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Market Discipline Report

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Statement pursuant to part VIII of EU Regulation number 575/2013 please find herein the transcription of the

2018 Market Discipline Report

BANCO COMERCIAL PORTUGUÊS, S.A.

Public Company

Head Office: Praça D. João I, 28, 4000-295 Porto – Share Capital of 4.725.000.000 euros

Registered at Porto Commercial Registry, under the single registration and tax identification number 501 525 882



Statement of responsibility of the Board of Directors

I. This statement of responsibility issued by the Board of Directors of Banco Comercial Português, S.A., regards the “2018 Market Discipline Report”, in compliance with the provisions of the CRD IV/CRR.

II. On 26 June 2013, the European Parliament and Council approved Directive 2013/36/EU and Regulation (EU) no. 575/2013 (Capital Requirements Directive IV / Capital Requirements Regulation - CRD IV/CRR), transposed to the Portuguese law through decree-law no. 157/2014 of 24 October, with effects as from 1 January 2014, with highlight to the articles 431 to 455 and 492 of the CRR in the scope of Pillar III requisites.

III. The capital accord is based upon three different and complementary pillars:

- Pillar I consists in rules for the determination of minimum own funds requirements for hedging credit, market and operational risks;
- Pillar II comprises the main principles of the supervision and risk management process, including the capital adequacy self-assessment process;
- Pillar III complements the previous pillars with the demand for the provision of information on the financial standing and the solvency of credit institutions, establishing public disclosure requirements for capital and risk management processes and systems, aiming at enhancing market discipline.

IV. Hence, the “2018 Market Discipline Report” was prepared within the scope of Pillar III in compliance with the regulations in force and in line with the practices followed by the major international banks.

V. The relevant events occurred between the end of the 2018 exercise and the approval date of this report are described in chapter 3.4 – Events with a material impact on own funds and capital requirements in 2019.

VI. Since the regulatory requirements do not foresee it, this report was not audited by the Bank’s External Auditor. However, the same includes information included in the audited consolidated financial statements, in the 2017 Annual Report that was discussed and subject approved in the General Meeting of Shareholders that took place on 22 May 2019.

VII. The report has the following chapters:

1. Scope of application
2. Risk management in the Group
3. Capital adequacy
4. Credit risk
5. Counterparty credit risk
6. Credit risk mitigation techniques
7. Equity exposures in the Banking Book
8. Securitisation operations
9. Market risk
10. Operational risk
11. Interest rate risk in the Banking Book
12. Liquidity risk

VIII. The 2018 Annual Report includes information about the Bank’s remuneration policy of the Executive Board of Directors under the information reported in Part I of the Corporate Governance Report.

IX. Concerning the information presented in the “2018 Market Discipline Report”, the Board of Directors:

- Certifies that all procedures deemed necessary were carried out and that, to the best of its knowledge, all the information disclosed is trustworthy and true;
- Assures the quality of all the information disclosed, including the one referring to or with origin in entities comprised within the economic group of which the institution is part;
- Informs that no information related to number 2 of article 432 of the CRR was omitted; and
- Commits to timely disclose any significant alterations that may occur in the course of the financial year subsequent to the one this reports relates to.

Lisbon, 28 May 2019

The Board of Directors of Banco Comercial Português, S.A., by delegation

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List of the acronyms and technical terms frequently used throughout the document

AC: Audit Committee
BoD: Board of Directors
bps: Basis points (1 basis point = 0,01%)
CALCO: Capital Assets and Liabilities Committee
CCF: Credit Conversion Factors
CCP: Central Counterparty
CET1: Common Equity Tier 1
CRD IV: Directive 2013/36/EU of June, 26 regarding access to credit institutions' activity and prudential supervision of credit institutions and investment companies, which alters Directive 2002/87/CE and revokes Directives 2006/48/CE and 2006/49/CE
CRR: Regulation 575/2013/EU of June, 26, related to prudential requirements for credit institutions and for investment companies, which changes Regulation (EU) no. 648/2012
CVA: Credit Valuation Adjustment
EAD: Exposure at Default
EBA: European Banking Authority
EC: Executive Committee of the BoD
ECAI: External Credit Assessment Institutions
ECB: European Central Bank
EMIR: European Market Infrastructure Regulation
IAS: International Accounting Standards
ICAAP: Internal Capital Adequacy Assessment Process
IFRS 9: International Financial Reporting Standard 9 - Financial Instruments
ILAAP: Internal Liquidity Adequacy Assessment Process
IRB: Internal Ratings Based
KNF (*Komisja Nadzoru Finansowego*): Polish financial supervisory authority
KRI: Key Risk Indicators
LGD: Loss Given Default
O-SII: Other Systemically Important Institution
OTC: Over-the-Counter derivatives
PD: Probability of Default
REPOS (*Repurchase agreements*): Financial instruments subject to repurchase agreements
RAC: Risk Assessment Committee
RC: Risk Commission
RSA: Risks Self-Assessment
SIC 12: Standing Interpretations Committee (before March 2002); Interpretation that defines the criteria for SPE consolidation according to IAS 27
SFT: Securities Financing Transaction
SREP: Supervisory Review and Evaluation Process
SSM: Single Supervisory Mechanism
SPE: Special Purpose Entity
SVaR: Stressed Value at risk
VaR: Value at Risk

Introduction

The “2018 Market Discipline Report” is comprised within the requisites for the provision of information foreseen in Pillar III of the Capital Accord, complementing the 2018 Annual Report of Banco Comercial Português, S.A. (hereinafter referred to as “Bank” or “Millennium bcp”) concerning the information on risk management and capital adequacy on a consolidated basis, namely in what concerns the provision of detailed information on the capital, solvency, risks assumed and respective control and management processes.

This report includes the disclosure requirements foreseen in Part VII of the Capital Requirements Directive IV/Capital Requirements Regulation (CRD IV/CRR), whose objective is to give market participants precise and complete information about the risk profile of institutions. The standard formats and guidelines of the EBA, transposed into the national law through Instruction no. 5/2018, from Banco de Portugal, were included as well as additional information deemed relevant for the evaluation of the Bank’s risk profile and capital adequacy on a consolidated basis. The Group’s report is structured as follows:

1	Scope of application
2	Risk management in the Group
3	Capital adequacy
4	Credit risk
5	Counterparty credit risk
6	Credit risk mitigation techniques
7	Equity exposures in the Banking Book
8	Securitisation operations
9	Market risk
10	Operational risk
11	Interest rate risk in the Banking Book
12	Liquidity risk

Additionally, and given the fact that the Bank was considered as an other systemically important institution (O-SII), the Group informs that it will comply with the terms of article 14-A, no. 3 of the instruction no. 1/2017.

Regulatory calculation methodologies

Following the request submitted by Millennium bcp in the first six months of 2009, the Bank received authorisation from Banco de Portugal to use the advanced approach (internal model) for the generic market risk and to use the standard approach for operational risk.

Banco de Portugal authorised, with effects as of 31 December 2010, the adoption of methodologies based on the Internal Ratings Based models (IRB) for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of the risks of the activity in Portugal.

Subsequently, within the scope of the gradual adoption of the IRB approach in the calculation of capital requirements for credit and counterparty risks, Banco de Portugal authorised the extension of this methodology to the subclasses “Renewable Retail Positions” and “Other Retail Positions” in Portugal, effective as of 31 December 2011.

With reference to 31 December 2012, Banco de Portugal authorised the use of own estimates of Credit Conversion Factors (CCF) for the “Corporate” risk class in Portugal and the adoption of IRB models for “Loans secured by residential real estate” and for “Renewable Positions” in the retail portfolio of the Group’s subsidiary in Poland.

On 31 December 2013, Banco de Portugal authorised the extension of the IRB method to the real estate promotion segment, as well as the adoption of own estimations of LGD (Loss Given Default) for the “Corporate” exposures in Portugal.

Without prejudice to the provision of more detailed information in the next chapters, it is shown in Table 1 a summary of the calculation methodologies of the capital requirements used in the regulatory reporting as well as of the respective geographic application scope.

TABLE 1 – CALCULATION METHODS AND SCOPE OF APPLICATION

	31 Dec. 18	31 Dec. 17
CREDIT RISK AND COUNTERPARTY CREDIT RISK		
PORTUGAL		
Retail	IRB Advanced	IRB Advanced
Corporates	IRB Advanced ⁽¹⁾	IRB Advanced ⁽¹⁾
POLAND		
Retail		
- Loans secured by residential real estate	IRB Advanced	IRB Advanced
- Renewable positions	IRB Advanced	IRB Advanced
OTHER EXPOSURES (ALL ENTITIES OF THE GROUP)	Standardised	Standardised
MARKET RISKS ⁽²⁾		
Generic market risk in debt and equity instruments	Internal Models	Internal Models
Foreign exchange risk	Internal Models	Internal Models
Commodities risk and market risk in debt and equity instruments	Standardised	Standardised
OPERATIONAL RISK ⁽³⁾	Standard	Standard

⁽¹⁾ Excluding exposures derived from the simplified rating system, which were weighted by the standardised approach.

⁽²⁾ For exposures in the perimeter centrally managed from Portugal; for all other exposures the only approach applied is the standardised method.

⁽³⁾ The adoption of the standard method of operational risk was authorised in 2009 for application on a consolidated basis.

Concise risk appetite statement

I. Framework

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

These risk tolerance levels are embodied in the Group's "Risk Appetite Framework" (RAF) which incorporates the following elements.

- The "Risk Appetite Statement" (RAS);
- The "Risk Strategy", defined for all risks classified as 'material' by the risks' identification process; in this context, lines of action are identified for each material risk, in order to mitigate (or even eliminate) the risks in question, along the identification of the structure units and/or bodies responsible for implementing those lines of action;
- The "Risk management System" is composed by the internal Governance on the control and management of risks and Compliance, either in terms of bodies and structural units or in what concerns the applicable internal regulations, i.e., the comprehensive set of regulations for risk monitoring and control, that establish the daily risk management policies and the limits' framework stemming from the RAS;
- The "Information and Communication System", through which the several risk indicators and the risk levels - *vis-à-vis* the respective limits - are systematically monitored and reported to the Bank's bodies and different management levels.

The Group's RAF is an active constraint in what concerns the levels of risk arising from the Bank's plan and budget and is subject to regular reviews in light of the various developments in the internal and external environment and of the way in which these have an influence on the perspective evolution of the Bank's material risks.

The Group's RAS currently consists of a set of around 40 indicators, defined according on the materiality assessed for the risks they measure and to their importance in relation to the business objectives that are defined in the BCP Group's strategic plan for 2021.

The 40 indicators in question reflect limits associated with different analytical views on the Group's business that are considered imperative for its continuity and sustainability - Solvency / Liquidity and funding / Profitability and business mix / Reputation and brand - and are directly or indirectly linked to the different objectives' types of the strategic plan for 2021, namely: Business growth / Value creation / Asset quality.

II. The "Risk Appetite Statement" (RAS)

The c. 40 indicators of the Group's RAS are aproved by the Board of Directors of Banco Comercial Português, S.A., from a proposal of BCP's Risk Office - the structure unit that coordinates the implementaton and maintenance of the mechanisms and denitions of the SGR - after an opinion from the BoD's Executive Committee and Risk Assessment Committees.

The RAS is reviewed at least once a year (or whenever the risk circumstances identified at any given moment so determine), both in terms of the list of indicators considered and their limits thresholds. For each indicator, the limits are fixed using a "RAG" approach (red, amber, green):

- Red = critical level, represented by an excess or insufficiency, that must be corrected in the shortest time possible;
- Amber = alert level, representing a negative evolution towards an excess or insufficiency, which should prompt immediate corrective and/or mitigation measures;
- Green = comfort level, within the defined risk tolerance.

Local RAS are defined for the Group's main subsidiaries - Bank Millennium (Poland) and Banco Internacional de Moçambique (Mozambique) - with the same risk areas structure than in the parent company, adapted and appropriate to the specificities of the business in these geographies and calibrated in order to ensure consistency with the Group's RAS.

The implementation of a comprehensive and diversified structure of mechanisms necessary for the identification, measurement, monitoring, control, prevention and mitigation of the various risks incident on the Group's activities is based on criteria of economic and financial rationality (based, *inter alia*, on a cost/benefit analysis), in order to allow the sustained (and sustainable) development of all business activities, in a simultaneously profitable and prudent manner, adequate to the defined objectives.

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1. SCOPE OF APPLICATION

1.1. IDENTIFICATION OF BANCO COMERCIAL PORTUGUÊS, S.A.

Banco Comercial Português, S.A. is a public traded company with share capital open to public investment (public company), with registered office at Praça D. João I, 28, in Porto, registered at the Porto Commercial Registry under the unique registry and tax number 501,525,882, registered at Banco de Portugal with code 33, at the Securities Market Commission as a Financial Intermediary under registration number 105 and at the Insurance Institute of Portugal as a Tied Insurance Intermediary, under number 207,074,605.

The share capital of the Bank, on 31 December 2018 was 4.725.000.000 euros, fully paid up and represented by 15,113,989,952 shares without nominal value. The ordinary, book-entry and nominal shares are registered in the centralised system managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.

The Bank is a public company, established in Portugal by public deed on 25 June 1985, parent company of a number of companies with which it has a controlling or group relationship, under the terms of article 21 of the Securities Code (henceforth designated as "Group" or "BCP Group"), and is subject to the European Central Bank supervision on both individual and consolidated basis, through the Single Supervisory Mechanism (SSM), in accordance with the provisions of Regulation (EU) no. 468/2014 of the European Central Bank (ECB/2014/17) (SSM Framework Regulation).

The Bank's Articles of Association and the individual and consolidated Annual Reports, as well as the Corporate Governance and Sustainability Reports, are at the public's disposal, for consultation, at the Bank's registered office and on its website, at www.millenniumbcp.pt.

1.2. BASIS AND PERIMETERS OF CONSOLIDATION FOR ACCOUNTING AND PRUDENTIAL PURPOSES

The information disclosed within the present document reflects the consolidation perimeter for prudential purposes, which differs from the consolidation perimeter of the Group accounts defined in accordance with the International Financial Reporting Standards (IFRS) as approved by the European Union (EU) within the scope of the provisions of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as transposed into the Portuguese legislation through the Decree-Law 35/2005 of 17 February and the Notice of Banco de Portugal no. 5/2005.

The main differences between the consolidation perimeter for prudential purposes and the consolidation perimeter of the Group accounts are related with the treatment of companies whose activity is of a different nature and incompatible with the provisions of the General Framework for Credit Institutions and Financial Companies, with reference to supervision on a consolidated basis, in accordance with Banco de Portugal Notice no. 8/94, namely in relation to commercial, industrial, agricultural or insurance companies.

The companies mentioned in the previous paragraph are excluded from consolidation for prudential purposes, but are considered by the equity method. Notwithstanding, and according to the Notice 8/94 of Banco de Portugal, Banco de Portugal may order the inclusion of some of these companies in the prudential consolidation perimeter, if and when it considers this the most appropriate decision in terms of supervision objectives.

In addition, shareholdings excluded from consolidation for prudential purposes that are recorded in the financial statements for the purposes of supervision on a consolidated basis under the equity method, may have to be deducted from consolidated own funds, totally or partially, under the terms defined by the CRR, as detailed in chapter "3. Capital adequacy". As of 31 December 2018, there are no subsidiaries not included in the consolidation perimeter for prudential purposes, whose own funds are lower than the minimum required level. Also, there are also no subsidiaries included in the consolidation perimeter for prudential purposes, regarding which the obligations relative to the minimum level of own funds and limits to large exposures are not applicable, as per CRR articles 92 and 395..

Notwithstanding the principles and standards that rule the intra-group relations, there is no significant, current or foreseen, impediment to the prompt transfer of own funds or repayment of liabilities among the Bank and its subsidiaries, although, with reference to Mozambique, the rules in force may condition the fluidity of fund transfers, but without any potentially significant impacts at Group level.

The entities included in the consolidation perimeter of BCP Group as at 31 December 2018 are described in Table 2, indicating the consolidation method to which they are subject to and giving adequate notes aiming to highlight the regulatory treatment of entities excluded from the consolidation perimeter for prudential purposes.

