opportunities in the risk reduction of the most significant exposures (Target Risk).

The RSA exercises are based on workshops, attended by the Risk Office and with the participation of the process owners (and process managers), or performed through answers to questionnaires sent to the process owners, for a review of previous RSA results, according to predefined updating criteria.

In 2018, RSA exercises were conducted in the main Group geographies, the results of which are presented in the next graphs. These show the average score for each of the 20 subtypes of operational risk considered, for the set of processes of each geography. The outer line represents a score of 2.5 on a scale of 1 (lowest exposure) to 5 (highest exposure).







R1 Internal fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safety regulations
R5 Discrimination over employees
R6 Loss of key staff
R7 Hardware and Software
R8 Communications infrastructure
R9 Systems security
R10 Transaction, capture, execution & maintenance
R11 Monitoring and reporting errors
R12 Customer related errors
R13 Products or services flaws/errors
R14 External fraud and theft
R15 Property and disasters risks
R16 Regulatory and tax risks
R17 Inappropriate market and business practices
R18 Project risks
R19 Outsourcing related problems
R20 Other third parties' related problems

The results of the RSA exercises evidence a robust control environment, demonstrating the Group's commitment regarding the operational risk management, through the continuous development of improvement actions that contribute to mitigate the exposures to this risk.

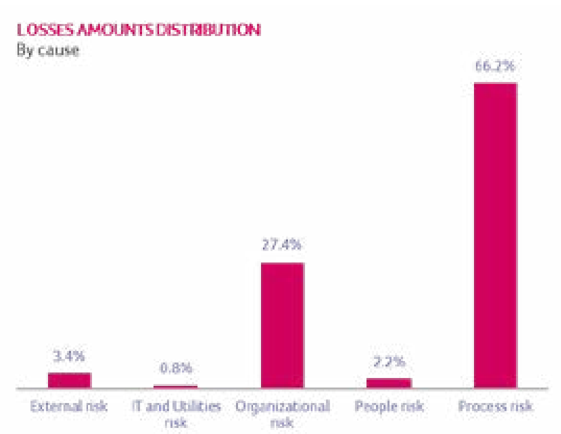
Operational losses capture

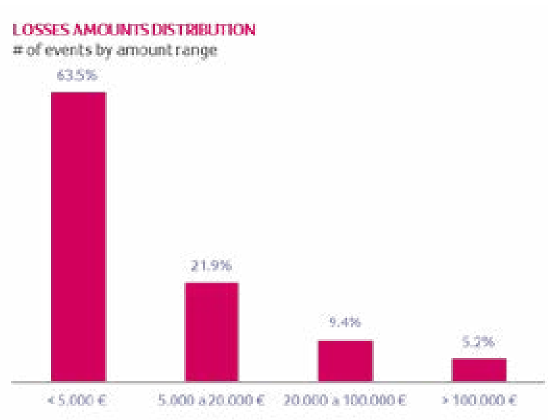
The operational losses data capture (i.e. the identification, registration and characterisation) of operational losses and of the originating events aims at the strengthening of the the awareness of this risk and to provide relevant information to process owners, for incorporation within their process management. As such, it is an important instrument to quantify risk exposures and also for the back-testing of the RSA results, enabling the assessment of the evaluation/classification attributed to each risk subtype.

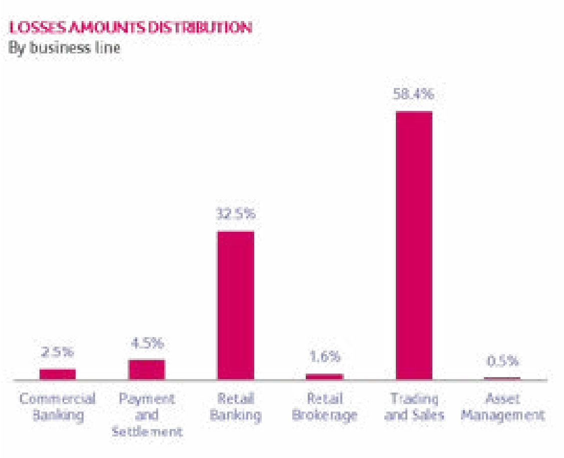
The detection and reporting of operational losses is a responsibility of all employees of the Group, the process owners playing a crucial role in the promotion of these procedures within the context of the processes for which they are responsible.

The identified events in which the losses, effective or potential, exceed the defined materiality limits (for each geographical area) are characterised by the process owners and process managers of processes to which the losses are related, including the description of the respective cause-effect and, when applicable, the valuation of the loss and the description of the improvement action identified to mitigate the risk (based on the analysis of the loss cause). For losses of amounts exceeding a threshold defined by the EC, "lessons learned" reports are presented to that body and discussed.

The following graphs present the profile of the losses captured in the respective database in 2018:







The causes for most of the losses were procedural risks, related to failures to formalize a discontinued product at the beginning of this decade, and organizational risks related to failures to respond to claims on credit products. It should be noted that the pattern of operational losses verified is not far from what is usual and expected, with a higher frequency of losses of low amounts, without concentration on significant amounts.

It should also be highlighted that the average ratio of gross losses to the relevant gross income indicator for regulatory capital requirements has been below 1% over the past five years, which compares very favourably with the international benchmark and attests to the robustness of the Group's operating risk management and control environment.

Key risk indicators (KRI)

KRI provide alerts concerning changes in the profile of the operational risks or in the effectiveness of controls, thus enabling to identify the need to introduce corrective actions within the processes, so as to prevent potential risks from materialising into losses. These indicators currently encompass all of the processes in the main Group operations (Portugal, Poland and Mozambique).

Processes management also uses Key Performance Indicators (KPI) and Key Control Indicators (KCI), the monitoring of which, even if oriented towards the assessment of operative efficiency, also contibutes for the detection of risks.

Scenario analysis

Scenario Analysis, carried out in Portugal, is an exercise oriented towards the assessment of potential risks of high severity, aimed at quantifying the impact of extreme events (low frequency/high severity) which would be relevant for the Bank, even if never registered in the past.

All Macro-Process Owners and other top managers from selected Divisions participate in this exercise, due to their knowledge and experience concerning the activities, which are essential for the description of this type of events' impacts and for the quantification of potential losses that could result from those events.

The results from the scenarios assessment are incorporated into the model developed to determine the capital adequacy (ICAAP) and the information gathered also used for risk management and mitigation, thus contributing to the reinforcement of the internal control environment.

Business continuity management

The management of business continuity covers two complementary components: the Business Continuity Plan relative to people, facilities and equipment, and the Technological Recovery Plan relative to information systems, applications and communications infrastructure.

Both of these plans are defined and implemented for a series of critical business processes, and are promoted and coordinated by a dedicated structural unit, whose methodology is based on a principle of continuous improvement, guided by international good practices and the recommendations of the supervisory entities.

These continuity plans are regularly tested and updated, through exercises aimed at improving and deepening the coordination between emergency response, technological recovery, crisis management and business recovery. 12 exercises of business recovery, 2 exercises of technological recovery (DRP) and 1 exercise of crisis management were carried out in 2018.

Insurance contracting

The contracting of insurance for risks related to assets, persons or third party liability is another important instrument in the management of operational risk, where the objective is the transfer - total or partial - of risks.

The proposals for the contracting of new insurance are submitted by the process owners under their respective duties for the management of the operational risk inherent to their processes, or are presented by the head of area or organic unit, and then analysed by the Operational Risk and Internal Control Monitoring Commission and authorised by the EC.

Market risks

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(*)

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

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

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

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

The table below presents the amounts at risk for the Trading Book, between 31/12/2017 and 31/12/2018 and measured by the methodologies referred to above, that registered moderate levels along the period under analysis:

(Thousand euros)

	Dec 18	Max	Avg	Min	Dec 17
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	2,949	1,746	2,660

VaR model monitoring and validation

In order to check the appropriateness of the internal VaR model for 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.

The VaR model's hypothetical back-testing exercise for the trading book of Portugal, between 31/12/2017 and 31/12/2018, resulted in 3 excesses over the model's predictive results (all negative), representing a frequency of 1.2% in 257 days of observation. Hence, this back-testing result allows the validation of the model, as appropriate for measuring the risk at stake.

(*) Positions assigned to the Trading Management Area (not specifically included in the accounting trading book).

Trading Book Stress Tests

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.

The results of these tests on the Group's Trading Book, as at 31/12/2018, in terms of impacts over this portfolio's results, were the following:

(Thousand euros)

	Negative impact scenario	Impact
STANDARD SCENARIOS		
Parallel shift of the yield curve by +/- 100 bps	-100 bps	-5,594
Change in the slope of the yield curve (for maturities from 2 to 10 years) up to +/- 25 bps	-25 bps	-2,855
4 combinations of the previous 2 scenarios	-100 bps and +25 bps	-2,520
	-100 bps and -25 bps	-8,735
Variation in the main stock market indices by +/- 30%	-30%	-80
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	+10%, +25%	-254
Variation in swap spreads by +/- 20 bps	-20 bps	-1,058
NON-STANDARD SCENARIOS		
Widening/narrowing of the bid-ask spread	Widening	-670
Significant vertices[1]	VaR w/ diversification	-10,926
	VaR w/o diversification	-10,918
Historical scenarios[2]	06/Oct/2008	-11,529
	18/Jul/2011	-8,874

[1]Scenarios in which the more adverse variations of the last seven years, relative to the portfolio's five most significant risk factors, are applied to the current portfolio..

[2]Scenarios in which past extreme markets variations are applied to the current portfolio; in this case, the significant dates refer to the 2008 financial crisis and the Eurozone Sovereign Debt crisis in 2011.

These results show that the exposure of the Group's trading book to the different risk factors considered remains relatively limited and that the main adverse scenario to be taken into account refers to a general decrease in interest rates, especially when accompanied by a change in the slope of the yield curve, in the case of a higher decrease in longer terms than in sorter terms (decrease of the curve's slope). In what concerns the non-standard scenarios, the main loss case refers to the variations occurred in 06/10/2008 when applied over the current portfolio.

Interest rate risk of the Banking Book

The interest rate risk arising from the Banking Book operations is assessed by the Bank in two complementary ways: the portfolio's economic value method (EVE) and the financial margin sensitivity method (NII), through a risk sensitivity analysis carried out every month, for the universe of operations included in the consolidated balance sheet of the Group, broken down by the currency of exposure.

Variations of market interest rates influence the Group's net interest income, both in the short term – affecting the Bank's NII – and in the medium/long term, affecting the balance sheet economic value (EVE method).

The main risk factors arise from the repricing mismatch of the portfolio positions (gap risk) which may cause direct or indirect financial losses in the banking Book, due to changes in interest rates that have different impacts over assets and liabilities' classes, making the Bank vulnerable to variations of the yield curve. On their turn, the changes in interest rates may alter the behaviour profile of clients, inducing pre-payments/withdrawals in assets and liabilities, including the exercise of options' rights incorporated in the products' design (behavioural and optional risk). Besides this, but with less impact, there is also the risk of unequal variations in different reference rates with the same repricing period (basis risk).

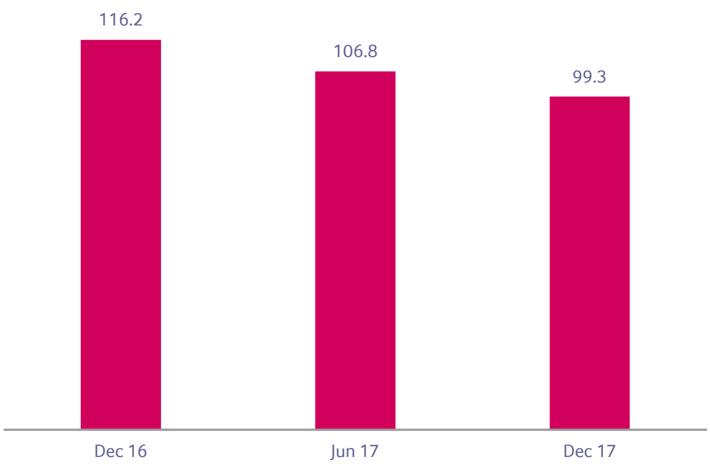
In order to identify the exposure of the Group's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of each of the relevant contracts, with the respective expected cash-flows (principal and interest, without the spread component but including cost components for liquidity, capital, operations 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 impacts stemming from the clients' behaviour are also considered, in particular for the products for which this is especially relevant – namely, for products without defined term (checking accounts, revolving credit) – as well as the impacts resulting from changes in contractual cash flows (credits prepayments).