TABLE 2 – TEMPLATE 3 / EU LI3 – OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION

Entity name	Accounting consolidation method	Regulatory consolidation method	Activity	Head office	% of Equity
Banco de Investimento Imobiliário, S.A.	Full	Total	Banking	Portugal	100,0%
Banco ActivoBank, S.A.	Full	Total	Banking	Portugal	100,0%
Bank Millennium, S.A.	Full	Total	Banking	Poland	50,1%
Banque Privée BCP (Suisse) S.A.	Full	Total	Banking	Switzerland	100,0%
BCP África, S.G.P.S., Lda.	Full	Total	Holding company	Portugal	100,0%
BCP Capital – Sociedade de Capital de Risco, S.A.	Full	Total	Venture capital	Portugal	100,0%
BCP International B.V.	Full	Total	Holding company	The Netherlands	100,0%
BCP Investment, BV	Full	Total	Holding company	The Netherlands	100,0%
BCP Finance Bank, Ltd.	Full	Total	Banking	Cayman Islands	100,0%
BCP Finance Company	Full	Total	Financial	Cayman Islands	100,0%
BG Leasing S.A	Full	Total	Leasing	Poland	37,1%
BIM – Banco Internacional de Moçambique, S.A.	Full	Total	Banking	Mozambique	66,7%
Millennium bcp Bank & Trust	Full	Total	Banking	Cayman Islands	100,0%
Millennium BCP – Escritório de Representações e Serviços, Ltda.	Full	Total	Financial services	Brazil	100,0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Total	Holding company	Portugal	100,0%
MB Finance AB	Full	Total	Financial	Sweden	50,1%
Interfundos – Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Total	Investment fund management	Portugal	100,0%
Adelphi Gere, Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate management	Portugal	100,0%
Monumental Residence – Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate management	Portugal	100,0%
Millennium bcp – Prestação de Serviços, A.C.E.	Full	Total	Services	Portugal	95,8%
Millennium bcp Teleserviços – Serviços de Comércio Electrónico, S.A.	Full	Total	E-commerce	Portugal	100,0%
Millennium Dom Maklerski S.A.	Full	Total	Brokerage services	Poland	50,1%
Millennium Goodie Sp. z o.o.	Full	Total	Consulting and services	Poland	50,1%
Millennium Leasing Sp. z o.o.	Full	Total	Leasing	Poland	50,1%
Millennium Service Sp. z o.o.	Full	Total	Services	Poland	50,1%
Millennium Telecommunication Sp. z o.o.	Full	Total	Brokerage services	Poland	50,1%
Millennium TFI – Towarzystwo Funduszy Inwestycyjnych, S.A.	Full	Total	Investment fund management	Poland	50,1%
Piast Expert Sp. z o.o.	Full	Total	Marketing services	Poland	50,1%
Millennium bcp Imobiliária, S.A	Full	Total	Real estate management	Portugal	99,9%

MULTI24, Sociedade Especial de Investimento Imobiliário de Capital Fixo, SICAFI, S.A.	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate management	Portugal	100,0%
Servitrust - Trust Managment Services S.A.	Full	Total	Trust services	Portugal	100,0%
Setelote - Aldeamentos Turísticos S.A.	Full	Neither consolidated nor subject to deduction ⁽⁴⁾	Real estate company	Portugal	90,0%
Irgossai - Urbanização e construção, S.A.	Full	Neither consolidated nor subject to deduction ⁽⁴⁾	Real estate company	Portugal	100,0%
Imábida - Imobiliária da Arrábida, S.A.	Full	Neither consolidated nor subject to deduction ⁽⁵⁾	Real estate company	Portugal	100,0%
Bichorro - Empreendimentos Turísticos e Imobiliários S.A.	Full	Neither consolidated nor subject to deduction ⁽⁴⁾	Real estate company	Portugal	100,0%
Finalgarve - Sociedade de Promoção Imobiliária Turística, S.A.	Full	Neither consolidated nor subject to deduction ⁽⁴⁾	Real estate company	Portugal	100,0%
Fiparso - Sociedade Imobiliária Lda.	Full	Neither consolidated nor subject to deduction ⁽⁴⁾	Real estate company	Portugal	100,0%
Cold River's Homestead, S.A.	Full	Neither consolidated nor subject to deduction ⁽⁵⁾	Agricultural and livestock products, services, animation and rural tourism	Portugal	50,0%
Planfipsa S.G.P.S., S.A.	Full	Neither consolidated nor subject to deduction ⁽⁵⁾	Holding company	Portugal	51,0%
Planbelas - Sociedade Imobiliária, S.A.	Full	Neither consolidated nor subject to deduction ⁽⁵⁾	Real estate company	Portugal	51,0%
Colonade - Sociedade Imobiliária, S.A.	Full	Neither consolidated nor subject to deduction ⁽⁵⁾	Real estate company	Portugal	51,0%
Colon Belas Hotel - Sociedade Imobiliária, S.A.	Full	Neither consolidated nor subject to deduction ⁽⁵⁾	Real estate company	Portugal	51,0%
Fundo de Investimento Imobiliário Imosotto Acumulação	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundo de Investimento Imobiliário Gestão Imobiliária	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundo de Investimento Imobiliário Imorenda	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Oceânico II	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundo de Investimento Imobiliário Fechado Gestimo	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Millennium Fundo de Capitalização - Fundo de Capital de Risco	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Venture capital fund	Portugal	100,0%

Funsita - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Multiusos Oriente - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Grand Urban Investment Fund - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Fundial - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
DP Invest - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	54,0%
Fundipar - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	100,0%
Domus Capital - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	50,0%
Predicapital - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither consolidated nor subject to deduction ⁽¹⁾	Real estate investment fund	Portugal	60,0%
Banco Millennium Atlântico, S.A.	Equity method	Deduction ⁽³⁾	Banking	Angola	22,5%
Banque BCP, S.A.S.	Equity method	Deduction ⁽³⁾	Banking	France	19,9%
Beiranave Estaleiros Navais Beira SARL	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Naval shipyards	Mozambique	14,0%
Constellation, S.A.	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Property management	Mozambique	12,3%
Exporsado - Comércio e Indústria de Produtos do Mar, Lda.	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Trade and industry of sea products	Portugal	35,0%
Lubuskie Fabryki Mebli S.A	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Furniture manufacturer	Poland	25,1%
Mundotêxtil - Indústrias Têxteis, S.A.	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Textile products, except clothing	Portugal	24,7%
PNCB - Plataforma de Negociação Integrada de Créditos Bancários, A.C.E	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Services	Portugal	33,3%
Projepolska, S.A.	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Real estate company	Portugal	23,9%
SIBS, S.G.P.S., S.A.	Equity method	Deduction ⁽³⁾	Banking services	Portugal	21,9%
Sicit - Sociedade de Investimentos e Consultoria em Infra-Estruturas de Transportes, S.A.	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Consulting	Portugal	25,0%
UNICRE - Instituição Financeira de Crédito, S.A.	Equity method	Deduction ⁽³⁾	Credit cards	Portugal	32,0%
Webspectator Corporation	Equity method	Neither consolidated nor subject to deduction ⁽²⁾	Digital advertising services	USA	25,1%
Millenniumbcp Aqeas Grupo Segurador, S.G.P.S., S.A.	Equity method	Deduction ⁽³⁾	Holding company	Portugal	49,0%
SIM - Seguradora Internacional de Moçambique, S.A.R.L.	Full	Deduction ⁽³⁾	Insurance	Mozambique	61,4%
Magellan Mortgages No.2 Limited	Full	Total	Special Purpose Entity (SPE)	Ireland	100,0%

Magellan Mortgages No.3 Limited	Full	Total	Special Purpose Entity (SPE)	Ireland	82,4%
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⁽¹⁾ Entity excluded from the consolidation for prudential purposes, whose impact on solvency indicators results from the assessment of capital requirements of the participation units held in the investment fund.

⁽²⁾ Entity excluded from the consolidation for prudential purposes, whose impact on solvency indicators results from the assessment of capital requirements of the equity amount registered on the balance sheet assets.

⁽³⁾ Entity excluded from the consolidation for prudential purposes, for which the financial participation amount is deducted from own funds under article 48 of the CRR.

⁽⁴⁾ Entity excluded from the consolidation for prudential purposes, since it is held by one of the investment funds identified in (1).

⁽⁵⁾ Entity excluded from the consolidation for prudential purposes, since it does not belong to the banking sector.

Hereinafter please find the description of the consolidation methods used for accounting purposes and the respective selection criteria in force in the Group.

FULL CONSOLIDATION

Investments in subsidiaries where the Group holds control are fully consolidated from the date the Group assumes control over its financial and operational activities until the control ceases to exist. Control is presumed to exist when the Group owns more than half of the voting rights. Additionally, control exists when the Group has the power, directly or indirectly, to manage the financial and operating policies of an entity to obtain benefits from its activities, even if the percentage of capital held is less than 50%.

Additionally, the Group fully consolidates Special Purpose Entities (“SPE”) resulting from securitisation operations with assets from Group entities, based on the criteria presented in the chapter “8.2 Group accounting policies”, related to the treatment of securitisation operations. Besides these SPE resulting from securitisation operations, no additional SPE have been consolidated considering that they do not meet the criteria established on SIC 12.

In addition, the Group manages assets held by investment funds, whose participation units are held by third parties. The financial statements of these funds are not consolidated by the Group, except when the Group holds more than 50% of the participation units. However, the investment funds consolidated for accounting purposes are excluded from the consolidation for prudential purposes, as previously mentioned, with their impact being reflected in the determination of own funds requirements.

PROPORTIONAL CONSOLIDATION

Jointly controlled entities, consolidated under the proportional method, are entities where the Group has joint control established by contractual agreement. The consolidated financial statements include, in the corresponding captions, the Group’s proportional share of the entities’ assets, liabilities, revenue and expenses, with items of a similar nature on a line by line basis, from the date that joint control started until the date that joint control ceases. On 31 December 2018, the Group did not consolidate any entity by the proportional method.

EQUITY CONSOLIDATION

Investments in associated companies are consolidated by the equity method from the date that the Group acquires significant influence until the date it ceases. Associates are those entities, in which the Group has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that the Group has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If the Group holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Group does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Group and the investee;
- Interchange of the management team;
- Provision of essential technical information.

The holdings held by the Group in insurance companies consolidated under the full consolidation method are accounted under the equity method for the purpose of supervision on a consolidated basis.

On 31 December 2018, the full and the financial balance sheets, that translate the consolidation perimeter of the Group’s accounts and for prudential purposes on that date, as well as the respective differences, are described in Table 3:

TABLE 3 – TEMPLATE 1 / EU LI1 (I)- DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

31/12/2018	(Thousand euros)		
	Carrying values as reported in published financial statements	Deconsolidation of insurance/other entities	Carrying values under scope of regulatory consolidation
ASSETS			
Cash and deposits at Central Banks	2 753 839	-2	2 753 837
Loans and advances to credit institutions repayable on demand	326 707	-224	326 483
Financial assets at amortised cost			
Loans and advances to credit institutions	890 033	-228	889 805
Loans and advances to customers	45 560 926	64 357	45 625 283
Debt instruments	3 375 014	-8 221	3 366 793
Financial assets at fair value through profit or loss			
Financial assets held for trading	870 454	-10 629	859 825
Financial assets not held for trading mandatorily at fair value through profit or loss	1 404 684	423 151	1 827 835
Financial assets designated at fair value through profit or loss	33 034	0	33 034
Financial assets at fair value through other comprehensive income	13 845 625	36 209	13 881 834
Assets with repurchase agreement	58 252	0	58 252
Hedging derivatives	123 054	0	123 054
Investments in associated companies	405 082	43 459	448 541
Non-current assets held for sale	1 868 458	-429 117	1 439 341
Investment property	11 058	-6 709	4 349
Other tangible assets	461 276	-117 036	344 240
Goodwill and intangible assets	174 395	-4 773	169 622
Current tax assets	32 712	-49	32 663
Deferred tax assets	2 916 630	-3 285	2 913 345
Other assets	811 816	12 146	823 962
TOTAL ASSETS	75 923 049	-951	75 922 098
LIABILITIES			
Financial liabilities at amortised cost			
Resources from credit institutions	7 752 796	-1 154	7 751 642
Resources from customers	52 664 687	72 640	52 737 327
Non subordinated debt securities issued	1 686 087	14 600	1 700 687
Subordinated debt	1 072 105	0	1 072 105
Financial liabilities at fair value through profit or loss			
Financial liabilities held for trading	327 008	0	327 008
Financial liabilities at fair value through profit or loss	3 603 647	0	3 603 647
Hedging derivatives	177 900	0	177 900
Non-current liabilities held for sale	0	0	0
Provisions	350 832	-27 149	323 683
Current tax liabilities	18 547	-927	17 620
Deferred tax liabilities	5 460	-461	4 999
Other liabilities	1 300 074	-6 110	1 293 964
TOTAL LIABILITIES	68 959 143	51 439	69 010 582
EQUITY			
Share capital	4 725 000	0	4 725 000
Share premium	16 471	0	16 471
Preference shares	0	0	0
Other equity instruments	2 922	0	2 922
Legal and statutory reserves	264 608	0	264 608
Treasury shares	-74	0	-74
Reserves and retained earnings	470 481	0	470 481
Net income for the year attributable to Bank's Shareholders	301 065	0	301 065
TOTAL EQUITY	5 780 473	0	5 780 473
Interesses que não controlam	1 183 433	-52 390	1 131 043

TOTAL LIABILITIES, EQUITY AND MINORITY INTERESTS	75 923 049	-951	75 922 098
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31/12/2017

(Milhares de euros)

	Carrying values as reported in published financial statements	Deconsolidation of insurance/other entities	Carrying values under scope of regulatory consolidation
ASSETS			
Cash and deposits at central banks	2 167 934	-2	2 167 933
Repayable on demand to credit institutions	295 532	-2 721	292 811
Other loans and advances to credit institutions	1 065 568	-99	1 065 470
Loans and advances to customers	47 633 492	19 493	47 652 985
Financial assets held for trading	897 734	-6 518	891 216
Other financial assets held for trading at fair value through profit or loss	142 336		142 336
Financial assets available for sale	11 471 847	624 948	12 096 795
Assets with repurchase agreement			
Hedging derivatives	234 345		234 345
Financial assets held to maturity	411 799	-4 001	407 798
Investments in associated companies	571 362	25 224	596 586
Non current assets held for sale	2 164 567	-465 544	1 699 023
Investment property	12 400	-8 053	4 347
Property and equipment	490 423	-155 722	334 701
Goodwill and intangible assets	164 406	-4 611	159 795
Current tax assets	25 914	-790	25 124
Deferred tax assets	3 137 767	-1 117	3 136 649
Other assets	1 052 024	88 247	1 140 271
TOTAL ASSETS	71 939 450	108 734	72 048 185
LIABILITIES			
Amounts owed to central banks	4 154 272		4 154 272
Amounts owed to others credit institutions	3 333 085	-1 095	3 331 991
Amounts owed to customers	51 187 817	200 420	51 388 237
Debt securities	3 007 791	14 795	3 022 586
Financial liabilities held for trading	399 101		399 101
Other financial liabilities held for trading at fair value through results			
Hedging derivatives	177 337		177 337
Non current liabilities held for sale			
Provisions for liabilities and charges	324 158	-58 879	265 280
Subordinated debt	1 169 062		1 169 062
Current income tax liabilities	12 568	1 504	14 072
Deferred income tax liabilities	6 030	-311	5 719
Other liabilities	988 493	-12 565	975 928
TOTAL LIABILITIES	64 759 715	143 870	64 903 584
SITUAÇÃO LÍQUIDA			
Share capital	5 600 738		5 600 738
Treasury stock	-293		-293
Share premium	16 471		16 471
Preference shares	59 910		59 910
Other capital instruments	2 922		2 922
Fair value reserves	82 090		82 090
Reserves and retained earnings	132 586		132 586
Net profit for the year attributable to Shareholders	186 391		186 391
TOTAL EQUITY	6 080 814		6 080 814
Minority interests	1 098 921	-35 135	1 063 786
TOTAL LIABILITIES, EQUITY AND MINORITY INTERESTS	71 939 450	108 734	72 048 185

The accounting values determined under the scope of regulatory consolidation are distributed according to the regulatory risk categories presented in Table 4:

TABLE 4 – TEMPLATE 1 / EU LI1 (II) – MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES**31/12/2018**

(Thousand euros)

	Carrying values under the scope of regulatory consolidation	Carrying values of items				Not subject to capital requirements or subject to deduction from capital
		Subject to credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	
ASSETS						
Cash and deposits at central banks	2 753 837	2 751 629	-	-	-	-
Repayable on demand to credit institutions	326 483	295 495	-	-	-	-
Other loans and advances to credit institutions	889 805	846 163	-	-	10 030	-
Loans and advances to customers	48 992 076	47 375 336	-	2 155 828	-	62 715
Securities and derivatives (*)	17 232 375	14 665 490	571 841	5 894	1 536 669	135 316
Non current assets held for sale	1 439 341	1 439 341	-	-	-	-
Investment property	4 349	4 349	-	-	-	-
Property and equipment	344 240	344 240	-	-	-	-
Intangible assets	169 622	-	-	-	-	169 622
Current tax assets	32 663	32 663	-	-	-	-
Deferred tax assets	2 913 345	2 255 598	-	-	-	657 746
Other assets	823 962	777 563	-	-	33 792	23 362
TOTAL ASSETS	75 922 098	70 787 866	571 841	2 161 722	1 580 490	1 048 762
LIABILITIES						
Amounts owed to credit institutions	7 751 642	-	-	-	38 621	-
Amounts owed to customers	52 737 327	-	-	-	-	-
Debt securities	1 700 687	-	44 654	-	926 767	-
Financial liabilities held for trading	327 008	-	-	-	-	-
Other financial liabilities held for trading at fair value through results	3 603 647	-	-	-	-	-
Hedging derivatives	177 900	-	-	-	-	-
Non current liabilities held for sale	-	-	-	-	-	-
Provisions for liabilities and charges	323 683	-	-	-	-	-
Subordinated debt	1 072 105	-	-	-	-	-
Current income tax liabilities	17 620	-	-	-	-	-
Deferred income tax liabilities	4 999	-	-	-	-	-
Other liabilities	1 293 964	-	-	-	-	-
TOTAL LIABILITIES	69 010 582	-	44 654	-	965 388	

(*) Includes derivatives that are simultaneously subject to market risk and counterparty credit risk.

31/12/2017

(Thousand euros)

	Carrying values under the scope of regulatory consolidation	Carrying values of items				Not subject to capital requirements or subject to deduction from capital
		Subject to credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	
ASSETS						
Cash and deposits at central banks	2 167 933	2 168 844	-	-	-	-
Repayable on demand to credit institutions	292 811	279 788	-	-	-	-
Other loans and advances to credit institutions	1 065 470	1 054 442	-	-	47 694	-
Loans and advances to customers	47 652 985	45 230 439	-	2 831 345	-	63 260
Securities and derivatives (*)	14 369 075	12 927 268	881 253	6 720	599 275	200 240
Non current assets held for sale	1 699 023	1 671 126	-	-	-	29 415
Investment property	4 347	4 347	-	-	-	-
Property and equipment	334 701	334 701	-	-	-	-
Intangible assets	159 795	-	-	-	-	159 795

Current tax assets	25 124	23 677	-	-	-	-
Deferred tax assets	3 136 649	2 290 824	-	-	-	845 825
Other assets	1 140 271	816 488	-	-	210 382	116 781
TOTAL ASSETS	72 048 185	66 801 945	881 253	2 838 065	857 351	1 415 315
LIABILITIES						
Amounts owed to credit institutions	7 486 263	-	-	-	507 599	-
Amounts owed to customers	51 388 237	-	-	-	129 735	-
Debt securities	3 022 586	-	64 658	-	1 038 208	-
Financial liabilities held for trading	399 101	-	-	-	-	-
Other financial liabilities held for trading at fair value through results	-	-	-	-	-	-
Hedging derivatives	177 337	-	-	-	-	-
Non current liabilities held for sale	-	-	-	-	-	-
Provisions for liabilities and charges	265 280	-	-	-	-	-
Subordinated debt	1 169 062	-	-	-	-	-
Current income tax liabilities	14 072	-	-	-	-	-
Deferred income tax liabilities	5 719	-	-	-	-	-
Other liabilities	975 928	-	-	-	-	-
TOTAL LIABILITIES	64 903 584	-	64 658	-	1 675 542	-

(*) Includes derivatives that are simultaneously subject to market risk and counterparty credit risk.

The exposures' amounts for regulatory purposes also reflect differences regarding the carrying values as reported in the published financial statements. Table 5 presents the most relevant sources of these differences.