The result of this analysis for a +100 basis point change in the level of the Euro interest rates (for all maturities, i.e. assuming a parallel shift of the yield curve), on the Banking Book portfolio as at 31/12/ 2018 consists in a positive impact on the balance sheet's economic value of around 129 million euros. Hence, the Group is positively exposed to a rise in interest rates, which fits in the context of a very low level of interest rates which has persisted in recent years. Inversely, the negative impact on a generalized drop in euro rates of -100 basis points - and considering a floor of 0% (i.e., without considering negative rates) would be of around -25 million euros.

Complementing the previous approach, the Bank calculates monthly the impact on net interest margin projected for the following 12 months, due to changes in market interest rates (NII method). For this purpose, all assets, liabilities and off-balance products that generate interest are considered and the calculation of interest cash flows is performed based on the repricing and amortization characteristics of the products and on yield curves for 12 months projected in accordance with the 'cash and carry trade' and 'non-arbitrage principle' methods. This exercise assumes a static balance for 12 months in which, for each amortization, an exposure with the same features of maturity and price is generated.

So as to capture the net interest margin sensitivity, several simulations are processed, corresponding to 10 different scenarios of the market's interest rates evolution. The next graph shows the estimated impact over the net interest income, over the last 2 years, at the end of each semester, considering the scenario in which interest rates globally increase +100 bps combined with the most "aggressive" scenario for the coefficients that transmit the market variations over the deposits' rates and other liabilities that generate interest ('betas'), which illustrates the evolution of the NII sensitivity to changes in the markets' rates:

Impacts over the NII with increasing rates scenario
(+100 bps)



FX and equity risks of the Banking Book

The exchange rate risk of the banking book is transferred internally to the Trading area, in accordance with the risk specialisation model followed by the Group for the management of the exchange rate risk of the Balance Sheet. The exposures subject 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 31/12/2018, the Group's holdings in convertible foreign currency 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, through a 'Fair Value Hedge' methodology, I this case.

Regarding equity risk, the Group maintains a set 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.

Liquidity risk

Liquidity risk is the potential incapacity of the Group to meet its liabilities concerning funding repayment without incurring in significant losses, whether due to the deterioration of funding conditions (funding risk) or due to the sale of assets for amounts below market value (market liquidity risk).

The Group's Wholesale Funding (WSF) structure is defined for each annual period by the Liquidity Plan (which is an integral part of the budgeting process), formulated at consolidated level and for the main subsidiaries of the Group. The preparation of this plan is coordinated by the Group Treasurer and its implementation is monitored continuously throughout the year, being reviewed whenever necessary.

In 2018, at consolidated level, there was an increase of 313 million euros in wholesale financing requirements, mainly attributable, on the one hand, to the impact of the increase in sovereign debt portfolios in Portugal and Poland and, on the other hand, to a further reduction of the commercial gap in Portugal and the cashflows generated by operations.

In terms of the financing structure, the increase in liquidity needs was almost entirely supplied by the money market, the balance of which showed a net increase of 357 million euros (to a balance of 1,168 million euros at the end of the year) resulting from the increase in the interbank market of 754 million euros (for a balance of 738 million euros at the end of the year) and a reduction of 398 million in the funding through Repos (to a balance of 430 million euros at the end of the year).

The value of the collateralized borrowing from the ECB remained at 4,000 million euros, corresponding to the balance of Targeted longer-term refinancing operations (TLTRO), which will reach maturity in 2020.

The table below illustrates the WSF structure as at 31/12/2017 and 2018, in terms of the relative weight of each of the instruments used:

	Dec. 18	Dec. 17	Change in weight
Money market	8.7%	-0.2%	8.9%
ECB	47.1%	48.9%	-1.8%
Private placements	0.8%	1.8%	-1.0%
Repos	5.1%	10.1%	-5.1%
Loan agreements	20.7%	20.9%	-0.3%
EMTN	0.0%	0.0%	0.0%
Covered Bonds	11.8%	12.2%	-0.5%
Subordinated Debt	5.9%	6.1%	-0.3%
TOTAL	**100.0%**	**100.0%**	

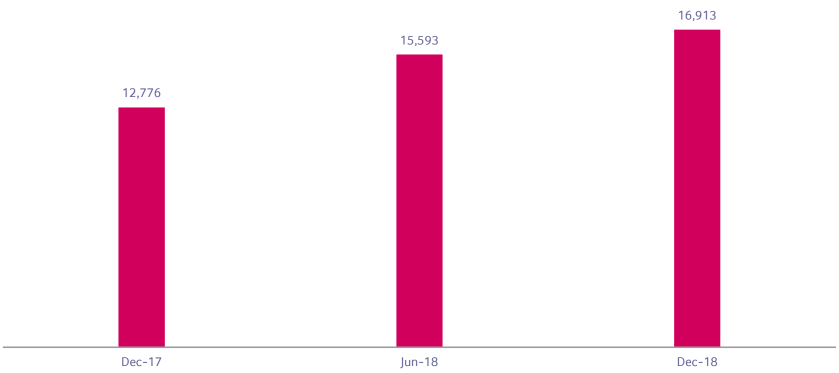
Although the weight of the gross funding from the ECB is practically maintained, it should be noted that, on 31/12/2018, in liquid terms (i.e. deducting from the value of the deposits the balance deposited with Banco de Portugal and other liquidity in excess of the minimum cash reserves), this source of financing showed a further reduction compared to 31/12/2017, in the amount of 397 million euros, to a net balance of 2,652 million euros at the end of the year.

The growth of sovereign debt portfolios eligible for discount at the ECB led to a significant strengthening of the liquidity buffer at the Eurosystem, which stood at 14,261 million euros at the end of 2018 against 9,728 million euros in December 2017, representing a increase of about 47%.

The available ECB discountable collateral portfolio's evolution in the last 2 years is illustrated by the following graph:

Total eligible assets portfolio available for discount at the ECB

(Million euros)



Besides the ECB eligible collateral, above represented graphically, the Group still had, as at 31 of December 2018, a portfolio of Treasury Bills (USA), an asset that qualifies as highly liquid, the unencumbered component of which amounted to 87 million euros.

The Bank's counterbalancing capacity is defined by the ability to generate additional liquidity in the short term to cope with possible financial stress situations. The measures for its reinforcement are described in the Recovery Plan and it reached, by 31 December 2018, an estimated total value of 2,610 million euros, with the following origins: sale of corporate bonds, sale of commercial paper and securitisation of a consumer credit portfolio and the issuance of mortgage bonds to be included in the ECB's monetary policy pool.