TABLE 5 – TEMPLATE 2 / EU LI2 – MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

31/12/2018		(Thousand euros)			
		Total	Items subject to		
			Credit risk framework	CCR framework	Securitisation framework
1	Assets carrying value amount under the scope of regulatory consolidation ⁽¹⁾	73 521 430	70 787 866	571 841	2 161 722
2	Liabilities carrying value amount under the regulatory scope of consolidation	44 654	-	44 654	-
3	Total net amount under the regulatory scope of consolidation	73 476 776	70 787 866	527 187	2 161 722
4	Off-balance sheet amounts ⁽²⁾	12 923 541	4 446 664	0	274 549
5	Differences in valuations	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7	Differences due to the consideration of provisions ⁽³⁾	2 434 818	2 434 818	0	0
8	Differences due to prudential filters	-	-	-	-
9	Differences due to the consideration of CCF ⁽⁴⁾	(8 225 936)	0	0	0
10	Differences due to add-on and CRM	(425 151)	(492 339)	341 737	(274 549)
11	Other	49 096	25 488	-	-
12	Exposure amounts considered for regulatory purposes ⁽⁵⁾	80 233 144	77 202 497	868 925	2 161 722

31/12/2017		(Thousand euros)			
		Total	Items subject to		
			Credit risk framework	CCR framework	Securitisation framework
1	Assets carrying value amount under the scope of regulatory consolidation ⁽¹⁾	70 521 262	66 801 945	881 253	2 838 065
2	Liabilities carrying value amount under the regulatory scope of consolidation	64 658	-	64 658	-
3	Total net amount under the regulatory scope of consolidation	70 456 604	66 801 945	816 595	2 838 065
4	Off-balance sheet amounts ⁽²⁾	12 784 904	4 172 985	-	283 872
5	Differences in valuations	-	-	-	-

6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7	Differences due to the consideration of provisions ⁽³⁾	2 985 402	2 985 402	-	-
8	Differences due to prudential filters	-	-	-	-
9	Differences due to the consideration of CCF ⁽⁴⁾	(8 404 807)	-	-	-
10	Differences due to add-on and CRM	(469 075)	(332 567)	147 364	(283 872)
11	Other	35 799	(40 760)	(200)	-
12	Exposure amounts considered for regulatory purposes ⁽⁵⁾	77 388 827	73 587 005	963 758	2 838 065

(1) The total of line 1 does not match the total assets of Table 4 since it does not consider neither the assets subject to market risk nor the assets that are subject to own funds' deduction;

(2) The total of line 4 does not match the sum of the parts because, according to the filling rules, this total refers to the original exposure net of provisions and the parts contain the exposure value after the application of CCF.

(3) Provisions related to on-balance sheet exposures on the IRB method since these are included in the respective EAD.

(4) Value that is only present in the "Total", as mentioned in note (2).

(5) EAD reported in each of the frameworks.

2. RISK MANAGEMENT IN THE GROUP

2.1. RISK MANAGEMENT PRINCIPLES

The Group is subject to several different risks related with the development of its activities. The risk management of the Group's several companies complies with the control and report principles, methodologies and procedures which are defined in a centralised manner, in coordination with the respective local departments and taking into consideration the specific risks of each business.

The Group's risk management policy aims at the identification, assessment, follow-up and control of all material risks that the institution faces, both internally and externally, so as to ensure that the same are kept in levels that match the risk tolerance pre-defined by the management body.

Thus, it is particularly relevant to monitor and control the major types of risk – particularly the credit, market, operational and liquidity risks and the risks related with the pension fund – inherent to the Group's activities. These can be defined as follows:

- Credit risk – credit risk reflects the potential losses and the degree of uncertainty regarding the future returns to be generated by the loan portfolio, due to the inability of borrowers (and of their guarantors, if any), issuers of securities or counterparties to agreements, to fulfil their obligations.
- Market risk – market risk consists 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 either the correlations that exist between those instruments or its volatility.
- Operational risk – operational risk consists in the occurrence of losses as a result of failures and/or inadequacies of internal processes, people or systems or due to external events.
- Liquidity risk – liquidity risk reflects the Group's potential inability to meet its obligations at maturity without incurring significant losses, resulting from a deterioration in funding conditions (funding risk) and/or from the sale of its assets below market values (market liquidity risk).
- Defined benefit pension fund risk – pension fund risk stems from the potential devaluation of the Bank's Defined Benefit Pension Fund, or from the decrease of its expected returns, implying the undertaking of unplanned contributions.

Credit, market and operational risks were object of own funds requirements calculation within the scope of the regulatory information on capital adequacy of Basel's Pillar I, while liquidity risk is quantified through the ratios defined by the CRR/CRD IV. All of these risks and the Pension Fund risk are addressed within the scope of the stress testing of the ICAAP or ILAAP.

The following highlights should be made, concerning the developments and actions in prudential activities/risk management in 2018:

- 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;
- Coordination of ICAAP and ILAAP, with the execution of the risks' identification process and respective taxonomy update.

2.2. RISK MANAGEMENT GOVERNANCE

In the area of risk management, Millennium bcp's Board of Directors (BoD) - composed of non-executive and executive directors, the latter comprising the Executive Committee (EC) of the Board of Directors - is the body responsible for defining the risk policy, the scope of which including the approval of the high level principles and rules to be followed in risk management. The EC is responsible for conducting such policy and for the executive decision on risk management's measures and actions.

The Risk Assessment Committee, which stems from the Board of Directors and is composed of non-executive Directors, has the responsibility to advise the BoD on matters related to the definition of the risk strategy, capital and liquidity management and risks management.

The Audit Committee, which also stems from the Board of Directors and is composed of non-executive Directors and a Statutory Auditor, is responsible for overseeing management, ensuring, *inter alia*, the appropriate functioning of risk management and control systems, as well as the existence and enforcement of adequate compliance and auditing policies, at the level of the Group and of each entity.

The Risk Commission (RC) stems from the Executive Committee and has the responsibility to monitor, at an executive level, the overall levels of credit, market, liquidity and operational risk, ensuring that they are compatible with the objectives, financial resources available and approved strategies for the development of the Group's activity, with a view to support management decision-making and to promote the best articulation of the daily management decisions within the organization. The RC also oversees the Model Monitoring and Validation Subcommittee.

Besides the RC, the Bank also has several other specialised Committees involved in the Governance of the Risk

Management System: the Compliance and Operational Risks Commission¹, the NPA Monitoring Commission and the Pension Funds Risk Monitoring Commission. Also linked to risk control, the Commission for Data Security, Quality and Protection also stems from the EC.

The Risk Office gives support to the Risk Commission, informing this body on the general level of risk and proposing measures to improve its respective control, implementing the approved limits. The responsible for the Risk Office also has the power to veto any decision that is not subject to the approval of the Board of Directors or of the Executive Committee and that may have an impact on the Group's risk level.

The Compliance Office watches over the compliance, by all Group Institutions, with the legal and regulatory rules, external and internal, that frame their activity, in order to contribute to the mitigation of the risk of sanctions imposed on to those entities.

The Risk Officer and the Compliance Officer of Banco Comercial Português hierarchically to the Bank's Board of Directors and its Executive Committee, also reporting, in functional terms, to the Risk Assessment Committee and the Audit Committee (respectively).

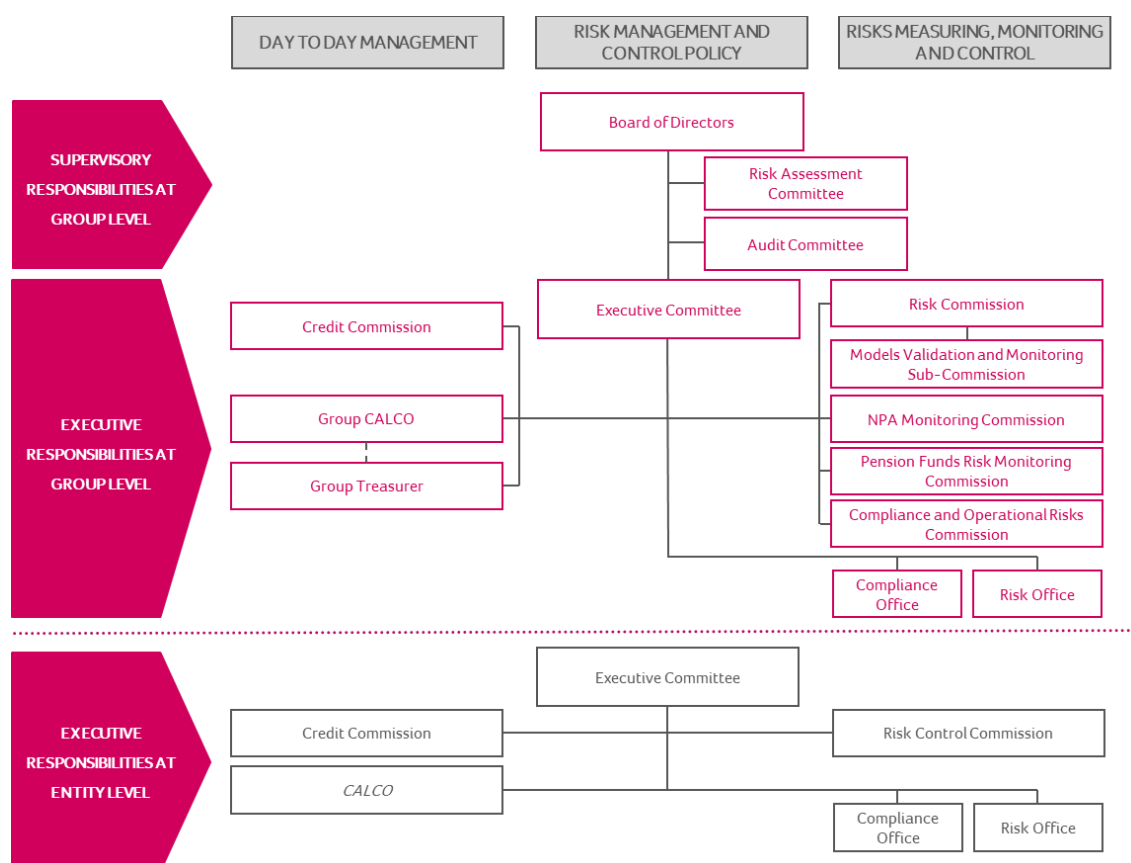
All entities included in the Bank's consolidation perimeter guide their activities by the principles and guidelines centrally established by the Risk Commission and the main subsidiaries abroad have local Risk Office structures sized in accordance with the risks inherent to their respective activities. Those subsidiary companies also have a Risk Control Commission responsible for controlling risk locally, in which the BCP's Risk officer participates.

By delegation of the Board of Directors, the Group CALCO (Capital, Assets and Liabilities Management Committee) is the responsible for the management of the overall capital of the Group, the management of assets and liabilities and the definition of the liquidity management strategies at the consolidated level. The Group CALCO is responsible for the structural management of market and liquidity risks, including the monitoring of the liquidity plan execution, for the definition of transfer prices and of capital allocation rules, for the management of the Investment Portfolio and for the decisions regarding the coverage of specific positions (and respective monitoring).

The Bank also has a Nominations and Remunerations Committee and a Board for International Strategy.

The next diagram illustrates the risk management governance framework, including most of the above referred bodies, as well as the Credit Commission - responsible for the assessment and decision on credit granting applications from the Bank's Clients.

¹ This Commission resulted from the merger, at the beginning of the second quarter of 2019, of the previous Compliance Commission with the Operational Risk and Internal Control Commission.



2.3. RISK ASSESSMENT

2.3.1. CREDIT RISK

The granting of credit is based on the prior classification of the Customers' risk and on the strict assessment of the protection level provided by underlying collaterals. For that purpose, a single system of risk classification is used, the Rating Master Scale, based on the expected Probability of Default (PD), enabling a greater capacity to evaluate and classify the Customers and grade the associated risk.

The Rating Master Scale also enables the Bank to identify Customers that show signs of degradation in their capacity to service their debts and, in particular, those who are classified, within the prudential scope, as being in default. All the rating models and systems used in the Group have been duly calibrated for the Rating Master Scale. The Group also uses an internal scale of "protection levels" as an instrument aimed at assessing the collateral efficiency in the mitigation of the credit risk, promoting a more active credit collateralisation and a better adequacy of the pricing to the incurred risk.

Aiming at the best possible adequacy of credit risk assessment, the Group has defined a series of client macro-segments and segments which are treated under different rating systems and models and support the links between internal ratings (risk grades) and the Customers' PD, ensuring that the risk assessment takes into account the specific characteristics of the Customers, in terms of their respective risk profiles.

The assessments made by the rating systems and models referred above are translated into the risk grades of the transversal Master Scale, with fifteen levels, of which the last three correspond to situations of relevant deterioration in Customer creditworthiness, called "procedural risk grades". Non-procedural risk grades are attributed by rating systems models with automatic decision or by the Rating Department and are revised/updated periodically or whenever justified by events.

The internal estimates of Loss Given Default (LGD) and Credit Conversion Factors (CCF) are supported by internal approaches validated by the Supervisor within the scope of the approval of the IRB-based approaches. The LGD estimations are produced by resorting to a model that collects and analyses the history of losses due to credit risk and discounts all the cash flows inherent to the respective recovery processes while the CCF own estimations result from the analysis made to data on the use of credit lines and limits or from the execution of the collateral provided for a time horizon of one year before the occurrence of the defaults. The CCF own estimations (or the regulatory values for these

factors) apply to all off-balance sheet exposures.

The stage of development of the processes and systems allocated by the Group to credit risk management and control enabled the approval, by the Supervision, of the Group's application for the use of the IRB approach for the calculation of the regulatory capital requirements for this type of risk and for the main risk classes, with effect as of 31 December 2010 for the Group's activities in Portugal, which was followed by the joint authorisation given by the Polish and Portuguese supervision authorities for the sequential adoption of that approach for Bank Millennium (Poland), effective as at 31 December 2012. Effective from 31 December 2013, the Supervisor has approved, for the Group activities in Portugal, the use of own LGD estimates for the Corporates risk class (IRB Advanced), as well as internal rating models with own LGD estimates for the real estate promotion Clients.

The Group follows a policy of permanent monitoring of its credit risk management processes, promoting their fine-tuning and every appropriate change aiming to reinforce the quality and effectiveness of those processes.

2.3.2. MARKET RISKS

For the 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.
- The Trading Book portfolio is composed by positions held with the aim of obtaining short-term gains, through sale or revaluation. These positions are actively managed, traded without restrictions and can be precisely and frequently evaluated. The positions in question include securities and derivatives relative to the Treasury sales' activities. The Banking Book portfolio includes all the other positions, namely: the wholesale funding, the securities held for investment, the commercial activity and the structural activity.

In order to ensure that the risks incurred in the portfolios of the Group are in accordance with the Group's risk tolerance levels, several limits are defined for market risks (reviewed at least once a year) and are applied to all portfolios that, in accordance with the management model, might incur these risks.

The definition of these limits is based on the market risk metrics used by the Group in its control and monitoring, which are followed by the Risk Office on a daily basis (or intra-daily, in the case of the financial markets areas - Trading and Funding).

In addition to these risk limits, stop loss limits are also defined for the financial markets areas, based on multiples of the previously defined risk limits, aiming at limiting the maximum losses which might occur within each of the areas. When these limits are reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

The Group uses an integrated market risk measure that allows the monitoring of all the relevant sub-types of risk considered. This measure covers the evaluation of the following types of risk: generic risk, specific risk, non-linear risk and commodities' risk. The measurement used on the assessment of the generic market risk - relative to interest rate risk, exchange rate risk, equity risk and price risk of Credit Default Swaps uses a VaR (Value at Risk) model, where the calculation considers a time horizon of ten business days and a significance level of 99%.

A model is also used to assess the specific risk existing due to the ownership of securities (bonds, shares, certificates, etc.) and of derivatives which performance is directly related with the securities' value. With the necessary adjustments, this model follows the standard methodology defined in the CRD IV/CRR.

Other complementary methods are also applied to the remaining risk types, namely a non-linear risk measure that incorporates the option risk not covered by the VaR model, with a confidence interval of 99%, and a standardised approach for the commodities risk. These measures are integrated in the market risk indicator, with the conservative

assumption of perfect correlation between the several risk types (worst-case scenario).

The amounts of capital at risk are thus determined, both on an individual basis, for each of the portfolio positions of the taking and managing risk areas, and in consolidated terms, considering the effects of diversification of the various portfolios.

In order to ensure that the internal VaR model is adequate to assess the risks involved in the positions held, there is a process of backtesting, carried out daily through which the VaR indicators are confronted with those that really occurred. This backtesting is made in a hypothetical manner (using the static portfolio for the estimation of the VaR and the market variations occurred in the meantime) and in a real manner (using the real result of the portfolio, writing off the intermediation results).

The interest rate risk derived from the operations of the Banking Book is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated Balance Sheet.

This analysis considers the financial characteristics of the contracts available at the Group management information systems. Based on these data, the respective projection of expected cash flows is carried out, according with the repricing dates and any prepayment assumptions considered.

The aggregation, for each of the currencies assessed, of the expected cash flows for each of the periods of time, allows the determination of the interest rate gaps by repricing period.

The sensitivity of each currency to the interest rate risk is determined by the difference between the present value of the interest rate mismatch, discounted at market interest rates, and the present value of the same cash flows arising from the simulation of parallel and non-parallel shifts of the yield curves.

Complementing the previous approach, the Bank monthly calculates 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 on interest cash flows is performed based on the repricing and amortisation 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 amortisation, an exposure with the same maturity and price features is generated.

The Group performs hedging operations with the market on a regular basis, aimed at reducing the interest rate mismatch of risk positions associated to the portfolio of the Commercial and Structural areas.

In the context of market risk management, in 2018, the Group continued its efforts to continually improve the market risk management framework, leading to the reinforcement of the control mechanisms of the assumptions of the internal model used (VaR - Value at risk), to the update of Risk Appetite for market risks, namely, in what concerns the revision of the limits established for the different areas, and to the revision and formalisation of internal manuals that accordingly define the operationalisation of market risks' control.