Liquidity risk control

The Group's liquidity position is assessed on a regular basis, with the identification of all factors underlying the variations that have occurred.

The Group controls the structural liquidity profile through the regular monitoring of a set of indicators defined both internally and by the regulations, aimed at characterising liquidity risk, such as the loans-to-deposits ratio (87% as at 31/12/2018), the regulatory ratios LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) - respectively, 218% and 133% as at 31/12/2018 - and also the relative dimension of the excess of available collateral for discounting at UE central banks, *vis-à-vis* the total clients' deposits.

Pension Fund risk

This risk arises from the potential devaluation of the assets of the Fund associated with the Defined Benefit Plan or from the reduction of its expected returns as well as from actuarial differences that may occur from the evolution of demographical factors, in relation to the actuarial assumptions considered. Confronted by such scenarios, the Group would have to make unplanned contributions in order to maintain the benefits defined by the Fund.

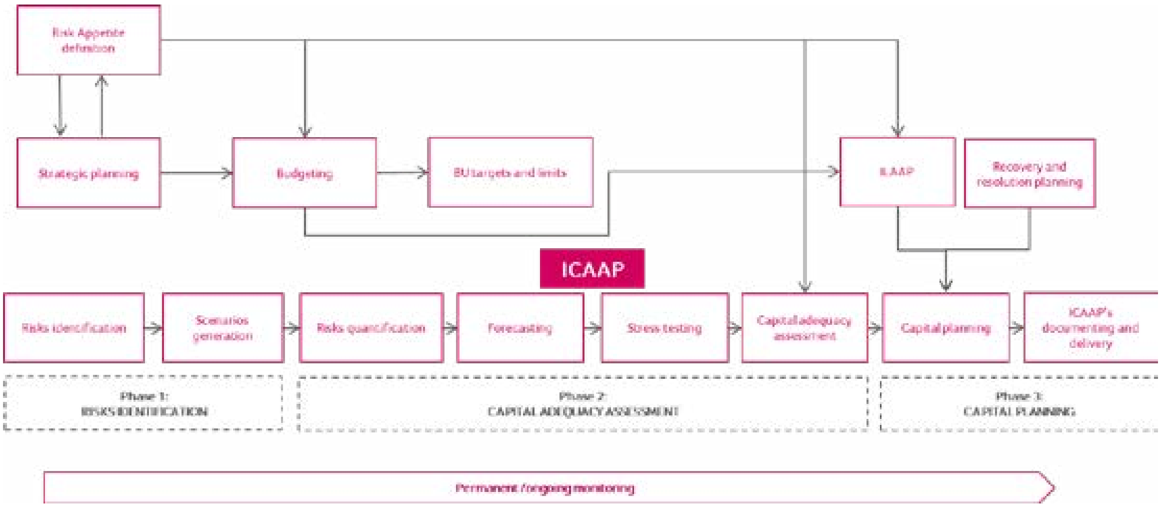
The responsibilities for the regular monitoring of this risk and the follow-up of its management lie with the Pension Funds Risk Monitoring Commission.

In 2018, the BCP Group Pension Fund registered a net return of +0.18%, which was higher than the benchmark return of the fund. All asset classes contributed positively to this performance, with the exception of the Variable Rate and Liquidity components. A highlight should be made on the positive performance registered in the National and European Shares component, for which the selection made it possible to offset the overall negative record of this assets' class. The Fixed Rate component (national Public and Corporate Debt assets) and the Real Estate Assets component also added value to the Fund. The Alternative Investments component[(*)] should also be noted, within which the strong performance of Private Equity funds stands out.

Notwithstanding the fact that the Fund's return was below the discount rate used for the actuarial projections, the coverage of the Fund's responsibilities presented an excess of around 12 million euros, as at 31/12/2018.

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank continuously monitors the adequacy of capital to cover the risks level to which the Group's activity is subject in the development of its business strategy, current and projected for the medium-term. This continuous process, designated by ICAAP (Internal Capital Adequacy Assessment Process), is a key process within the risk management function's scope at Group BCP. The chart below summarizes the process at stake:



The ICAAP develops under an internal governance model that ensures the involvement of the BoD (the body responsible for approving the results) and its Risks Assessment Committee, of the EC, of the Risk Commission and of the top management, along the various stages of the process.

The results of the ICAAP allow the Bank's management bodies – namely, the Board of Directors and the Executive Committee - to test if the Group's capitalization is appropriate for the risks stemming from its activities and if the strategic plan and budget are sustainable in the medium term and comply with the risk limits defined in the Risk Appetite Statement (RAS) approved for the Group.

For this purpose, the ICAAP is rolled-out from a prospective vision of the impact estimates concerning the occurrence of risks over the Bank's capital (capital requirements), considering their scale or dimension, complexity, frequency, probability and materiality, against a background consisting of the medium term (3 years) projection for the developments of the Group's activities. In this process, impacts are estimated for different scenarios, including stress scenarios, with a severely negative evolution of macro-economic indicators in order to test the Group's resilience and the adequacy of the capital levels to cover the risks to which its activity may become subject. To this effect, the different risks are modelled or incorporated in the Group's stress tests methodology framework.

The ICAAP's first stage is the identification of the material risks to which the Group's activity is subject, which involves the Bank's management and the management from the main subsidiaries abroad. For this purpose, the Group uses a methodological approach based on an internal list of risks, covering more than 60 different risks, considering the relevancy of each one by taking into consideration its probability of occurrence and the magnitude of the impacts of its occurrence – either before or after the implementation of risk mitigation measures.

[(*)] Basically, Private Equity and Absolute Return funds.

Beyond all risks considered to be material, the Group integrates in the ICAAP all of Basel's Pillar I risks, even if these do not attain levels that are considered to be material, at Group level.

The result of this stage is the list of risks to be incorporated in the ICAAP, which will also be helpful in defining the variables to be considered for the establishment of the base and the stressed scenarios, mentioned below. The approval of the results of the risks identification process is a capacity attributed to the Risks Assessment Committee.