Among its main responsibilities, the Risk Office's Market Risks Area is responsible for:

- Proposing and implementing market risks' management policies and methodologies for their identification, measurement, limitation, monitoring, mitigation and reporting;
- Participating in the structural management of market risks, particularly in the planning process;
- Measuring, monitoring and reporting risk positions and the results of stress tests exercises, as well as the compliance with the established internal limits;
- Modelling the market risks' management system and ensuring its reviews;
- Reporting to the Executive Committee any excess over limits, as well as verifying the compliance with the required ratification and approval processes;
- Verifying the operating implementation, within the front-office platform, of the market risks' management system;
- Analysing new products prior to their launching; and
- Coordinating with the relevant Group entities the definition of the negotiation strategies, validating their compliance with the defined policy and limits.

On the other hand, the Market Risks Area acts independently – both organically and functionally – from all market risks taker, which ensures the autonomy of its management functions, oriented towards a risk profile in accordance with the Group's strategic goals.

2.3.3. OPERATIONAL RISK

For the management and control of operational risk, the Group has increasingly adopted a set of clearly defined principles, practices and control mechanisms that are documented and implemented, of which the following are examples: segregation of functions; definition of lines of responsibility and corresponding authorisations; definition of limits of tolerance and of exposure to risk; codes of ethics and conduct; implementation of KRI (Key Risk Indicators)²; access controls, physical and logical; reconciliation activities; exception reports; new products' structured approval process; contingency plans; insurance policies (for the total or partial risks transfer); and internal training on processes, products and systems.

Hence, aiming at an increasingly higher efficiency in the identification, assessment, control and mitigation of risk exposures, the Group has been strengthening its operational risk management framework, which encompasses the main operations abroad, benefiting from the adoption of a common supporting IT application in all the subsidiaries and the monitoring performed by the Group Risk Office.

Operational risk management is based on an end-to-end process structure, defined for all the subsidiaries of the Group, providing a broader perception of the risks and of the measures implemented so as to mitigate them and result in an integrated vision of the activities undertaken along the value chain of each process.

The group of processes defined for each entity is dynamic, adjusted and differentiated according to changes in the operational practices and business of each entity, so as to cover all the relevant activities developed. The processes review is ensured by dedicated organisational units.

The responsibility for the management of the processes is attributed to process owners, whose mission is to: characterise the operational losses captured in the context of their processes; perform the risks self-assessment (RSA); identify and implement the appropriate measures to mitigate risk exposures, contributing to strengthen the internal control environment; and monitor the KRI.

The objective of the risks self-assessment (RSA) is to promote the identification and mitigation (or even elimination) of risks, actual or potential, within each process. Each risk is classified according to its positioning on a tolerance matrix, for three different scenarios, which allows for the: determination of the risk of the process without considering the existent contracts (Inherent Risk); assessment of the risks exposure of the different processes, considering the influence of existing controls (Residual Risk); and identification of the impact of the improvement opportunities in the 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 on questionnaires sent to the process owners for the updating of previous results, according to pre-defined updating criteria.

The process owners play a relevant role in promoting the data collection on losses occurring within the context of their processes, which are identified through the systematic monitoring of their activities, through notifications of any employee or through communications from organisational units, following costs authorizations concerning operational flaws. The Risk Office ensures the completeness of the database, notifying process owners about events that are not yet registered in the database by using information made available by other areas, such as accounting, complaints and insurance.

The main objective of data collection on operational loss events is to strengthen awareness of this type of risk and provide relevant information to the process owners, to be incorporated in the management of their processes, and to provide support for backtesting the results of the RSA.

The identified operational losses are related to each process and recorded in the Group's operational risk management IT application, being characterised by their respective process owners and process managers.

The full characterisation of an operational loss includes, in addition to the description of the respective cause-effect, its valuation and, when applicable, a description of the identified mitigation action (based on the analysis of the cause of loss) which was or will be implemented.

The consolidation of the loss data capture process at the different subsidiaries of the Group is evidenced by the evolution of its respective records in the database. Uniformity of criteria in data capture is ensured by the Group Risk Office, which analyses loss events data and promotes the circulation of information on the mitigation of events throughout all the geographical areas in which the Group operates. Furthermore, processes aimed at the reconciliation of the recorded information on losses with accounting data are run.

² The monitoring of the KRI metrics enables the identification of changes in the risk profile or in the efficiency of the controls, providing the detection of opportunities for the launching of corrective actions to prevent effective losses. This management tool is used for all processes of the main Group geographies.

In 2017, the usual operational risk management activities continued to be carried out by the various intervenient involved in the management of this risk, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as their respective internal reporting (to the management bodies) or within the regulatory domain. Due to their relevance for operational risk management, it is important to highlight the launching of initiatives aimed at strengthening the mechanisms for a more efficient control of outsourcing risk, namely, the issuance of an internal regulation and the definition of performance and risk indicators for the monitoring of the outsourcers service levels within the scope of processes.

2.3.4. LIQUIDITY RISK

Liquidity risk is the potential inability 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 liquidity risk assessment is based on the regulatory framework, as well as on other internal indicators for which exposure limits have also been defined.

The evolution of the Group's liquidity situations for short-term horizons (up to three months) is carried out daily on the basis of two internally defined indicators - the immediate liquidity and the quarterly liquidity. These indicators measure the maximum fund-taking requirements that might occur in one day, considering the cash flow projections for the periods of, respectively, three days and three months.

These operational liquidity indicators are calculated by adding to the liquidity position registered on the assessment date the future cash flows estimated for each one of the days of the respective timeframe (three days or three months) for the group of operations intermediated by the market areas, including the operations made with Customers from the Corporate and Private networks that given their dimension are mandatorily listed by the Trading Room. To the value thus estimated one adds the amount of assets considered highly liquid that are in the Bank's securities portfolio, determining the accumulated liquidity gap in each one of the days of the timeframe under analysis.

Regarding the evolution of the Group's structural liquidity, a number of indicators are included - such as the Loans-to-Deposits Ratio, the LCR (Liquidity Coverage Ratio) and the NSFR (Net Stable Funding Ratio) - as well as the available collateral eligible for discount at central banks. These indicators are regularly monitored and reported to the Bank's management bodies. Some of the liquidity indicators structure are metrics integrated in the Group's Risk Appetite Statement.

Liquidity risk management also includes the preparation of an annual liquidity plan defining the desired financing structure for the expected evolution of the Group's assets and liabilities, including a set of initiatives and an actions plan to achieve the financing structure at both Group level and for the major subsidiaries and currencies. This plan is an integral part of the Group's planning process and is approved simultaneously with final budget approval.

At the same time, the Bank regularly monitors the evolution of the Group's liquidity position, with the identification of all factors that may justify the variations occurred. This analysis is submitted to the appraisal of the CALCO, aiming at making decisions that enable to maintain financing conditions suitable for the development of the activity. The control of the exposure to liquidity risk pertains to the Risk Commission.

2.3.5. DEFINED BENEFIT PENSION FUND RISK

The defined benefit pension fund risk stems from the potential devaluation of the Bank's Defined Benefit Pension Fund, or from the decrease of its expected returns as well as from changes on the actuarial factors used on the fund projections, implying the necessity of unplanned contributions. The Pension Funds Risk Monitoring Commission is responsible for the regular monitoring and follow-up of this risk.

3. CAPITAL ADEQUACY

3.1. REGULATORY FRAMEWORK

On 26 June 2013, the European Parliament and the Council approved the Directive 2013/36/EU and the Regulation (EU) no. 575/2013 (Capital Requirements Directive IV / Capital Requirements Regulation – CRD IV/CRR), which established new and stricter capital requirements to credit institutions, with effects from 1 January 2014.

These stricter requirements result from a narrower definition of own funds and risk weighted assets, together with the establishment of minimum ratios, including a capital conservation buffer and additional Pillar 2 requirements.

Additionally, supervisory authorities may impose a capital buffer to systemically important institutions given their dimension, importance to the economy, business complexity or degree of interconnection with other institutions of the financial sector and, in the event of insolvency, the potential contagion of these institutions to the rest of the non-financial and financial sectors. The Group has been considered an O-SII (other systemically important institution) and is obliged to comply with an additional buffer.

It is also predicted a countercyclical buffer, which aims to ensure that the banking sector has enough capital to absorb the losses generated in macroeconomic downturn conjectures, especially after periods of excess credit expansion, and to moderate these movements, given that this buffer depends on a discretionary decision of the competent authorities, based on their assessment regarding the underlying risks of the evolution of credit aggregates. This buffer may vary between zero and 2.5% for each institution and the need to achieve the defined goals may also impose restrictions in terms of distributions that go against an adequate capital conservation level. Pursuant to a decision of the Board of Directors of 28 September 2018, Banco de Portugal, in the exercise of its powers as national macroprudential authority, decided that the countercyclical buffer rate to be in force in the fourth quarter of 2018 would remain unchanged at 0% of the total risk exposure amount.

The CRD IV/CRR also predicts the possibility of institutions to gradually accommodate the new requirements, both in terms of own funds and compliance with minimum capital ratios, over determined maximum transition periods.

In the scope of the Supervisory Review and Evaluation Process, the minimum Own Funds requirements for 2018 were as follows:

TABLE 6 – MINIMUM CAPITAL REQUIREMENTS FROM SREP

	Minimum required Pillar 1	Additional requirements Pillar 2	Capital conservation buffer	O-SII capital buffer	Countercyclical capital buffer	Total
CET1	4,5%	2,25%	1,875%	0,188%	0%	8,813%
T1	6,0%	2,25%	1,875%	0,188%	0%	10,313%
Total	8,0%	2,25%	1,875%	0,188%	0%	12,313%

The consolidated capital ratios, as of 31 December 2017 and 2018, were calculated applying methodologies based on Internal Rating Based models (IRB) for the calculation of capital requirements for credit and counterparty risks, covering a substantial part of both its retail portfolio in Portugal and Poland, and its corporate portfolio in Portugal. The advanced method (internal model) was used for the coverage of trading portfolio's general market risk and for exchange rate risks generated in exposures in the perimeter centrally managed from Portugal, and the standard method was used for the purposes of operating risk coverage. The capital requirements of the other portfolios/geographies were calculated using the standardised approach.

3.2. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER 2018 AND 2017

Own funds, calculated according to the applicable regulatory norms, include tier 1 and tier 2. Tier 1 comprises Own funds, calculated according to the applicable regulatory norms, include tier 1 and tier 2. Tier 1 comprises common equity tier 1 (CET1) and additional tier 1 (AT1).

Common equity tier 1 includes: (i) paid-up capital, share premium, reserves and retained earnings (excluding the unaudited 2018 second quarter positive net income) and non-controlling interests; ii) and deductions related to own shares and loans given to finance the acquisition of Bank's shares, the shortfall of value adjustments and provisions to

expected losses concerning exposures whose capital requirements for credit risk are calculated under the IRB approach and goodwill and other intangible assets. Reserves and retained earnings are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, to the extent related to own credit risk. The minority interests are only eligible up to the amount of the capital requirements attributable to the minorities. In addition, the deferred tax assets arising from unused tax losses are deducted, as well as the deferred tax assets arising from temporary differences relying on the future profitability and the interests held in financial institutions and insurers of at least 10%, in this case only in the amount that exceeds the thresholds of 10% and 15% of the common equity tier 1, when analysed on an individual and aggregated basis, respectively. The additional value adjustments necessary for the prudent valuation requirements applied to all assets at fair value as well as the irrevocable payment commitments for the Deposits Guarantee Fund and the Single Resolution Fund, are also deducted.

Additional tier 1 comprises preference shares and other hybrid instruments that are compliant with CRR requirements and the minority interests related to minimum additional capital requirements of institutions that are not totally owned by the Group.

Tier 2 includes the subordinated debt that is compliant with the CRR requirements and the minority interests related to minimum total capital requirements of institutions that are not totally owned by the Group. Tier 2 instruments held in financial institutions and insurers of at least 10% are deducted.

The legislation in force stipulates a transitional period between the own funds calculated under national law until 31 December 2013, and the own funds estimated according to the EU law, to exclude some elements previously considered (phase-out) and to include new elements (phase-in). The transitional period for most of the elements lasted until the end of 2017, except for the deferred tax assets already recorded on the balance sheet of 1 January 2014, and the subordinated debt and all the hybrid instruments not eligible to the own funds, that have a longer period (until the end of 2023 and 2021, respectively).

By decision of the General Meeting of Shareholders the Bank decided to join the special regime applicable to the deferred tax assets.

The Bank has no restrictions applied to the own funds calculations, on the scope of the CRR article 437 e).

The main aggregates of the consolidated own funds and own funds requirements, as of 31 December 2018 and 2017 as well as the respective capital ratios are shown in Table 7:

TABLE 7 - CAPITAL RATIO AND SUMMARY OF THE MAIN AGGREGATES

(Thousand euros)				
	<i>Fully implemented</i>		<i>Phased-in</i>	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
OWN FUNDS				
Tier I	5 028 574	4 809 355	5 047 969	5 319 273
of which: Common Equity Tier I	4 949 684	4 737 990	4 974 060	5 319 273
Tier II	563 883	647 694	570 652	612 577
Total capital	5 592 457	5 457 049	5 618 621	5 931 851
RWA				
Credit risk and counterparty credit risk	36 882 826	34 994 647	36 946 914	35 366 357
Market risk	1 125 845	991 992	1 125 845	991 992
Operational risk	3 631 244	3 574 097	3 631 244	3 574 097
Credit Valuation Adjustments (CVA)	151 302	238 668	151 302	238 668
Total	41 791 217	39 799 403	41 855 305	40 171 113
CAPITAL RATIOS				
Common Equity Tier I	11,8%	11,9%	11,9%	13,2%
Tier I	12,0%	12,1%	12,1%	13,2%
Total capital	13,4%	13,7%	13,4%	14,8%

Note: The amounts and values presented at the 2018 Annual Report are different from those presented in this table, since the 2018 net profits were included in the case of the Annual Report.

The phased-in CET1 ratio, calculated according to our interpretation of the CRD IV/CRR and the current applicable prudential regulatory framework, stood at 11.9% as at 31 December 2018 and at 11.6% as at 31 December 2017, both above the respective minimum required thresholds.

The performance of the CET1 phased-in ratio in 2018 mainly reflects the following impacts:

- The phase-in progression along with the 2018 SREP, determined reductions of CET1 by € 694 million and RWA by € 439 million as at 1 January 2018 (- 160 bps in CET1 phased-in ratio);
- The IFRS9 adoption decreased the CET1 by € 101 million and RWA by € 20 million (- 25 bps in CET1 phased-in ratio);

ratio);

- The organic generation of capital, based on the positive net income in the first half 2018, as well as on the fair value reserves' favourable evolution, also contributed to the positive performance of capital ratios on this period.

The amounts presented on the 2018 Annual Report differ from the ones obtained on this report due to the positive net income inclusion on the 2018 Annual Report amounts.

The following table presents the full reconciliation of own funds items to audited financial statements as at 31 December 2018 and 31 December 2017, according to the Commission Implementing Regulation (EU) No 1423/2013:

TABLE 8 - RECONCILIATION BETWEEN ACCOUNTING AND REGULATORY CAPITAL

(Thousand euros)		
	31 Dec. 18	31 Dec. 17
1 Share capital	4 725 000	5 600 738
2 Own shares	-74	-291
3 Share premium	16 471	16 471
4 Preference shares		59 910
5 Other capital instruments	2 922	2 922
6 Reserves and retained earnings	735 089	-27 969
7 Net income for the period attributable to Shareholders	301 065	150 644
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	5 780 472	5 802 424
8 Non-controlling interests (minority interests)	1 131 043	1 048 593
TOTAL EQUITY	6 911 516	6 851 017
9 Own shares of CET1 not eligible instruments	-3 915	-3 989
10 Preference shares not eligible for CET1		-59 910
11 Other capital instruments not eligible for CET1	-2 922	-2 922
12 Subordinated debt fully subscribed by the Portuguese State eligible for CET1	-150 422	
13 Non-controlling interests not eligible for CET1	-579 768	-575 795
14 Other regulatory adjustments	-1 200 428	-1 313 010
COMMON EQUITY TIER 1 (CET1)	4 974 060	4 895 392
15 Subordinated debt	1 169	2 045
16 CET1 transferred adjustments	72 740	70 441
17 T2 transferred adjustments		
18 Other Adjustments		
Of which: Intangible assets		
Of which: Shortfall of impairment to expected loss		
Of which: Residual amounts of CET1 instruments of financial entities in which the institution has a significant investment		
Of which: Other		
TIER 1 (T1)	5 047 969	4 967 878
19 Subordinated debt	477 675	526 549
20 Non-controlling interests eligible for T2	151 777	145 458
21 Preference shares eligible for T2		
22 Adjustments with impact in T2, including national filters	-58 800	-58 800
23 Adjustments that are transferred for T1 for insufficient T2 instruments		
TIER 2 (T2)	570 652	613 206
OWN FUNDS	5 618 621	5 581 084

Table 9 shows BCP Group risk weighted assets as at 31/12/2018, 30/09/2018 and 31/12/2017.

TABLE 9 – TEMPLATE 4 / EU OV1 - OVERVIEW OF THE RISK WEIGHTED ASSETS (RWA)

(Thousand euros)						
	RWA			Minimum capital requirements		
	31 Dec 18	30 Sep 18	31 Dec 17	31 Dec 18	30 Sep 18	31 Dec 17
CREDIT RISK (EXCLUDING CCR)	34 400 279	34 207 539	32 317 879	2 752 022	2 736 603	2 585 430
of which:						
Standardised Approach	10 299 053	9 884 086	9 020 139	823 924	790 727	721 611
Foundation IRB (FIRB) Approach						

Advanced IRB (AIRB) Approach	24 101 226	24 323 453	23 297 740	1 928 098	1 945 876	1 863 819
Equity under the Simple Risk-weighted Approach						
CCR	588 938	620 368	758 354	47 115	49 629	60 668
of which:						
Mark to Market	437 636	447 320	519 686	35 011	35 786	41 575
Original exposure						
Standardised Approach						
Internal Model Method (IMM)						
Risk exposure amount for contributions to the default fund of a CCP						
CVA	151 302	173 048	238 668	12 104	13 844	19 093
SETTLEMENT RISK						
SECURITISATION EXPOSURES IN THE BANKING BOOK (AFTER THE CAP)	284 073	299 037	350 669	22 726	23 923	28 054
of which:						
IRB Approach	1 946	3 551	3 781	156	284	303
IRB Supervisory Formula Approach (SFA)	282 127	295 487	346 888	22 570	23 639	27 751
Internal Assessment Approach (IAA)						
Standardised Approach						
MARKET RISK	1 125 845	1 675 978	991 992	90 068	134 078	79 359
of which:						
Standardised Approach	485 130	970 193	358 219	38 810	77 615	28 658
IMA	640 715	705 785	633 773	51 257	56 463	50 702
LARGE EXPOSURES						
OPERATIONAL RISK	3 631 244	3 574 097	3 574 097	290 500	285 928	285 928
of which:						
Basic Indicator Approach						
Standardised Approach	3 631 244	3 574 097	3 574 097	1 929 735	285 928	285 928
Advanced Measurement Approach						
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (subject to 250% risk weight)	1 824 927	1 764 874	2 178 123	145 994	141 190	174 250
Floor Adjustment						
TOTAL	41 855 305	42 141 892	40 171 113	3 348 424	3 371 351	3 213 689

The Group is no longer qualified as a financial conglomerate; therefore the capital requirements were not assessed.