In a second stage, the base and stressed scenarios that make the ICAAP's framework were defined. While the base scenario represents the Group's vision of the most probable evolution of the business constraints in the medium term (baseline scenario), the stressed scenarios incorporate extreme conditions, with low probability of occurrence but with severe impact over the Group's activity (adverse scenarios). The approval of the scenarios to be considered in the ICAAP is also a responsibility of the Risks Assessment Committee.

In the third stage of the ICAAP, the impact of the risks identified is modelled for the reference date and the capital requirements are calculated for that date. All risks identified by the Bank are considered in the ICAAP. The material risks are quantified in term of their impact over the Risk Weighted Assets (RWA) level or over the P&L , in accordance with a set of methodologies and internal models, formally approved and audited, considering a significance level in line with the regulatory requirements (CRR or Solvency 2) and a time horizon of 1 year (which is lower for the trading portfolio, due to its business nature). The non-material risks are considered through an additional buffer to the capital calculated by the Bank through the ICAAP.

The approval of the estimation methodologies for the risks impacts in the Group's activity is a competence of the Risk Commission.

In the prospective component, the baseline and adverse scenarios referred to above are considered for a medium-term (3 years) projection, either in the current vision of the Group's management (baseline scenario) or within a macroeconomic context that is severely penalizing, in order to test the Group's resilience under extreme scenarios, i.e., if the Group has adequate capital levels to cover the risks to which its activity may be subject to. For this, the different risks are modelled or incorporated within the Group's stress testing methodology.

After the estimation of impacts of the risks over P&L and the Group's balance-sheet – especially, in what concerns the Own Funds – the adequacy of the Group's Risk Taking Capacity (RTC) can be assessed, *vis-à-vis* the expected profile of its activity.

The Group assumes a Risk Taking Capacity aligned with the definition of regulatory capital ratios under Directive 2013/36/EU and Regulation (EU) 575/2013 ("CRD IV" and "CRR" , respectively), based on the regulatory definition of CET1 Own Funds (Common Equity Tier 1).

The ICAAP results show that the current capitalisation levels are appropriate for a 3-year horizon, either under the base scenario or the stressed/adverse scenario.

Quarterly, the Bank reviews the ICAAP's assumptions, namely, in what concerns the assessment of the materiality of the risks that are considered as "non-material", the updating of the projections considered under the macroeconomic scenarios, the analysis of gaps in the business plans, the update of the assessment on the main ICAAP's material risks and the RTC calculation. The results are reported to the Bank's management bodies and are one of the major sources for the revision of the Group RAS. Whenever there are significant changes in the Group's risk profile, the capital adequacy model is recalculated.

The results of the ICAAP, as of 31/12/2018, show that current capitalization levels are adequate for the 3-year time horizon, both in the baseline scenario and in the stressed/adverse scenario.

Models validation and monitoring

This function is ensured by the Models Monitoring and Validation Office (GAVM), reporting to the Executive Committee member that is responsible for Risk Management.

GAVM is a unit structure from the 2nd line of defence, within the scope of model risk management, functionally independent from the areas that are responsible for the models (model owners and developers) and from the Internal Audit Division. Hence, an adequate functions' segregation is assured.

GAVM's scope of action encompasses, among others, the follow-up and monitoring of credit risk systems and models (rating systems) and of the market risks models, as well as the ICAAP´s validation, reporting the results of the follow-up and validation to the Models Monitoring and Validation Sub-Committee and to the Risk Commission.

Besides the activities directly connected with the follow-up and performance validation of models, GAVM is responsible for the coordination of the model risk management activities.

In 2018, several actions were carried out to monitor and validate the internal models in use by the Bank. These actions aim, *inter alia*, to reinforce the confidence in the models, to monitor their performance and evolution, ensuring their adequacy to the business reality and their compliance with current regulations, as well as to reinforce the identification and reaction capabilities to changes in their predictive quality.

Within the scope of models' validation, a highlight is made on the analysis of the risks quantification under the ICAAP, the validation of the expected credit loss model under IFRS9[*], the validation of the internal model for market risks and the validation of the internal credit risk models related to Probability of Default (PD) applicable to the Retail, Corporate, Real Estate Promotion and Project Finance segments, as well as of the LGD models.

GAVM develops and applies validation procedures and methodologies capable of ensuring proper model assessments and the alignment with growing regulatory challenges, by significantly reinforcing (i) the scope of validation exercises, (ii) the depth of analysis and (iii) the transparency and auditability of the work performed.

As part of the models follow-up, the Group regularly participates in the Benchmarking and TRIM exercises.

In 2018, the preparation of the TRIM exercise on credit risk models - applicable to the Corporate segment (Portugal), starting in the last quarter and running for a period of four months - should be highlighted, due to its importance and the resources allocated.

The application that supports the Model Risk Management framework has been implemented and the Bank has available a tool for the management and risk assessment of models, supported by a functional and approval workflow that fits within internal documentation requirements and is fully aligned with applicable regulations and supervisory expectations.

Recovery Plan

Complying with the applicable law - Directive 2014/59/EU and its transposition to the *Regime Geral das Instituições de Crédito e Sociedades Financeiras* (RGICSF) through Decree-Law 23-A/2015, from the 26th of March – the Group has drawn and annually revises a Recovery Plan for its business and activities, in which a large set of key indicators are defined; these are permanently monitored, allowing for immediate management action whenever there are deviations that exceed pre-defined thresholds (also defined in the Plan), the report of which, to the Group's management and supervision bodies, is mandatory.

Indeed, from the strategic analysis and the establishment of possible scenarios for the business evolution and the external environment and from the modelling of all variables, metrics and scenarios considered, the business evolution is permanently monitored within the scope of the Recovery Plan and its respective indicators.

The priorities, responsibilities and specific measures to be taken in a liquidity contingency situation are defined by the Recovery Plan, which is supported by an Early Warning Signals (EWS) system, for the anticipation of the occurrence of possible capital and/or liquidity crises. Simultaneously, the Recovery Plan contains a 'playbook', intended to provide key information for rapid decision-making in a crisis situation.

The Recovery Plan is aligned with the definition of the business continuity framework and its respective plans (see the Operation Risk section), the Communication Plan – towards the market and stakeholders (in contingency situations), Bank Millennium's Recovery Plan (Poland) and the results from the capital and/or liquidity adequacy assessment processes already mentioned (ICAAP e ILAAP).