3.3. LEVERAGE RATIO ON 31 DECEMBER 2018

The calculation of the regulatory leverage ratio is specified in article 429 of the CRR, modified by the Delegated Act no. 62/2015 of 10 October 2014.

The leverage ratio is defined as the proportion of tier 1 capital (either in a phased-in or fully implemented mode) divided by the exposure measure, i.e. balance sheet and off-balance-sheet assets after certain value adjustments, related namely to intra-group exposures, to securities financing transactions (SFT's), to items deducted from the total capital ratio's numerator and off-balance-sheet items, to account for different risk profiles of each type of exposure (in SFT's and derivatives add-ons for future risks are considered while in off-balance sheet items different CCFs are considered according to the risk of the exposure).

The following table shows the Group's leverage ratio, on a phased-in basis, as of 31 December 2018 and 2017:

TABLE 10 – LEVERAGE RATIO ON 31 DECEMBER 2018

		(Thousand euros)	
Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amount	
		31/12/2018	31/12/2017
1	Total assets as per published financial statements	75 933 421	71 939 450
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-921	108 734
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013	0	0
4	Adjustments for derivative financial instruments	889 684	452
5	Adjustment for securities financing transactions (SFTs)	68 274	0

6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5 151 577	3 571 601
UE-6a	Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013	0	0
UE-6b	Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013	0	0
7	Other adjustments	-1 487 078	-1 169 298
8	Leverage ratio total exposure measure	80 554 958	74 450 939

(Thousand euros)

Leverage ratio common disclosure		CRR Leverage Ratio exposures	
		31/12/2018	31/12/2017
On-Balance Sheet Exposures (Excluding Derivatives, SFT and Fiduciary Assets)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	76 019 568	71 058 193
2	Asset amounts deducted in determining Tier 1 capital	-974 059	-1 067 728
3	Total of on-balance exposures (excluding derivatives, SFT and fiduciary assets) = sum of lines 1 and 2	75 045 509	69 990 464
Derivatives' exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	455 102	646 575
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	158 161	446 058
UE-5a	Exposure determined under the Original Exposure Method	0	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	-152 810	-211 530
8	Exempted CCP leg of client-cleared trade exposures	-225 515	-253 508
9	Adjusted effective notional amount of written credit derivatives	64 681	261 278
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	0	0
11	Total of derivatives exposures = sum of lines 4 to 10	299 620	888 874
SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	58 252	0
13	Netted amounts of cash payables and cash receivables of gross SFT assets	0	0
14	Counterparty credit risk exposure for SFT assets	0	0
UE-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0	0
15	Agent transaction exposures	0	0
UE-15a	Exempted CCP leg of client-cleared SFT exposure	0	0
16	Total of SFT exposures = sum of lines 12 to 15a	58 252	0
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	19 745 165	12 126 739
18	Adjustments for conversion to credit equivalent amounts	-14 593 588	-8 555 138
19	Total of other off-balance sheet exposures = sum of lines 17 and 18	5 151 577	3 571 601
Exempted exposures in accordance with article 429 (7) and (14) of regulation (EU) no 575/2013 (on and off balance sheet)			
UE-19a	Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	0	0
UE-19b	Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	0	0
Own funds and total exposure measure			
20	Tier 1 capital	5 047 969	5 319 273
21	Leverage ratio total exposure measure	80 554 958	74 450 939
Leverage ratio			
22	Leverage ratio	6,3%	7,1%
Choice on transitional arrangements and amount of derecognised fiduciary items			
UE-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
UE-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0	0

(Thousand euros)

Breakdown of on-balance sheet exposures (excluding derivatives, SFT and exempted exposures)		CRR Leverage Ratio exposures	
		31/12/2018	31/12/2017
UE-1	Total on-balance sheet exposures (excluding derivatives, SFT, and exempted exposures), of which:	76 019 568	62 693 676
UE-2	Trading Book exposures	1 011 920	2 041 213
UE-3	Banking Book exposures, of which:	77 031 487	64 734 889
UE-4	Covered bonds	0	0
UE-5	Exposures treated as sovereigns	14 871 866	12 007 548
UE-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	862 573	798 628
UE-7	Institutions	1 154 359	303 957
UE-8	Secured by mortgages of immovable properties	24 775 718	24 041 423
UE-9	Retail exposures	7 839 203	6 599 982
UE-10	Corporate	12 734 056	10 369 891
UE-11	Exposures in default	4 988 319	6 928 377
UE-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	9 805 395	9 774 357

On 31 December 2018, the Group's leverage ratio was 6.3% (6.2% on a fully implemented basis), well above the reference minimum. In this way, and according to the figures presented, the Group's position is considered comfortable.

Although the Bank does not face a situation of excessive leverage risk, taking into account the level of the leverage ratio as of 31/12/2018 and the defined prudential minimum, the regular monitoring of this ratio allows the management bodies to detect and take the measures considered appropriate to avoid the risk of a situation of excessive leverage.

Thus, the leverage ratio is monitored monthly in the scope of the Group's Risk Appetite Statement (RAS), which enables regular monitoring by management bodies and, if necessary, to undertake corrective actions.

3.4. EVENTS WITH A MATERIAL IMPACT ON OWN FUNDS AND CAPITAL REQUIREMENTS IN 2019

The main events with recognised or possible material impact on own funds and capital requirements in 2019 are related with:

I) SECOND QUARTER POSITIVE NET INCOME INCLUSION:

The second quarter positive net income inclusion, after the 2018 account approval, will generate an estimated increase of +17 bps in both fully implemented and phased-in ratios.

II) SREP MINIMUM REQUIREMENTS:

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 Banco de Portugal on its capital buffer requirement as "other systemically important institution" (O-SII). These decisions define the following ratios, concerning minimum own funds requirements, determined as a percentage of total risk weighted assets (RWA): 9.625% CET1, 11.125% T1 and 13.125% Total. 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.

III) PHASE-IN PROGRESSION:

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

IV) PERPETUAL SUBORDINATED NOTES ISSUE (AT1):

The Bank concluded, in January, the issue of perpetual subordinated notes qualified as Additional Tier 1, in the amount of €400 million.

The estimated impact on T1 ratio stands at +96 bps in both fully implemented and phased-in ratios.

V) PERPETUAL SUBORDINATED NOTES ISSUE (T2):

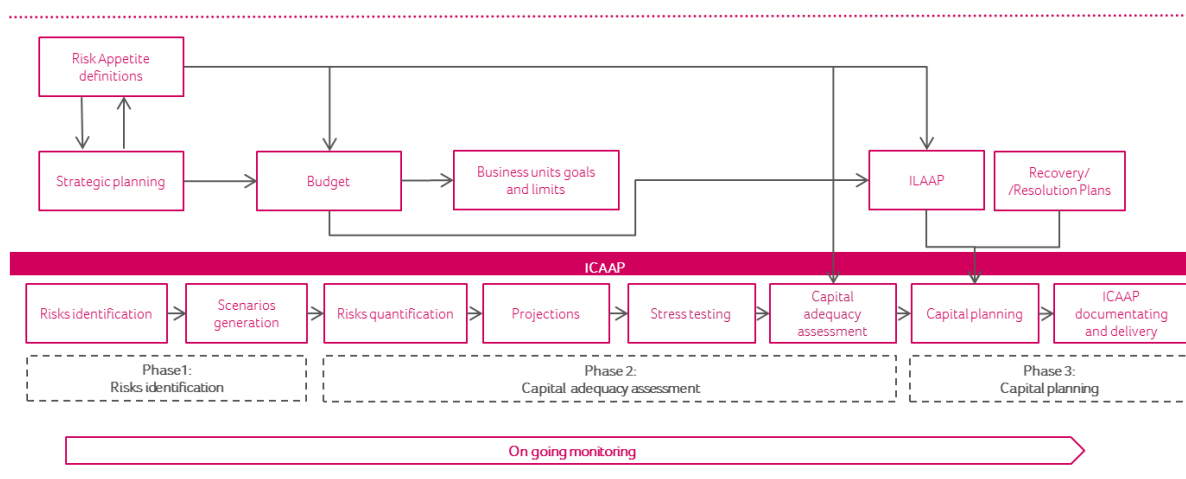
The Bank Millennium, S.A., in Poland concluded, also in January, the issue of perpetual subordinated notes qualified as

Tier 2, in the amount of 830 million zlotys.

The estimated impact on Total ratio stands at +11 bps for the fully implemented and +10 bps for the phased-in ratio.

3.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The ICAAP (Internal Capital Adequacy Assessment Process), is a fundamental element of the BCP group risk management, consisting in the permanent assessment of the capital needs to adequately cover the risks in which the Group incurs by developing its business strategy, current and projected for the medium-term. The chart below summarizes the process at stake:



The ICAAP develops under an internal governance model that ensures the involvement of the BoD, of the Risk Assessment Committee (RAC), of the EC and of the Group's 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 capitalisation 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 a base scenario and stress scenario; the latter, with a severely negative evolution of macroeconomic 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.

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.

Besides 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, in which the main Group subsidiaries are involved, is the list of material risks to be considered by the ICAAP, as well as supporting data for the definition of the variables to be considered for the establishment of the base and the stressed scenarios, mentioned ahead. The approval of the results of the risks identification process is a capacity attributed to the RAC.

In a second phase, the base and stressed scenarios that are the ICAAP's framework are defined taking into consideration the main geographies in which the Group develops its business. While the baseline scenario corresponds to the Group's view on the most probable evolution of the medium-term business constraints, the stress scenarios incorporate extreme conditions, with a low probability of occurrence and with a severe expected impact over the Group's activity. The approval of the scenarios to be considered in ICAAP is also a responsibility assigned to the RAC.

In the third stage, the impact of the risks identified is modelled for the reference date and the capital requirements are

calculated for that date, under a regulatory and an economic perspective. A set of methodologies and internal models, formally approved and audited, is used for this purpose, considering a significance level in line with 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).

In the prospective component, scenarios for the projections of the Group's activities are considered with a medium-term time horizon (3 years): a baseline scenario – corresponding to the current vision of the Group's management – and adverse scenarios that severely penalise the macroeconomic indicators, in order to test the Group's resilience under extreme scenarios and if it has adequate capital levels to cover the risks to which its activity may be subject.

Some risks whose nature does not allow for the modeling of the impact on capital are incorporated by way of a capital add-on (in particular, risks considered as non-material), other through their impact on profits.

Within the ICAAP for 2019, the Group has considered the following risks (as materially relevant ones, after mitigation effects, or considered within the scope of Pillar I):

TABLE 11 – MATERIAL RISKS

Credit risk	Counterparty credit risk
	Default risk
	Issuer risk
	Securitisation risk
	Sovereign risk
Concentration risk	Geographic concentration
	Sectoral concentration
	Single-name concentration
Market risks	CVA risk
	FX risk of the Banking Book
	Market risks of the Trading Book
Business risks	Economic risk
	Strategy risk
	IT strategy risk
	Financial holdings risk
Operational risk	[Complete set of risks]
Legal and compliance risk	Financial crime risk
Interest rate risk (IRR)	Interest rate risk of the Banking Book (Gap risk)
Real Estate risk	Real Estate market risk
Other risks	FX risk in Poland
	Cybernetic risk
	Resolution Fund risk
	Exposure to the insurance sector risk
	Litigancy risk
	Pension Fund risk

These risks are modeled or incorporated into the Group's stress testing methodology framework, producing estimated impacts on capital levels both through the impact on operating results or through changes in the risk-weighted assets (RWA) levels.

Once the impacts of the various risks on the Group's operating account and balance sheet – in particular, over own funds – have been estimated, the Group is able to assess the adequacy of its risk-absorbing capacity against the expected profile for 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 scenarios.

On a quarterly basis, the Bank updates the quantification of ICAAP's main material risks, reporting the results to the Bank's management bodies. In case of significant changes in the Group's risk profile, the internal capital adequacy assessment model is fully processed.

4. CREDIT RISK

4.1. DEFINITIONS AND POLICIES FOR LOSSES AND PROVISIONING ASSESSMENT

Credit risk is associated with the potential losses and with the uncertainty concerning the expected returns due to the failure of the borrower – and of its guarantor, if there is one – or of the issuer of a security or of the counterparty of a contract in complying with their duties.

Past due loans, for accounting purposes, correspond to the global value of the credits and instalments due and not collected associated to credit agreements recognised in the balance sheet in any form whatsoever. Thus, all the credits (capital) that have not been settled 30 days after their maturity date are accounted in past due loans.

This framework also includes the capital instalments contractually foreseen for future periods but that, due to the non-payment of one of the instalments (of capital or of interests) may, in accordance with the law, be considered due and there are doubts on whether they will be paid.

A loan, including its components of principal, interest and expenses, is considered to be “non performing” whenever a previously established limit has been exceeded, whenever a contractual covenant has been breached or when an overdraft situation has occurred (with no previous approval and after its liquidation has been requested to the debtor). Materiality thresholds per client segment are defined for the monitoring of credit risk.

Since January 1, 2018, the credit impairment calculation process incorporates the general principles defined by IFRS 9 and the guidelines issued by Banco de Portugal through Circular Letter 2018/00000062.

For the purpose of impairment calculation, the expected losses of operations are determined according to the stage in which they are classified, according to the following criteria:

<i>Stage 1</i>	Contracts whose credit risk has not increased significantly since its initial recognition (except POCI) ³ .
<i>Stage 2</i>	Contracts whose credit risk increased significantly from its initial recognition, but for which there is no objective evidence of impairment.
<i>Stage 3</i>	Contracts with objective signs of impairment.

The following situations are considered ‘objective signs of impairment’:

- i. Clients that are ‘in default’ (i.e., with an internal risk grade of 15 in the Bank’s Masterscale);
- ii. Financial distress recognised in accordance to the answers provided by clients to a specific questionnaire to analyse signs of financial distress;
- iii. 90-days past due loans, whenever these represent more than 20% of the global (on-balance) debt of a given debtor;
- iv. 90-days past due loans in one or more contracts, for which the overall amount exceeds 500 euros, for non-Retail clients;
- v. 90-days past due loans in one or more contracts, for which the overall amount exceeds 200 euros, for Retail clients;
- vi. Contracts restructured due to clients’ financial distress, past due for more than 30 days, when the past-due amount is greater than 200 euros.

Clients representing high risk and exposure for which objective signs of impairment exist (Stage 3) are submitted to individual impairment analysis.

That individual analysis is a regular process for the allocation of a recovery expectation concerning all of the exposures, as well as of a term expected for the recovery. The impairment amount for each client is based, essentially, in the prospects of repayment and repayment term, concerning monetary, financial or physical assets. This periodic process is based on the elements that are relevant for the impairment assessment, namely:

³ POCI: Purchased or Originated Credit Impaired; financial assets with objective evidence of impairment at the time of initial recognition.

- Financial and economic data, based on the Client's most recent accounting statements;
- Qualitative data that characterise the Client's situation in what concerns the economic viability of the business;
- Projected cash-flows for clients that are analysed in a 'going concern' perspective;
- Creditworthiness track-record of the Client within the Bank and the financial system.

Collateral and guarantees data is of particular importance, especially in real estate companies and in cases for which economic viability is reduced ("gone concern" approach).

The Bank has a conservative approach towards the treatment of collateral, materialised in the use of haircuts, aiming at incorporating the assets' devaluation risk, the costs inherent to their selling and the maintenance costs and term that occur until the sale.

For each client, impairment is calculated as the difference between the respective exposure and the total of expected cash-flows for the various operations, discounted at the effective interest rate of each operation.

The credits that are not subject to individual impairment analysis are grouped, taking into consideration their risk features and impairment assessed is based on homogeneous populations (collective analysis), defined in accordance to the risk grade and the segment of clients.

For these cases, the following main parameters are used for impairment assessment:

- PD: Probability of Default ('1-year' for credits in Stage 1, 'lifetime' for credits in Stage 2);
- LGD: Loss Given Default;
- CCF: Credit Conversion Factor applicable to the undrawn off-balance amount.

These parameters are estimated through statistical internal models, including macro-economic adjustments in a forward looking perspective. Those models are updated annually and submitted for appreciation to the Models' Validation and Monitoring Office.

The results of the impairment assessment process are duly registered in accounting terms. In accordance with Banco de Portugal's regulatory letter no. 15/2009, the accounting cancellation of credits should be effected when there are no realistic recovery prospects from an economic perspective and, for collateralised credits, when the funds coming from the use of the collaterals have already been received, by the use of impairment losses when these correspond to 100% of the value of the credits deemed as impossible to recover. Hence, when a credit reaches an impairment of 100%, its classification as unrecoverable should be envisaged. However, even if a loan impairment has not reached 100%, it still may be classified as unrecoverable if there are no recovery expectations. It is important to point out that all procedures and methodologies described are defined through internal regulations approved by top management and dedicated to the impairment process, as well as to credit granting, monitoring and recovery and to the treatment of non-performing credit.

On each balance date, an evaluation of the objective evidence of impairment is made. A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment, resulting of one or more events that occurred after its initial recognition, such as: (i) for listed securities, a continued or significant price devaluation, and (ii) for unlisted securities, when that event (or events) has an impact in the financial asset, or group of financial assets, estimated future cash flow value that can be reasonably estimated. According to the Group's policies, 30% of devaluation of the fair value of an debt instrument is considered a significant devaluation and the one year period is assumed as a continued devaluation of the fair value below acquisition cost.

If impairment is detected in a debt instrument classified as financial asset at fair value through other comprehensive income, the accumulated loss (measured as the difference between the acquisition cost and the fair value, excluding impairment losses previously recognised against results) is allocated to fair value changes and recognised in the results. If, in a subsequent period, the fair value of the debt instruments classified as financial assets at fair value through other comprehensive income increases and that increase may be objectively related with an event that occurred after the recognition of the impairment loss in the results, the impairment loss is reverted against results.

Finally, provisions are recognised when (i) the Group has a current liability (legal or deriving from practices or policies that imply the recognition of certain liabilities), (ii) it is likely that its payment is demanded and (iii) when a reliable estimation of the value of that liability can be made.

In cases where the discount effect is material, provisions are recorded, corresponding to the present value of expected future payments, discounted at a rate that reflects the risk associated with the liability.

The provisions are reviewed in the end of each reporting date and adjusted to show the better estimation, being reverted to results in the same proportion as unlikely payments. The provisions are derecognised by using them to pay the liabilities for which they have initially been made for or when the same are no longer required.

The conciliation of the general and specific credit risk adjustments, concerning exposures subject to impairment, is presented in Table 12.

TABLE 12 – TEMPLATE 16 / EU CR2-A – CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

31/12/2018			(Thousand euros)
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	
OPENING BALANCE IN 1 JULY	3 033 290	282 944	
Increases due to amounts set aside for estimated loan losses during the period	339 664	51 234	
Decreases due to amounts reversed for estimated loan losses during the period	-38 010	-10 675	
Decreases due to amounts taken against accumulated credit risk adjustments	-719 031	-38 920	
Transfers between credit risk adjustments			
Impact of exchange rate differences			
Business combinations, including acquisitions and disposals of subsidiaries			
Other adjustments	-152	12	
CLOSING BALANCE IN 31 DECEMBER	2 615 761	284 594	
Recoveries on credit risk adjustments recorded directly to the statement of profit and loss	-13 210		
Specific credit risk adjustments directly recorded to the statement of profit and loss			

30/06/2018			(Thousand euros)
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	
OPENING BALANCE IN 1 JANUARY	3 208 675	357 116	
Increases due to amounts set aside for estimated loan losses during the period	345 129	44 499	
Decreases due to amounts reversed for estimated loan losses during the period	-87 233	-116 847	
Decreases due to amounts taken against accumulated credit risk adjustments	-433 433	-1 812	
Transfers between credit risk adjustments			
Impact of exchange rate differences			
Business combinations, including acquisitions and disposals of subsidiaries			
Other adjustments	152	-12	
CLOSING BALANCE IN 30 JUNE	3 033 290	282 944	
Recoveries on credit risk adjustments recorded directly to the statement of profit and loss	-6 639		
Specific credit risk adjustments directly recorded to the statement of profit and loss			

The changes in the stock of defaulted and impaired loans and debt securities is shown in table 13.

TABLE 13 – TEMPLATE 17 / EU CR2-B - CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS AND DEBT SECURITIES

(Milhares de euros)		
Gross carrying value of defaulted exposures		
	Dec 18	Jun 18
OPENING BALANCE ^(*)	6 709 649	7 809 602
Loans and debt securities that have defaulted or impaired since the last reporting period	389 458	345 548
Returned to non-defaulted status	-332 062	-297 267
Amounts written off	-349 761	-259 499
Other changes	-775 601	-888 736
CLOSING BALANCE ^(**)	5 641 684	6 709 649

^(*) 31/12/2017 for Jun 2018; 30/06/2018 for Dec 2018

^(**) 30/06/2018 for Jun 2018; 31/12/2018 for Dec 2018

4.2. CREDIT QUALITY

The following tables present the breakdown of both on-balance and off-balance sheet items' credit quality.

TABLE 14 - TEMPLATE 11 / EU CR1-A – CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

31/12/2018	(Thousand euros)						
	a	b	c	d	e	f	g
	Gross carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Corporates	3 471 839	13 609 099		2 101 965			14 978 972
Retail	1 585 539	28 281 845		504 511			29 362 874
Equity		1 570 347		82 142			1 488 206
TOTAL IRB APPROACH	5 057 378	43 461 292		2 688 618			45 830 052
Central Governments or Central Banks		15 178 987		1 329			15 177 658
Regional Governments or Local Authorities		806 871		1 236			805 634
Public Setor Entities		144 656		1 614			143 042
Multilateral Development Banks		19 139					19 139
International Organisations							
Institutions		2 737 985		2 112			2 735 873
Corporates		8 660 707		55 115			8 605 592
Retail		3 172 068		35 223			3 136 846
Secured by mortgages on immovable property		1 220 270		23 798			1 196 472
Exposures in default	787 394			291 614			495 780
Items associated with particularly high risk							
Covered bonds							
Claims on institutions and corporates with a short-term credit assessment							
Collective Investments Undertakings		157 476					157 476
Equity exposures		29 457					29 457
Other exposures							
TOTAL STANDARDISED APPROACH	787 394	32 127 617		412 041			32 502 970
TOTAL	5 844 772	75 588 908		3 100 659			78 333 022

30/06/2018

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Corporates	4 173 731	13 154 001		2 329 435			14 998 297
Retail	1 992 730	27 636 689		672 289			28 957 130
Equity		1 701 822		58 571			1 643 252
TOTAL IRB APPROACH	6 166 461	42 492 512		3 060 294			45 598 679
Central Governments or Central Banks		13 586 168		4 095			13 582 073
Regional Governments or Local Authorities		833 060		1 642			831 418
Public Sector Entities		212 932		1 902			211 030
Multilateral Development Banks		18 486					18 486
International Organisations							
Institutions		2 685 840		1 782			2 684 057
Corporates		8 029 481		46 693			7 982 788
Retail		2 750 240		32 143			2 718 097
Secured by mortgages on immovable property		966 041		24 594			941 447
Exposures in default	807 067			282 735			524 332
Items associated with particularly high risk							
Covered bonds							
Claims on institutions and corporates with a short-term credit assessment							
Collective Investments Undertakings		22 652					22 652
Equity exposures		22 074					22 074
Other exposures							
TOTAL STANDARDISED APPROACH	807 067	29 126 972		395 586			29 538 453
TOTAL	6 973 528	71 619 485		3 455 880			75 137 132

TABLE 15 - TEMPLATE 12 / EU CR1-B – CREDIT QUALITY OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES

31/12/2018

(Milhares de euros)

	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Mortgage credit	1 087 206	22 404 973		226 960			23 265 219
Services	536 642	6 752 784		330 526			6 958 900
Consumer credit	1 709 848	10 598 551		1 174 725			11 133 674
Construction	1 066 224	1 648 302		498 514			2 216 013

Other activities - national	690 022	21 428 193	358 621	21 759 595
Other activities - international		264	1	263
Wholesale business	102 154	1 702 243	69 771	1 734 627
Other	652 674	9 296 318	359 400	9 589 592
TOTAL	5 844 772	73 831 628	3 018 517	76 657 883

30/06/2018

(Milhares de euros)

	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Mortgage credit	1 332 820	21 997 319		264 073			23 066 065
Services	660 980	6 230 600		418 244			6 473 336
Consumer credit	2 256 427	9 900 626		1 388 388			10 768 664
Construction	1 305 295	2 018 568		582 847			2 741 016
Other activities - national	483 584	15 269 561		227 566			15 525 578
Other activities - international	0	6 347		63			6 284
Wholesale business	139 722	2 580 753		86 266			2 634 209
Other	814 643	11 778 644		429 863			12 163 423
TOTAL	6 993 469	69 782 416		3 397 310			73 378 575

TABLE 16 - TEMPLATE 13 / EU CR1-C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY**31/12/2018**

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Portugal	5 025 057	50 993 495		2 558 225			53 460 328
Poland	657 957	20 109 223		371 851			20 395 330
Mozambique and other	161 758	2 728 910		88 442			2 802 226
TOTAL	5 844 772	73 831 628		3 018 517			76 657 883

30/06/2018

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Portugal	6 150 487	49 222 244		2 943 853			52 428 877
Poland	690 116	17 910 329		376 070			18 224 375
Mozambique and other	152 866	2 649 843		77 387			2 725 322
TOTAL	6 993 469	69 782 416		3 397 310			73 378 575

TABLE 17 - TEMPLATE 14 / EU CR1-D – AGEING OF PAST-DUE EXPOSURES

31/12/2018	(Thousand euros)					
	Gross carrying values					
	=< 30 d	> 30 d =< 60 d	> 60 d =< 90 d	> 90 d =< 180 d	> 90 d =< 1 Y	> 1 Y
Loans	1 011 111	191 070	71 509	182 984	385 595	2 351 425
Debt securities						59 075
TOTAL EXPOSURES	1 011 111	191 070	71 509	182 984	385 595	2 410 500

30/06/2018	(Thousand de euros)					
	Gross carrying values					
	=< 30 d	> 30 d =< 60 d	> 60 d =< 90 d	> 90 d =< 180 d	> 90 d =< 1 Y	> 1 Y
Loans	1 164 804	200 141	142 648	218 180	432 014	3 119 772
Debt securities						59 075
TOTAL EXPOSURES	1 164 804	200 141	142 648	218 180	432 014	3 178 847

TABLE 18 - TEMPLATE 15 / EU CR1-E – NON-PERFORMING AND FORBONE EXPOSURES

31/12/2018 (Milhares de euros)

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collateral and financial guarantees received	
		Of which performing but past due > 30 days and =< 90 days	Of which performing forbone	of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forbone exposures
				of which defaulted	of which impaired	of which forbone		of which forbone	of which forbone	of which forbone			
Debt securities	18 842 884			175 573	151 426	92 156		-4 935		-108 394		122	
Loans and advances	52 183 644	89 010	960 580	5 548 123	5 210 551	5 519 331	3 021 556	-277 913	-22 335	-2 585 473	-1 462 647	2 471 417	2 149 561
Off-balance-sheet exposures	12 941 099		3 648	640 561	590 147		819	17 239	388	170 471	166	227 540	

30/06/2018 (Milhares de euros)

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collateral and financial guarantees received	
		Of which performing but past due > 30 days and =< 90 days	Of which performing forbone	of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forbone exposures
				of which defaulted	of which impaired	of which forbone		of which forbone	of which forbone	of which forbone			
Debt securities	17 006 065			175 711	151 568	92 249		-6 538		-108 530		124	
Loans and advances	51 240 118	107 127	960 580	6 666 205	6 312 570	6 506 142	3 021 556	-265 350	-22 335	-3 013 935	-1 462 647	3 129 619	2 149 561
Off-balance-sheet exposures	12 477 320		3 648	676 625	633 026		819	20 580	389	126 986	166	274 022	

4.3. CONCENTRATION RISK MANAGEMENT

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined and described in the document "*Credit Principles and Guidelines*", approved by the Bank's management body. This policy applies to all Group entities by the transposition of the respective definitions and requirements into the internal rulings of each entity. Through the document mentioned above, the Group defined the following guidelines relating to the control and management of credit concentration risk.

The monitoring of the concentration risk and the follow-up of major risks is made, at Group level, based on the concept of "Economic Groups" and "Customer Groups" - sets of connected Customers (individual persons or companies), which represent a single entity from a credit risk perspective, such that if one of them is affected by financial problems, one or all of the others, will probably face difficulties to fulfil their debtor obligations. The Customer connections that originate a Customer group include the formal participation on the same economic group, the evidence that a direct or indirect control relationship exists, including the control by an individual Customer (criteria of capacity of control) of a company or the existence of a strong commercial interdependency or common sources of funding that cannot be replaced on a short term (criteria of economic dependency). The identification of connected clients is an integral part of the credit granting and monitoring processes of each entity.

For the control of credit concentration risk and limit the exposure to this risk, there are limits defined for:

- 1) Corporate single-name exposures (Large exposures);
- 2) Exposures to sovereign risks;
- 3) Exposures to Institutions (banks/financial institutions);
- 4) Exposure to sectors of activity;
- 5) Geographic concentration (country risk).

These limits apply to the 'Net exposures' at stake^(*), relating either to a counterparty or a group of counterparties – cases for 1), 2) and 3) – or to the set of exposures to an activity sector or to a country (the counterparty country of residence) – cases for 4) and 5). The measurement of geographic concentration excludes the countries in which the Group operates (Portugal, Poland and Mozambique).

Except for case 4), the concentration limits are established by taking into consideration the credit worthiness of the debtors at stake in what concerns their rating grades/probability of Default (PD) (internal or external ratings; country rating in the case of geographic concentration).

The concentration limits for Corporate single-name exposures apply only to non-NPE positions, since the NPE positions are covered by the NPE reduction Plan.

The limits for single-name concentration are presented in the following table, which indicates the single-name limit established (for any given Customer/Group of Customers), as the Net Exposure weight on the consolidated Own Funds.

TABLE 19 – LIMITS FOR SINGLE NAME CONCENTRATION

Risk quality	Risk grade	Max Net exposure as a % of COF
High quality	1 – 5	8.0%
Average/good quality	6 – 7	6.0%
Average low/quality	8 – 9	4.0%
Low quality	10 – 11	1.0%
Restricted credit	12 or worse	0.5%

As at 31 of December 2018 there were 3 Economic Groups with net exposure above the limits approved for the respective risk grade, which compares with 4 Customers by the end of 2017. For each Client with exposure excess a specific plan is prepared, aiming at reducing the exposure and bringing it within the established limits.

It should also be referred that the measurement of this concentration type is also done within the Group RAS (Risk

^(*) Net exposure = EAD x LGD, assuming that PD=1 and considering LGD=45% whenever own estimates for LGD do not exist.

Appetite Statement) scope.

The following table presents the concentration limits to Sovereigns, Institutions, activity sectors and geographies, as well as the measurements of these concentrations as at 31st of December 2017:

TABLE 20 – OTHER CONCENTRATION LIMITS

Counterparties	Limit (% of COF)	Net exposure % weight
Sovereigns	Very low risk 25%; low risk 10%; average (or lower quality) risk 7.5%	Sovereign 1: 3.8% (very low risk) Sovereign 2: 0.4% (low risk) Sovereign 3: 0.01% (low risk) Sovereign 4: 0.01% (very low risk)
Institutions	Very low risk 10%; low risk 5%; average (or lower quality) risk 2.5%	Institution 1 (very low risk): 2.7%; Institution 2 (average or lower quality risk): 2.0%; Institution 3 (low risk): 0.7%; Institution 4: 0.7%; Institution 5: 0.6%; Institution 6: 0.6%; Institution 7: 0.6%; Institution 8: 0.5%; Institution 9: 0.5%; Institution 10: 0.5%; Institution 11: 0.4%; Institution 12: 0.3%; Institution 13: 0.3%; Institution 14: 0.3%; Institution 15: 0.3%; Institution 16: 0.2%; Institution 17: 0.2%; Institution 18: 0.2%; Institution 19: 0.2%; Institution 20: 0.2%
Countries	Very low risk 40%; low risk 20%; average (or lower quality) risk 10%	Country 1 (very low risk): 4.9%; Country 2 (very low risk): 2.7%; Country 3 (very low risk): 2.6%; Country 4 (average or lower quality risk): 2.5%; Country 5 (very low risk): 2.3%; Country 6 (very low risk): 1.8%; Country 7 (very low risk): 1.5%; Country 8: 1.3%; Country 9: 0.8%; Country 10: 0.6%; Country 11: 0.5%; Country 12: 0.3%; Country 13: 0.2%; Country 14: 0.2%; Country 15: 0.2%
Sectors of activity	Any sector: 40%	PORTUGAL: Other corporate services 28.4% Other activities 19.2% Construction 17.9% Financial and insurance activities 16.2% Wholesale and retail trade; repair of motor vehicles and motorcycles 16.2% POLAND: Wholesale and retail trade; repair of motor vehicles and motorcycles 25.2% Transporting and storage 12.1% Financial and insurance activities 10.5%

Very low risk: RG 1-3 ; Low risk: RG 4-6 ; Average or lower quality risk: 7-12 (RG= internal risk grade); COF = Consolidated Own Funds.

The Bank's management body and the Risk Assessment Committee are regularly informed on the evolution of the credit concentration risk metrics (against the mentioned limits) and on major risks, which are assessed by measuring the weights of the net exposure values in question in terms of the consolidated Own Funds level. For such measurements, the Risk Office uses a database on credit exposures (the Risk Office Datamart), monthly updated by the Group's systems, which also feeds a simulation tool for supporting the analysis of the impact on changes on the Customers exposures in the consumption of the respective concentration limits, used by the Credit Division within the scope of credit analysis for large clients.

4.4. CHARACTERISATION OF THE EXPOSURES

The exposures taken into consideration for the calculation of the own funds requirements for credit risk comprise the Banking Book exposures registered in the consolidated balance sheet and in off-balance sheet accounts related, namely, with loans and advances to customers, other loans and advances to credit institutions, investments in financial instruments, the ownership of other assets, the guarantees and commitments assumed and hedging derivatives. These exposures do not include those handled within the scope of the trading portfolio, but the ones related to securitisation are considered.

The total exposures net of impairments and amortisations attained a value of 78,333 million euros, as at 31 December 2018, and 72,574 million euros as at 31 December 2017. Table 21 presents the breakdown of these amounts by risk classes and approaches defined by the CRD IV/CRR.

TABLE 21 – TEMPLATE 7 / EU CRB-B – TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

31/12/2018

(Thousand euros)

	Net value of exposures at the end of the period	Average net exposures over the period
Central Governments or Central Banks		
Institutions		
Corporates	14 978 972	15 043 233
Of which: Specialised lending	1 397 315	1 487 673
Retail	29 362 874	29 492 418
Equity	1 488 206	741 661
TOTAL IRB APPROACH	45 830 052	45 277 312
Central Governments or Central Banks	15 177 658	12 655 452
Regional Governments or Local Authorities	805 634	784 913
Public Sector Entities	143 042	360 854
Multilateral Development Banks	19 139	18 979
Institutions	2 735 873	2 886 780
Corporates	8 605 592	7 875 016
Retail	3 136 846	2 589 867
Secured by mortgages on immovable property	1 196 472	953 923
Exposures in default	495 780	550 472
Collective Investments Undertakings	157 476	147 840
Equity exposures	29 457	22 270
TOTAL STANDARDISED APPROACH	32 502 970	28 846 366
TOTAL	78 333 022	74 123 679

31/12/2017

(Thousand euros)

	Net value of exposures at the end of the period	Average net exposures over the period
Central Governments or Central Banks		
Institutions		
Corporates	15 585 776	15 066 107
Of which: Specialised lending	1 510 638	1 541 953
Retail	29 362 874	29 492 418
Equity	28 956 944	29 104 710
TOTAL IRB APPROACH	44 995 376	44 621 610
Central Governments or Central Banks	11 347 805	11 632 548
Regional Governments or Local Authorities	743 984	770 801
Public Sector Entities	347 066	520 582
Multilateral Development Banks	19 432	18 952
Institutions	2 914 255	3 119 068
Corporates	8 110 886	7 504 328
Retail	2 499 634	2 347 194
Secured by mortgages on immovable property	962 577	871 700
Exposures in default	600 671	587 720
Items associated with particularly high risk		273 490
Collective Investments Undertakings	21 139	202 095
Equity exposures	11 480	21 356
TOTAL STANDARDISED APPROACH	27 578 929	27 869 832
TOTAL	72 574 305	72 491 442

The geographical distribution of the Group's original risk positions at the end of 2018 and 2017 is provided in Table 22.