[*] International Financial Reporting Standard 9 Financial Instruments

Ratings assigned to BCP

In 2018, there was a significant improvement of macroeconomic indicators in Portugal, reflecting the positive developments in the flexibility of budget funding, sustainability of public debt, sounder financial system and reduction in external vulnerability. Rating agencies have recognised the progress achieved and, as a result, at the end of 2018, all of them assigned an investment grade rating to the Portuguese Republic.

During 2018, Portuguese banks continued to pursue their activities within a challenging context, with the ECB keeping interest rates at low levels, which constrains the net interest income and in turn the profitability of the financial system. However, it is important to highlight the progress in the improvement of Portuguese banks' asset quality – through the reduction of NPEs –, as well as the strengthening in capital and profitability levels, contributing for a better outlook of the Portuguese banking sector's performance.

Notwithstanding the significant reduction in problematic assets by Portuguese banks, its amount remains high, which is one of rating agencies' main concerns. In contrast, the return, despite subdued, to positive levels of profitability suggests an improvement in Portuguese banks' operations.

In 2018, three rating agencies recognised the success on the implementation of BCP's strategic plan, which led to the upgrade of the bank's long term rating by 1 notch: S&P Global Ratings on October 9th, Moody's on October 16th and Fitch Ratings on December 6th.

Moody's	
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment LT / ST	Baa3 (cr)/ P-3 (cr)
Counterparty Risk LT / ST	Ba1 / NP
Deposits LT / ST	Ba3/NP
Senior Unsecured LT / ST	Ba3/NP
Outlook deposits / senior	Positive
Subordinated Debt - MTN	(P) B2
Subordinated Debt	B2
Additional Tier 1	Caa1 (hyb)
Other Short Term Debt	P (NP)
Covered Bonds	Aa3

Rating Actions

16 October 2018 - Upgraded the Baseline Credit Assessment (BCA) and adjusted BCA, from 'b2' to 'b1'. Also upgraded the ratings on long term Deposits and Senior Unsecured Debt, from 'B1' to 'Ba3'.

4 December 2018 - Reaffirmed the ratings on long term Deposits and Senior Unsecured Debt at 'Ba3', reviewed the long term Senior Unsecured Debt outlook from 'positive' to 'developing'.

Standard & Poor's	
Stand-alone credit profile (SACP)	bb
Counterparty Credit Rating LT / ST	BBB- / A-3
Issuer Credit Rating LT / ST	BB / B
Outlook	Stable
Subordinated Debt	B
Additional Tier 1	CCC+

Rating Actions

9 October 2018 - Upgraded the long term issuer credit rating from 'BB-/B' to 'BB/B' and the Resolution Counterparty rating from 'BB+/B' to 'BBB-/A-3'.

Fitch Ratings	
Viability Rating	bb
Support	*5*
Support Floor	No Floor
Deposits LT / ST	BB / B
Senior unsecured debt issues LT / ST	BB / B
Outlook	Stable
Subordinated Debt Lower Tier 2	BB-
Additional Tier 1	B-
Covered Bonds	BBB+

Rating Actions

6 December 2018 - Upgraded the Viability Rating, from 'bb-' to 'bb', and the ratings on long term Deposits and Senior Unsecured Debt from 'BB-' to 'BB'. Reaffirmed the short term ratings at 'B' and upgraded the long term Subordinated Debt rating from 'B+' to 'BB-'

DBRS	
Intrinsic Assessment (IA)	BB (high)
Critical obligations	BBB/R-2(high)
Deposits LT / ST	BB (high) / R-3
Senior Debt LT / ST	BB (high) / R-3
Trend	Positive
Dated Subordinated Notes	BB (low)
Additional Tier 1	B (low)
Covered Bonds	A

Rating Actions

11 June 2018 - Reaffirmed BCP ratings, including the Intrinsic, the long/short-term Senior Debt and Deposits ratings at 'BB (high)' / 'R-3', the long/short-term critical obligations rating at 'BBB' / 'R-2' and the Subordinated Debt rating at 'BB (low)'. Changed the Trend on all ratings to Positive.

Capital

According to BCP's interpretation of CRD IV/CRR to date, the CET1 estimated ratio as at 31 December 2018 stood at 12.1% and at 12.0% phased-in and fully implemented, compared to the 13.2% and 11.9%, respectively presented as at 31 December 2017, and above the minimum required ratios under the SREP (Supervisory Review and Evaluation Process) for 2018 (CET1 8.81%, T1 10.31% and Total 12.31%).

This CET1 performance during 2018 mainly reflects:

- the phase-in progression along with the application of the 2018 SREP result, leading to a CET1 reduction of Euros 694 million and a Euros 439 million reduction of risk weighted assets, as at 1 January 2018 (-160 basis points in CET1 phased-in ratio);
- the IFRS9 adoption, resulting in reductions of the CET1 by Euros 101 million and of risk weighted assets by Euros 20 million in (-25 basis points in CET1 phased-in ratio);
- The organic generation of capital, contributing positively to the performance of capital ratios on this period.

SOLVENCY RATIOS

(Euro million)

	31 Dec. 18	31 Dec. 17	31 Dec. 18	31 Dec. 17
	PHASED-IN		FULLY IMPLEMENTED	
OWN FUNDS				
Common Equity Tier 1 (CET1)	5,047	5,319	5,024	4,738
Tier 1	5,121	5,319	5,102	4,809
TOTAL CAPITAL	5,688	5,932	5,663	5,457
RISK WEIGHTED ASSETS	41,883	40,171	41,819	39,799
CAPITAL RATIOS (*)				
CET1	12.1%	13.2%	12.0%	11.9%
Tier 1	12.2%	13.2%	12.2%	12.1%
Total	13.6%	14.8%	13.5%	13.7%

(*) Includes net earnings for the year.

The Bank was informed of the European Central Bank's (ECB) decision regarding the minimum prudential requirements to be fulfilled from March 1st, 2019, based on the results of the Supervisory Review and Evaluation Process (SREP). In addition, BCP was informed by the Bank of Portugal on its capital buffer requirement as "other systemically important institution" (O-SII). These decisions defined the following ratios, determined as a percentage of total risk weighted assets (RWA): 9.625% for CET1, 11.125% for T1 and 13.125% for Total Capital. In addition to the minimum requirements set by CRR article 92, these minimum own funds requirements include 2.25% of Pillar 2, 2.5% of additional conservation buffer and 0.375% of other systemically important institutions (O-SII) buffer.