TABLE 22 – TEMPLATE 8 / EU CRB-C - GEOGRAPHICAL BREAKDOWN OF EXPOSURES

31/12/2018				
	(Thousand euros)			
	Portugal	Poland	Other	Total
Central Governments or Central Banks				
Institutions				
Corporates	14 075 183	4 036	899 753	14 978 972
Retail	21 302 601	6 443 836	1 616 437	29 362 874
Equity	1 466 313	21 892		1 488 206
TOTAL IRB APPROACH	36 844 097	6 469 764	2 516 190	45 830 052
Central Governments or Central Banks	8 029 614	5 547 562	1 600 483	15 177 658
Regional Governments or Local Authorities	725 060	80 574	0	805 634
Public Sector Entities	105	24 675	118 263	143 042
Multilateral Development Banks			19 139	19 139
Institutions	1 006 822	58 578	1 670 474	2 735 873
Corporates	3 731 695	4 194 989	678 908	8 605 592
Retail	303 633	2 597 449	235 764	3 136 846
Secured by mortgages on immovable property	74 658	749 829	371 985	1 196 472
Exposures in default	121 243	269 432	105 104	495 780
Collective Investment Undertakings	157 474		2	157 476
Equity exposures			29 457	29 457
TOTAL STANDARDISED APPROACH	14 150 304	13 523 087	4 829 578	32 502 970
TOTAL	50 994 401	19 992 852	7 345 769	78 333 022

31/12/2017				
	(Thousand euros)			
	Portugal	Poland	Other	Total
Central Governments or Central Banks				
Institutions				
Corporates	14 568 895	3 474	1 013 406	15 585 776
Retail	20 911 484	6 585 238	1 460 223	28 956 944
Equity	421 625	7 927	23 104	452 656
TOTAL IRB APPROACH	35 902 004	6 596 639	2 496 733	44 995 376
Central Governments or Central Banks	4 963 896	4 865 568	1 518 342	11 347 805
Regional Governments or Local Authorities	654 971	88 872	141	743 984
Public Sector Entities	192 167	18 330	136 569	347 066
Multilateral Development Banks		19 432		19 432
Institutions	1 104 001	398 724	1 411 529	2 914 255
Corporates	3 567 281	3 671 493	872 112	8 110 886
Retail	233 891	2 056 185	209 559	2 499 634
Secured by mortgages on immovable property	55 609	652 382	254 586	962 577
Exposures in default	130 461	317 893	152 316	600 671
Collective Investment Undertakings	21 139			21 139
Equity exposures	11 162		319	11 480
TOTAL STANDARDISED APPROACH	10 934 578	12 088 879	4 555 473	27 578 929
TOTAL	46 836 582	18 685 517	7 052 205	72 574 305

The sectoral distribution of the Group's original risk positions at the end of 2018 and 2017 is provided in Table 23.

TABLE 23 – TEMPLATE 9 / EU CRB-D - CONCENTRATION OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES

31/12/2018	(Thousand euros)								
	Mortgage credit	Services	Consumer credit	Construction	Other activities, national	Other activities, international	Wholesale business	Other	Total
Central Governments or Central Banks									
Institutions									
Corporates		5 963 323		1 695 435	743 630		942 239	5 634 345	14 978 972
Retail	23 241 202	314 111	4 363 588	221 881	200 185	15	203 004	818 888	29 362 874
Equity								1 488 206	1 488 206
TOTAL IRB APPROACH	23 241 202	6 277 434	4 363 588	1 917 316	943 815	15	1 145 243	7 941 439	45 830 052
Central Governments or Central Banks		2 301 577		3 900	11 879 336	180		992 665	15 177 658
Regional Governments or Local Authorities		2 699			794 728			8 208	805 634
Public Sector Entities		105			42 683		96 349	3 906	143 042
Multilateral Development Banks					19 139				19 139
International Organisations									
Institutions		2 074 155			661 718				2 735 873
Corporates		405 181		240 196	5 676 613	67	387 352	1 896 183	8 605 592
Retail		24 317	2 347 716	27 181	521 219	0	72 296	144 116	3 136 846
Secured by mortgages on immovable property	18 146	32 927	112 702	5 554	952 580		26 568	47 995	1 196 472
Exposures in default	5 872	15 280	134 894	21 865	267 763		6 819	43 286	495 780
Items associated with particularly high risk									
Covered bonds									
Claims on institutions and corporates with a short-term credit assessment									
Collective Investment Undertakings								157 476	157 476
Equity exposures								29 457	29 457
Other exposures									
TOTAL STANDARDISED APPROACH	24 018	4 856 240	2 595 312	298 697	20 815 780	247	589 384	3 323 292	32 502 970
TOTAL	23 265 219	11 133 674	6 958 900	2 216 013	21 759 595	263	1 734 627	11 264 731	78 333 022

31/12/2017

(Thousand euros)

	Mortgage credit	Services	Consumer credit	Construction	Other activities, national	Other activities, international	Wholesale business	Other	Total
Central Governments or Central Banks									
Institutions									
Corporates		5 906 473		2 097 926	1 054 058		954 627	5 572 692	15 585 776
Retail	23 066 347	274 631	4 377 310	166 764	178 546	13	195 654	697 680	28 956 944
Equity								452 656	452 656
TOTAL IRB APPROACH	23 066 347	6 181 104	4 377 310	2 264 690	1 232 603	13	1 150 281	6 723 027	44 995 376
Central Governments or Central Banks		1 137 400		6 296	9 494 992	204		708 913	11 347 805
Regional Governments or Local Authorities		4 120			731 440			8 425	743 984
Public Sector Entities		192 157			154 908				347 066
Multilateral Development Banks					19 432				19 432
International Organisations									
Institutions		2 181 186			733 069				2 914 255
Corporates		388 711		220 434	5 378 757	15	342 434	1 780 535	8 110 886
Retail		19 354	1 779 415	17 804	511 873	10	60 663	110 515	2 499 634
Secured by mortgages on immovable property	25 254	29 607	49 404	1 573	835 843		3 833	17 063	962 577
Exposures in default	9 111	16 221	125 458	35 689	379 735		5 930	28 527	600 671
Items associated with particularly high risk									
Covered bonds									
Claims on institutions and corporates with a short-term credit assessment									
Collective Investment Undertakings								21 139	21 139
Equity exposures								11 480	11 480
Other exposures									
TOTAL STANDARDISED APPROACH	34 365	3 968 756	1 954 276	281 796	18 240 048	229	412 860	2 686 598	27 578 929
TOTAL	23 100 712	10 149 860	6 331 587	2 546 486	19 472 652	242	1 563 141	9 409 625	72 574 305

The distribution of the Group's original risk positions by residual maturity term at the end of 2018 and 2017 is provided in Table 24.

TABLE 24 – TEMPLATE 10 / EU CRB-E - MATURITY OF EXPOSURES

31/12/2018 (Thousand euros)					
	Term to maturity < 1 Y	1 Y < Term to maturity < 5 Y	5 Y < Term to maturity < 10 Y	Term to maturity > 10 Y	Total
Central Governments or Central Banks					
Institutions					
Corporates	6 916 617	3 006 487	3 004 406	2 051 462	14 978 972
Retail	1 989 594	3 483 270	2 279 202	21 610 807	29 362 874
Equity				1 488 206	1 488 206
TOTAL IRB APPROACH	8 906 211	6 489 757	5 283 609	25 150 474	45 830 052
Central Governments or Central Banks	3 587 047	8 273 046	3 059 200	258 366	15 177 658
Regional Governments or Local Authorities	179 026	135 682	461 070	29 857	805 634
Public Sector Entities	37 576	101 467	2 692	1 308	143 042
Multilateral Development Banks		19 139			19 139
International Organisations					
Institutions	1 658 326	435 168	626 765	15 614	2 735 873
Corporates	5 045 743	3 054 737	423 001	82 111	8 605 592
Retail	438 332	1 326 080	684 262	688 172	3 136 846
Secured by mortgages on immovable property	263 879	352 997	215 307	364 288	1 196 472
Exposures in default	273 987	134 026	52 245	35 522	495 780
Items associated with particularly high risk					
Covered bonds					
Claims on institutions and corporates with a short-term credit assessment					
Collective Investment Undertakings				157 476	157 476
Equity exposures				29 457	29 457
Other exposures					
TOTAL STANDARDISED APPROACH	11 483 916	13 832 340	5 524 543	1 662 171	32 502 970
TOTAL	20 390 127	20 322 098	10 808 152	26 812 645	78 333 022

31/12/2017 (Thousand euros)					
	Term to maturity < 1 Y	1 Y < Term to maturity < 5 Y	5 Y < Term to maturity < 10 Y	Term to maturity > 10 Y	Total
Central Governments or Central Banks					
Institutions					
Corporates	7 209 939	3 530 115	2 930 818	1 914 903	15 585 776
Retail	1 876 121	3 072 284	2 230 794	21 777 746	28 956 944
Equity				452 656	452 656
TOTAL IRB APPROACH	9 086 060	6 602 399	5 161 611	24 145 305	44 995 376
Central Governments or Central Banks	5 067 486	3 882 606	2 150 538	247 175	11 347 805
Regional Governments or Local Authorities	135 460	126 668	199 271	282 585	743 984
Public Sector Entities	42 093	66 068	67 897	171 008	347 066
Multilateral Development Banks		19 432			19 432
International Organisations					
Institutions	1 617 165	456 925	807 888	32 277	2 914 255
Corporates	4 406 234	3 201 921	392 125	110 605	8 110 886
Retail	381 060	1 121 863	633 728	362 984	2 499 634
Secured by mortgages on immovable property	331 221	334 702	191 901	104 753	962 577

Exposures in default	276 927	219 221	70 342	34 181	600 671
Items associated with particularly high risk					
Covered bonds					
Claims on institutions and corporates with a short-term credit assessment					
Collective Investment Undertakings				21 139	21 139
Equity exposures				11 480	11 480
Other exposures					
TOTAL STANDARDISED APPROACH	12 257 645	9 429 407	4 513 690	1 378 186	27 578 929
TOTAL	21 343 706	16 031 806	9 675 301	25 523 492	72 574 305

4.5. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

4.5.1. FRAMEWORK OF THE APPROACHES USED

As at 31 December 2018 and 2017, the Group determined the own funds requirements for credit risk in accordance with the authorisations granted by the Supervisor for the approach to calculate risk weighted assets (RWA).

For the portfolio that, on those dates, fitted the standardised approach, the original exposures were classified in line with regulatory risk classes according to the nature of the counterparty, to which specific regulatory weights are applied after carrying out some adjustments – such as the ones related with provisions and value corrections, the ones due to the application of CCF, namely, in the case of off-balance sheet exposures, and those resulting from risk mitigation – thus finding the value of the risk weighed assets.

In the capital requirements calculation based on the standardised approach, the exposures are weighted according to the provisions of the CRR. In the risk class "Central Government and Central Banks", credit ratings of issuers or issues are used, provided they have been attributed by recognised credit rating agencies (ECAI – External Credit Assessment Institutions), for the purpose of determining the respective risk quality levels, as per which the corresponding risk weights are applied as defined by the CRR (no. 2 of article 114, Section 2, Chapter 2, Title II, Part III). Whenever the same issuer or issue has two or more risk evaluations, the second best rating attributed is used. The credit rating of the issuer is applicable to all of its operations, whereas the rating for a specific issue is only considered for that same issue. The ECAI used by the Group were Standard & Poor's, Moody's and Fitch Ratings. Exposures of unrated clients are treated in accordance with no. 1 of article 114, Section 2, Chapter 2, Title II, Part III of the CRR.

Regarding the "Institutions" risk class, the risk weight of the exposures results from the existence of specific ratings and the exposures' terms-to-maturity or from the existence of the sovereign rating at stake and the exposures original term, as defined by articles 119 to 121 of the CRR.

Concerning the risk classes "Central Government and Central Banks" and "Institutions", in Portugal, the Group uses the standardised approach, pursuant to the conditions for permanent partial use of such approach, defined by article 150, Section 1, Chapter 3, Title II, Part III of the CRR.

On 31 December 2018 and 2017, according to the supervisory authorisations granted for the Group's activities in Portugal, the Bank used the internal ratings based approach for the exposure classes "Corporates" and "Retail Exposures" (in both cases, with own LGD estimates), "Equity exposures" and "Items representing securitisation positions". Regarding the Corporates exposure class, the exposures treated under the simplified rating system were weighted using the standardised approach. From 31 December 2012, also, according to the supervisory authorisations granted for the Group's activities in Poland, the Bank used the internal ratings based approach for "Retail Exposures" (with own LGD estimates), regarding the positions of individual clients guaranteed by residential real estate collateral and the retail renewable positions (QRRE – Qualified Retail Renewable Exposures).

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2018 and 2017 were estimated following the standardised approach.

Also, in Portugal:

- Risk weighted assets as at 31 December 2018 and 2017 for exposures to Customers that exceptionally did not receive an internal risk level were computed according to the standardised approach, considering a PD corresponding to risk grade 12 of the Group Master Scale;
- Within the Corporates risk class, the Bank used the standardised approach for a set of exposures to churches, sports clubs and other non-profit organisations, in accordance with the supervisory authorisation for a permanent partial use of this approach, for these cases.

4.5.2. IRB APPROACH – PARAMETERS AND GENERAL INFORMATION

In the IRB Approach, the weight of exposures to determine the value of risk weighted assets is based on the PD corresponding to the various internal risk ratings of the Customers, using internal rating systems and models, adequate for each Customers segment/sub-segment.

In addition, in this approach, the computation of the risk weighted assets also uses the internally estimated LGD as well as CCF factors on off-balance sheet exposures. On the IRB approach, the effect of the credit risk decrease by means of collaterals for credit exposures is incorporated into the estimate of the risk weighted assets through the LGD parameters.

The internal ratings are given based on the Rating Master Scale, common to all the rating systems and models used, presented in Table 25.

TABLE 25 - RATING MASTER SCALE

Risk grades	Minimum PD	Maximum PD	Description
1	0.01%	0.05%	Maximum security (only for sovereign risks)
2	0.05%	0.07%	Superior quality
3	0.07%	0.14%	Very high quality
4	0.14%	0.28%	High quality
5	0.28%	0.53%	Very good quality
6	0.53%	0.95%	Good quality
7	0.95%	1.73%	Medium/high quality
8	1.73%	2.92%	Medium quality
9	2.92%	4.67%	Medium/low quality
10	4.67%	7.00%	Low quality
11	7.00%	9.77%	Very low quality
12	9.77%	13.61%	Conditioned access to credit
13 ^(*)	13.61%	27.21%	Weak signs of impairment
14 ^(*)	27.21%	100.00%	Strong signs of impairment
15 ^(*)	100.00%	100.00%	Default

^(*) Processual risk grade; the presented values of Max. and Min. PD for RG 13 and 14 are indicative, being applied the observed PD.

The risk ratings attributed by the rating systems and models are valid for one year, and are periodically revised/updated or whenever there are grounds to do so (e.g. requests for new loans or evidence of a decrease in the debtor's credit quality).

The Rating Division is responsible for risk ratings – a unit that is independent from the credit decision-making bodies and areas – even though most risk scores are granted by automatic decision making models used for the debtors of the Retail exposure class.

All customers are rated, but the corresponding PD are only used to compute own funds requirements through the IRB Approach for exposures that fit the risk classes for which the Supervisor authorised the use of this approach.

The rating models included in the various rating systems are regularly subject to validation, carried out in 2018 by the validation unit of the Models Monitoring and Validation Office (GAVM), which is independent from the units that are responsible for the development and maintenance of rating models. In addition, GAVM's validation unit is also responsible for ensuring that the Group's Rating Master Scale is up-to-date and correct.

The conclusions of GAVM's validation, as well as its amendment/improvement recommendations and proposals, are analysed and ratified by a specific Validation Committee, whose composition varies according to the type of model analysed. The proposals to amend the models originated in the Validation Committees are submitted to the approval of the Risk Commission.

Besides its responsibilities regarding the PD models and the Rating Master Scale, GAVM is also responsible for validating the models used to estimate LGD and CCF parameters. Regarding these models, the Bank estimates them all based on

the methods validated by the Supervisor within the scope of the process to approve the use of the IRB approach.

In terms of LGD parameters, the computation model used is based on the gathering and analysis of past data on credit risk losses, and all losses verified are computed and the various cash flows underlying credit recovery processes are discounted, including financial losses.

CCF are estimated based on the analysis of data on the use of credit lines and limits within the time frame of one year prior to the defaults.

It should be underlined that there is a model owner for each credit risk model – PD, LGD and CCF – responsible for:

- Ensuring compliance with the regulatory requirements for storing input and output data;
- Ensuring the adequacy of the model's documentation, including the development documentation, development samples and all the documents regarding changes to the model;
- Being the senior responsible in charge of all requests pertaining to the decision process based on the model;
- Changing the model whenever necessary;
- Ensuring the existence of monitoring processes;
- Ensuring the necessary support to the GAVM pursuant to the model validation work.

In addition, regarding the rating systems in which rating models are integrated, there is also a rating system owner, who is responsible for:

- Ensuring the necessary support to the GAVM within the scope of the analysis of the rating systems decision flow;
- Promoting the execution of changes to the rating system whenever necessary.