The estimated impact on CET1 ratio, considering the application of the SREP result and the phase-in progression for 2019, stood at +3 basis points in fully implemented ratio and +10 basis points in phased-in ratio.

In January, the Bank issued perpetual subordinated notes qualified as Additional Tier 1 (AT1), in the amount of Euros 400 million. The estimated impact on Tier1 ratio of this operation stood at +96 basis points, both in fully implemented and phased-in.

Bank Millennium, S.A. in Poland issued, also in January, subordinated bonds qualified as Tier 2 capital instruments, amounting 830 million zlotys. The estimated impact on total ratio stood at +11 basis points in fully implemented and +10 basis points in phased-in.

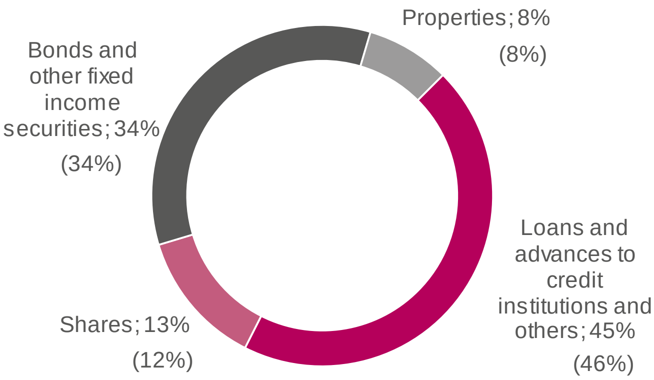
Pension fund

The Group's responsibilities with pensions on retirement and other benefits stood at 3,066 million Euros as at 31 December 2018, comparing to 3,050 million Euros as at 31 December 2017. These responsibilities are related with the payment to Employees of pensions on retirement or disability.

As of 31 December 2018, the Pension Fund's assets reached 3,078 million Euros (3,166 million Euros as at 31 December 2017) and a positive rate of return of 0.2%, which compares unfavourably to the assumed actuarial fund rate of return of 2.1%.

As at 31 December 2018, the structure of the Pension Fund's portfolio does not show material changes from the position existing at the end of 2017. The main asset categories in the Pension Fund's portfolio, as at 31 December 2018, were as follows:

STRUCTURE OF THE PENSION FUND'S ASSETS AS AT 31 DECEMBER 2018



(xx%) Proportion as at 31 de December 2017

The main actuarial assumptions used to determine the Pension Fund's liabilities as at 31 December 2018 and for the years ended 2017 and 2016 are shown below:

ASSUMPTIONS	31 Dec. 18	31 Dec. 17	31 Dec. 16
Discount rate / Fundo return rate	2.10%	2.10%	2.10%
Increase in future compensation levels	0.25% until 2019 0.75% after 2019	0.25% until 2019 0.75% after 2019	0.25% until 2019 0.75% after 2019
Rate of pensions increase	0% until 2019 0.5% after 2019	0% until 2019 0.5% after 2019	0% until 2019 0.5% after 2019
Projected rate of return on fund's assets	2.10%	2.10%	2.10%
Mortality tables			
Men	TV 88/90	TV 88/90	TV 88/90
Women	TV 88/90 - 3 years	TV 88/90 - 3 years	TV 88/90 - 3 years
Disability rate	Not applicable	Not applicable	Not applicable
Turnover rate	Not applicable	Not applicable	Not applicable
Normal retirement age	66 years and 4 months	66 years and 3 months	66 years and 2 months
Total salary growth rate for Social Security purposes	1.75%	1.75%	1.75%
Revaluation rate of wages / pensions of Social Security	1.00%	1.00%	1.00%

At the 2016 year end the Collective Labour Agreement was revised and the respective impacts were recognized on the consolidated profit and loss account. The changes introduced in the Collective Labour Agreement were only formally accepted by the "Northern Trade Union" in April 2017 and therefore the respective impact was recognized in first half of 2017.

At the 2017 year end, the agreement of the Group's Pension Fund was amended in order to incorporate the responsibilities that have been directly supported by each Group entity (extra-fund liabilities), as well as the changes introduced in the Group's Collective Labour Agreements, in terms of retirements benefits.

The Group's responsibilities were fully funded and kept at a higher level than the minimum set by Banco de Portugal, presenting a coverage rate of 100% as of 31 December 2018.

As at 31 December 2018, the actuarial losses, amounting to 98 million Euros (29 million Euros of positive actuarial deviations in 2017) are related to the difference between the actuarial assumptions used for the estimation of the liabilities and the estimated income of the pension fund and the values effectively verified.

The main indicators of the Pension Fund as at the end of 2018, 2017 and 2016 are as follows:

MAIN INDICATORS	31 Dec. 18	31 Dec. 17	31 Dec. 16
Liabilities with pensions	3,066	3,050	3,093
Value of the Pension Fund	3,078	3,166	3,124
Coverage rate (*)	100%	104%	101%
Return on Pension Fund	0.2%	4.2%	-2.6%
Actuarial (gains) and losses	98	-29	303

(*) As at 31 December 2016, the coverage rate corresponds to a pro-forma ratio, presented on a comparable basis, assuming that the extra-fund liabilities would have been formally incorporated into the Group's Pension Fund by the end of that year (inclusion that ocurred formally in 2017 by the approval in the contract constitutive of the Fund).

Information on trends

Despite the acceleration of the economic recovery in Portugal, the stabilisation of the banking industry and the decrease in public and private indebtedness, Portuguese banks continued to operate in a challenging environment in 2018. Banks are operating within a context of very low interest rates, exercising pressure on the net interest income. Moreover, Portuguese Banks still have a significant number of non-interest bearing assets in their balance sheets. In addition, the context is marked by fast technological evolution and, pursuant to the Payment Services Directive 2 ("PSD2"), by the competition from new players in the market (Fintechs). There are also new regulatory requirements, namely, as a result of the adoption of IFRS16 as of January 2019.

Banco de Portugal's forecasts for the Portuguese economy, from 2018 to 2021, point towards the slowdown of the recovery of economic activity, converging to the expected GDP growth for the Euro Area. GDP is expected to have grown, on average, 2.1% in 2018, 1.8% in 2019, 1.7% in 2020 and 1.6% in 2021, after having grown 2.8% in 2017. It is expected that the contribution provided by net exports will gradually decrease its importance in GDP's growth between 2018 and 2021. According to the projections by the Ministry of Finance, the public deficit should decrease to 0.5% of the GDP in 2018, the lowest ever since Portugal joined the Euro Area. A surplus is expected as soon as 2020.

The four rating agencies that rate the Portuguese Republic upgraded their ratings (two in 2017 and two in 2018). At the end of October 2018, four rating agencies assign an investment grade rating to the Portuguese Republic, which translated, together with the improvement of the market's perception of the Portuguese Republic, into a sharp decrease in sovereign risk premiums and bank premiums.

In accordance with Banco de Portugal, Portuguese banks resort to the ECB in the amount of EUR 18.9 billion at the end of December 2018. There figures are consistent with the downwards trend in place since the second half of 2013. These figures show an improvement in the liquidity position of the domestic banks which has benefited from the resilient performance of deposits, namely from individuals (+3.8% year-on-year at December 2018, with demand deposits up 15.9% and term deposits up 3.8%, also year-on-year).

Moreover, the deleveraging of the Portuguese financial sector continues and the total loans to individuals increased 0.1% and loans to companies decreased 0.3%, year-on-year, respectively, in December 2018. The loans-to-deposits ratio of the banking sector in Portugal stood at 89% at the end of September 2018 versus 128% at the end of 2012 and 158% at the end of 2010.

The loans granted by BCP continued to decrease but reflects two different dynamics: the NPE portfolio decreased by EUR 2.1 billion in December 2018, year-on-year, and the performing portfolio increased by EUR 2.2 billion (in Portugal: NPE portfolio decreased by EUR 2.0 billion and performing portfolio increased by EUR 1.1 billion). At the same time, deposits also continued to grow: +4.6% year-on-year, in Portugal, in December 2018. As BCP has excess liquidity (loans-to-deposits ratio stood at 87% in December 2018), it decided to reduce its use of funding from the ECB to EUR 2.7 billion in December 2018. In the next quarters, these trends will remain in place with the Bank now focused on growing volumes but with the performing portfolio growth being compensated by the NPE reduction. As a result loans-to-deposits ratio will remain below 100% and ECB funding will remain below EUR 4 billion.

At the end of December 2018, BCP was the largest Portuguese private sector bank, with a robust asset structure, a fully implemented CET1 ratio of 12.0%, above regulatory requirements (SREP) and a loans-to-deposits ratio of 87%.

The low level of interest rates is contributing to decrease the spread on term deposits of the Portuguese banks, a trend which continued, albeit at a slower pace, in 2018, more than offsetting the lower spreads in credit. The rates of the term deposits reached, by the end of December 2018, values around 15 basis points, and the portfolio's average rate should converge to these levels over the course of next year.

The price effect on the net interest income should continue to be globally positive, translating the improvement of the net interest income on operations with Customers (differential between the loans average rate and the average rate at which the banks remunerate the deposits). The profitability of the Portuguese banks is expected to continue to be constrained by the prospects of continuation of a low short term interest rates environment.

Several institutions should continue to apply restructuring plans, to increase operating efficiency and the adjustment of business models, which translates into the decrease in the number of branches and employees and in the release of capital allocated to non-core activities. Profitability in the banking industry is still affected by a high NPE stock.

BCP Group has a relevant exposure to Poland where there are risks due to legislative amendments with impact on the Polish financial system, including the ones related to the issue of the conversion of the credits into Swiss francs in Poland. It is worth mentioning that Bank Millennium has been reducing its foreign currency mortgage loans portfolio on average circa of 8% per year and that currently it represents only 27% of the total loans portfolio in Poland.

There are still some risks related to the economic environment experienced by some African countries, with potential impact on the Group, namely Angola and Mozambique, whose economic activity is decelerating, with high inflation, and faced a significant depreciation of their currencies in 2017. In Mozambique the situation should improve once an agreement with the International Monetary Fund is reached.

There is great focus on the management of the stock of problematic assets and respective coverage levels by LLRs. BCP has recently presented a new Strategic Plan (Mobilizing Millennium: 2021 Ambitions and Strategic Plan) which includes a new target of NPEs reduction: 60% reduction of NPE stock, reaching approximately EUR 3 billion by 2021.

It is not yet possible to determine what will be the final impact of the resolution of BES on BCP as an institution participating in the resolution fund created by Decree-Law no. 31-A/2012, of 10 February (the "Resolution Fund"). On 28 March 2018, following the disclosure of the 2017 annual results by Novo Banco, the Resolution Fund made a communication on the activation of the CCA totalling EUR 792 million.

On 24 May 2018, the Resolution Fund communicated having disbursed to Novo Banco the abovementioned funds, of which EUR 430 million were from a loan from the Portuguese State and the remaining amount were from the Resolution Fund's own resources.

In its 2018 annual results press release, Novo Banco states that in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of Euros 1,149 million under the existing CCA. 69% of this amount results from the losses incurred on the assets included in the CCA and 31% due to regulatory requirements for capital increase in the adjustment of the transitional period of capital ratios and to the impact of IFRS 9. For 2017 and 2018, Novo Banco will have received a total of Euros 1.9 billion out of the maximum of Euros 3.89 billion defined under the CCA.

On 1 March 2019, the Resolution Fund stated that the amount to be paid by the Resolution Fund in 2019 to Novo Banco under the CCA will be carried out after the legal certification of Novo Banco's accounts and following a verification procedure by an independent entity, to ascertain that the amount to be paid by the Fund has been correctly accounted for.

The Bank has been notified by the Banco de Portugal on the Single Resolution Board's decision regarding the minimum requirement for MREL for the resolution group headed by the Bank, at a sub-consolidated level, which includes the operations based in Portugal, Switzerland and Cayman, and excludes the operations based in Mozambique and Poland (the "Resolution Group").

The MREL requirement has been set at 26.61% of its RWA for the resolution group based on the data of 30 June 2017. Moreover, the Bank has been informed that the MREL requirement needs to be met by 1 July 2022.

This is fully aligned with the Bank's expectations and generally consistent with the funding projections already included in the Bank's strategic Plan for the period 2018-2021, which underpins the medium term performance targets disclosed to the market with the results announcement for the first nine months of 2018. Nevertheless, it must be noted that the MREL requirement may be adjusted in the future by the competent authorities, to reflect their assessment of the underlying risks, business evolution or changes in the profile of the Bank's assets and liabilities.