The next table shows the off-balance credit facilities' amounts and their use, weighted by using own estimates for CCF (in accordance with article 452 (iii) e) of the CRR):

TABLE 26 – CREDIT FACILITIES OUTSIDE OF THE BALANCE SHEET

31/12/2018		(Thousand euros)						
	Original exposure		Exposure at risk		Risk weighted assets		% RWA	
	Non-used	Used	Non-used	Used	Non-used	Used	Non-used	Used
Corporate	8 749 124	18 298 686	3 540 680	17 740 427	2 589 523	13 210 432	73,1%	74,5%
Large Corporate	4 997 675	9 832 838	2 274 139	9 383 629	1 692 347	6 770 061	74,4%	72,1%
Small and medium Corporate	3 219 428	7 583 082	834 208	7 474 075	494 279	5 605 465	59,3%	75,0%
Specialised lending	532 020	882 767	432 333	882 722	402 897	834 906	93,2%	94,6%
Equity	97 159	1 982 552	97 159	1 982 552	175 158	3 670 415	180,3%	185,1%

31/12/2017		(Thousand euros)						
	Original exposure		Exposure at risk		Risk weighted assets		% RWA	
	Non-used	Used	Non-used	Used	Non-used	Used	Non-used	Used
Corporate	8 737 382	18 873 038	3 255 496	18 373 226	2 139 646	12 783 571	65,7%	69,6%
Large Corporate	5 366 833	10 448 529	2 295 584	10 021 967	1 484 980	6 525 274	64,7%	65,1%
Small and medium Corporate	2 968 810	7 295 880	653 994	7 222 680	382 849	5 154 872	58,5%	71,4%
Specialised lending	401 739	1 128 629	305 918	1 128 579	271 818	1 103 426	88,9%	97,8%
Equity	105 341	2 807 176	105 341	2 245 496	191 223	4 055 746	181,5%	180,6%

In accordance with items h) and i) from article 452 of the CRR, it is also referred that:

- During 2017, the relevant parameters associated with the IRB portfolio parameters were stable. The effective LGD of the IRB portfolio is still, approximately, of 30% and the average CCF below 50%;
- The improvement in the credit worthiness of clients in 2017, as a consequence of the favourable evolution of the economic climate, translated into a reduction of 20% in the average PD.

4.5.3. IRB APPROACH – “CORPORATES” RISK CLASS

In this risk class, the computation of own funds requirements using the IRB Approach is based on the weights resulting from the risk assessment made by the Project Finance rating system and on the PD that correspond to the risk ratings given by the Real Estate Promotion and the Corporates rating system.

In the first case, the Bank uses several rating models to grant risk scores (and the respective PD used to compute the applicable weights): Large, Mid and Small Corporate models, models for Holdings of Economic Groups and for Investment Holdings, models for Real Estate Promotion projects and companies (in both cases, with specific approaches to investment or development cases), Real Estate Investment Funds model and Small Real Estate Companies/Small Real Estate Projects models.

In the second case, the Bank uses the Project Finance rating model, which consists on the mapping between the scoring of a specific questionnaire and one of four possible classifications (besides the possibility of default) for the risks in question, which then define the weights to be used in the computation of risk weighted assets in accordance with no. 5 of article 153, Sub-Section 2, Section 2, Chapter 3, Title II, Part III of the CRR.

The risk grades attributed by these models result from two evaluation components: a quantitative component (economic-financial grade, based on the Customer's accounting data) and a qualitative component, based on an evaluation template. The risk grade resulting from these two components may be adjusted (upwards or downwards) by checking several situations that are typified and pre-defined in specific internal regulations.

Finally, if the rating analyst proposes an override to the Client's Integrated Rating, this must be approved by the Rating Committee, resulting in the Final Rating. However, the overrides are not frequent.

Table 27 summarises these rating models and systems:

TABLE 27 - CORPORATES RATING MODELS AND SYSTEMS

Rating system for Corporates	Large Corporate Model: quantitative component (quantitative score, based on accounting data and taking into consideration the Client's activity sector) + qualitative component (based on expert judgment and following sectorial rating matrixes that incorporate the sectors' risk) + adjustments stemming from pre-defined situations (including those arising from the identification of "imminent risk" evidence) + Group adjustments.
	Small and Mid Corporate Models: quantitative component (economic/financial grade based on accounting data and taking into consideration the Client's activity sector) + qualitative component (based on information gathered by the commercial area on specific templates for that purpose) + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.
	Business Model for Real Estate Development/Model for Investment Companies/Real Estate income: quantitative component (specific ratios, financial score, financial flexibility) + qualitative component (sector, management quality, assets/projects quality, market and competitiveness) + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.
	Model for Small Real Estate agents: quantitative component + qualitative component + adjustments stemming from pre-defined situations or from the identification of imminent risk evidence + adjustments stemming from economic group relations (e.g. parents vs. affiliates).
Rating system for Projects	Rating model for Project Finance: scoring of specific questionnaire on the financial strength, the politic and regulatory frameworks, other features of the operation, the ability of sponsors/shareholders and the package of collaterals.
	Model for Real Estate Promotion Projects for sale / Model for Real Estate Promotion Projects for income/Model for Real Estate Investment Funds: quantitative component (specific ratios, financial score, financial flexibility) + qualitative component (sector, management quality, assets/projects quality, market and competitiveness) + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.
	Model for small Real Estate Projects: quantitative component + qualitative component + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments.

4.5.4. IRB APPROACH – “RETAIL PORTFOLIO” RISK CLASS

In this risk class, the risk weighted assets calculation by the IRB Approach is based on the PD that correspond to the risk scores given by the rating systems for Small Businesses and for Individuals.

In these rating systems, the attribution of risk scores is made using two types of automated decision models: (i) a behavioural model (TRIAD), based on the past financial data of the Customers at the Bank (executed by computer on a

monthly basis), which is complemented by (ii) acceptance scoring models, used whenever the behavioural model does not apply (new Customers for instance) and defined based on the credit product the Customer wants or on the products the Customer already has.

In the Small Businesses Rating System, the TRIAD model is composed by two assessment grids that allow the model to fit the evaluated Customer's profile. In this rating system, as mentioned before, risk scores may also be granted by an acceptance scoring model designed for the segment in question.

In the Individuals Rating System, the TRIAD model is composed by four assessment grids defined based on the products already owned by the Customer, and the complementary acceptance scoring models are defined based on the credit product the Customer wants or on the products the Customer already has.

The rating systems and models used by the Bank for the Retail Portfolio are broken down in Table 28:

TABLE 28 - RETAIL PORTFOLIO RATING MODELS AND SYSTEMS

Rating system for Small Business	TRIAD model - automatic decision based on Client financial behaviour and two scorecards (according to the Client profile).
	Application Scoring model for the Small Businesses (whenever TRIAD cannot be applied - e.g. new Clients).
Rating system for Individuals	TRIAD model - Automatic decision based on Client financial behaviour and four scorecards (according to the products already owned by the Client).
	Application Scoring model for Individuals (whenever TRIAD cannot be applied - e.g. new customers), for each intended product or for products already owned by the Client.

TABLE 29 – TEMPLATE 24 / EU CR9 – IRB METHOD – BACKTESTING OF PD PER EXPOSURE CLASS

31/12/2018								
Exposure class	PD range	Weighted average PD (%)	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which, new obligors	Average historical annual default rate
				End of previous year	End of the year			2017/2018
1. CORPORATES	0 a <0,25	0,20%	0,18%	1 107	1 180	1		0,05%
	0,25 a <1	0,60%	0,55%	2 468	2 710	1		0,02%
	1 a <5	2,49%	2,31%	2 798	3 100	13		0,38%
	5 a <16	9,23%	9,89%	2 857	3 291	82	2	3,31%
	16 a <99	47,70%	48,13%	116	123	44		38,03%
	100	100,00%	100,00%	968	988	983	20	
1.1 Specialised lending	0 a <0,25							
	0,25 a <1	0,70%	0,67%	52	55			
	1 a <5	1,30%	1,30%	10	10			
	5 a <16	11,50%	10,43%	3	3			
	16 a <99							
	100	100,00%	100,00%	2	2	2		
1.2 SME	0 a <0,25	0,19%	0,18%	691	743	1		0,07%
	0,25 a <1	0,55%	0,55%	1 807	1 976	1		0,03%
	1 a <5	2,33%	2,28%	2 049	2 296	8		0,27%
	5 a <16	10,00%	10,06%	2 244	2 620	65	2	3,40%
	16 a <99	47,66%	47,43%	92	96	39		38,37%
	100	100,00%	100,00%	771	790	785	19	
2. RETAIL	0 a <0,25	0,13%	0,13%	834 930	900 716	440	12	0,06%
	0,25 a <1	0,52%	0,52%	415 052	474 727	1 446	18	0,36%
	1 a <5	2,24%	2,19%	281 994	327 572	3 676	62	1,34%
	5 a <16	9,34%	10,00%	243 861	313 492	12 135	280	5,49%
	16 a <99	33,00%	39,99%	18 972	21 941	7 398	35	39,70%
	100	100,00%	100,00%	76 423	78 085	76 951	1 662	
2.1 Secured by real estate	0 a <0,25	0,13%	0,12%	219 035	227 367	109		0,07%
	0,25 a <1	0,52%	0,52%	61 305	64 388	172	3	0,32%
	1 a <5	2,26%	2,28%	40 872	42 449	474	1	1,30%
	5 a <16	9,26%	9,31%	29 107	29 818	2 187	6	7,76%
	16 a <99	30,72%	29,73%	3 496	3 523	1 128		33,02%
	100	100,00%	100,00%	13 297	13 329	12 921	32	
2.1.1 SME	0 a <0,25	0,15%	0,15%	7 828	8 080	5		0,03%
	0,25 a <1	0,55%	0,54%	3 636	3 889	4	1	0,07%
	1 a <5	2,26%	2,23%	2 996	3 212	30		0,88%
	5 a <16	9,68%	9,92%	3 086	3 210	180	2	5,47%
	16 a <99	41,69%	44,21%	131	131	62		46,43%
	100	100,00%	100,00%	955	965	945	10	
2.1.2 Non-SME	0 a <0,25	0,12%	0,12%	211 207	219 287	104		0,07%

	0,25 a <1	0,52%	0,52%	57 669	60 499	168	2	0,34%
	1 a <5	2,27%	2,28%	37 876	39 237	444	1	1,33%
	5 a <16	9,21%	9,24%	26 021	26 608	2 007	4	8,02%
	16 a <99	30,34%	29,17%	3 365	3 392	1 066		32,52%
	100	100,00%	100,00%	12 342	12 364	11 976	22	
2.2 Qualifying Revolving	0 a <0,25	0,13%	0,13%	559 176	612 140	280	11	0,05%
	0,25 a <1	0,53%	0,52%	283 890	329 124	1 003	8	0,36%
	1 a <5	2,10%	2,17%	189 505	225 541	2 405	41	1,27%
	5 a <16	9,74%	10,14%	169 707	231 066	6 669	210	4,49%
	16 a <99	39,93%	41,21%	12 904	15 514	4 690	25	37,03%
	100	100,00%	100,00%	45 941	47 241	46 802	1 300	
2.3 Other Retail	0 a <0,25	0,16%	0,16%	56 719	61 209	51	1	0,09%
	0,25 a <1	0,52%	0,53%	69 857	81 215	271	7	0,38%
	1 a <5	2,18%	2,20%	51 617	59 582	797	20	1,60%
	5 a <16	9,62%	9,79%	45 047	52 608	3 279	64	7,68%
	16 a <99	46,19%	45,94%	2 572	2 904	1 580	10	61,26%
	100	100,00%	100,00%	17 185	17 515	17 228	330	
2.3.1 SME	0 a <0,25	0,16%	0,15%	26 122	28 488	16	1	0,03%
	0,25 a <1	0,54%	0,53%	16 921	20 243	22	2	0,14%
	1 a <5	2,14%	2,24%	12 337	15 549	106	3	0,89%
	5 a <16	10,12%	10,54%	17 312	22 345	726	45	4,18%
	16 a <99	49,10%	48,89%	426	597	220	3	52,65%
	100	100,00%	100,00%	3 385	3 571	3 524	186	
2.3.2 Non-SME	0 a <0,25	0,16%	0,17%	30 597	32 721	35		0,16%
	0,25 a <1	0,52%	0,52%	52 936	60 972	249	5	0,47%
	1 a <5	2,21%	2,19%	39 280	44 033	691	17	1,84%
	5 a <16	9,26%	9,23%	27 735	30 263	2 553	19	9,94%
	16 a <99	44,23%	45,18%	2 146	2 307	1 360	7	62,93%
	100	100,00%	100,00%	13 800	13 944	13 704	144	

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(Unidades)

Exposure class	PD range	Weighted average PD (%)	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which, new obligors	2017 default rate
				End of previous year	End of the year			
1. CORPORATES	0 a <0,25	0,20%	0,18%	861	912			
	0,25 a <1	0,62%	0,55%	2 338	2 551			
	1 a <5	2,42%	2,35%	2 656	2 914	8		0,30%
	5 a <16	9,52%	9,93%	2 909	3 254	111		3,82%
	16 a <99	40,60%	46,90%	118	127	48	3	38,14%
	100	100,00%	100,00%	1 246	1 268	1 266	22	
1.1 Specialised lending	0 a <0,25							
	0,25 a <1	0,69%	0,66%	38	50			
	1 a <5	1,30%	1,30%	13	14			
	5 a <16	11,50%	11,50%	3	3			
	16 a <99							
	100	100,00%	100,00%	2	2	2		
1.2 SME	0 a <0,25	0,20%	0,19%	522	558			
	0,25 a <1	0,57%	0,55%	1 655	1 811			
	1 a <5	2,36%	2,31%	1 950	2 150	3		0,15%
	5 a <16	9,84%	10,06%	2 292	2 576	91		3,98%
	16 a <99	43,73%	47,27%	99	107	37	3	34,34%
	100	100,00%	100,00%	1 048	1 064	1 063	16	
2. RETAIL	0 a <0,25	0,14%	0,13%	771 525	830 793	533	14	0,07%
	0,25 a <1	0,52%	0,52%	437 761	487 700	1 649	22	0,37%
	1 a <5	2,15%	2,18%	296 645	337 345	4 182	40	1,40%
	5 a <16	9,02%	9,71%	214 765	277 093	13 364	213	6,12%
	16 a <99	34,65%	42,21%	19 627	21 993	8 016	51	40,58%
	100	100,00%	100,00%	105 593	107 298	106 238	1 705	
2.1 Secured by real estate	0 a <0,25	0,14%	0,13%	198 452	205 295	166	1	0,08%
	0,25 a <1	0,51%	0,51%	75 296	77 291	274	2	0,36%
	1 a <5	2,17%	2,17%	46 678	47 909	674	2	1,44%
	5 a <16	8,96%	9,01%	28 177	28 637	2 267	7	8,02%
	16 a <99	32,60%	31,05%	3 606	3 635	1 221	3	33,78%
	100	100,00%	100,00%	17 406	17 441	17 079	35	
2.1.1 SME	0 a <0,25	0,19%	0,19%	3 692	3 829			
	0,25 a <1	0,48%	0,49%	5 574	5 711	3		0,05%
	1 a <5	2,09%	2,12%	3 693	3 895	29	1	0,76%
	5 a <16	9,49%	9,70%	2 854	2 994	151	3	5,19%
	16 a <99	46,24%	45,09%	123	126	56		45,53%
	100	100,00%	100,00%	1 182	1 190	1 165	8	
2.1.2 Non-SME	0 a <0,25	0,14%	0,13%	194 760	201 466	166	1	0,08%
	0,25 a <1	0,51%	0,51%	69 722	71 580	271	2	0,39%
	1 a <5	2,17%	2,18%	42 985	44 014	645	1	1,50%
	5 a <16	8,91%	8,93%	25 323	25 643	2 116	4	8,34%
	16 a <99	32,00%	30,55%	3 483	3 509	1 165	3	33,36%

	100	100,00%	100,00%	16 224	16 251	15 914	27	
2.2 Qualifying Revolving	0 a <0,25	0,13%	0,13%	546 506	595 070	335	8	0,06%
	0,25 a <1	0,53%	0,52%	272 869	312 655	1 020	16	0,37%
	1 a <5	2,13%	2,20%	192 597	226 048	2 522	26	1,30%
	5 a <16	9,80%	9,87%	145 796	201 567	7 707	170	5,17%
	16 a <99	42,59%	43,99%	13 165	15 358	5 033	42	37,91%
	100	100,00%	100,00%	60 366	61 680	61 213	1 314	
2.3 Other Retail	0 a <0,25	0,17%	0,17%	26 567	30 428	32	5	0,10%
	0,25 a <1	0,52%	0,52%	89 596	97 754	355	4	0,39%
	1 a <5	2,10%	2,14%	57 370	63 388	986	12	1,70%
	5 a <16	9,15%	9,45%	40 792	46 889	3 390	36	8,22%
	16 a <99	46,52%	46,63%	2 856	3 000	1 762	6	61,48%
	100	100,00%	100,00%	27 821	28 177	27 946	356	
2.3.1 SME	0 a <0,25	0,18%	0,19%	12 772	14 740	1	1	
	0,25 a <1	0,53%	0,51%	24 385	26 824	39		0,16%
	1 a <5	2,12%	2,17%	14 802	17 249	141	2	0,94%
	5 a <16	9,92%	10,42%	16 286	20 335	744	21	4,43%
	16 a <99	48,61%	48,35%	447	492	246	3	54,36%
	100	100,00%	100,00%	5 279	5 463	5 400	184	
2.3.2 Non-SME	0 a <0,25	0,16%	0,16%	13 795	15 688	31	4	0,20%
	0,25 a <1	0,52%	0,52%	65 211	70 930	316	4	0,48%
	1 a <5	2,09%	2,12%	42 568	46 139	845	10	1,96%
	5 a <16	8,55%	8,72%	24 506	26 554	2 646	15	10,74%
	16 a <99	45,44%	46,29%	2 409	2 508	1 516	3	62,81%
	100	100,00%	100,00%	22 542	22 714	22 546	172	

The figures for the risk positions of portfolios treated by the IRB approach, with reference to 31 December and 30 June 2018 are presented in Tables 30 to 34, which reflect the different risk classes of the portfolios – Corporate, retail, Specialised Lending and Equity.

TABLE 30 – TEMPLATE 21 / EU CR6 (I) – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE - CORPORATES

31/12/2018													(Thousand euros, Units)
	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
CORPORATE	0,01% to 0,05%												
	0,05% to 0,07%		154	26,97%	42	0,05%	10	42,26%	995	9	20,8%	0	
	0,07% to 0,14%	33	9 549	41,76%	4 033	0,10%	78	42,26%	1 110	1 345	33,4%	2	
	0,14% to 0,28%	703 595	873 209	78,58%	1 391 732	0,20%	371	42,09%	635	507 239	36,5%	1 172	
	0,28% to 0,53%	375 315	323 145	78,79%	634 416	0,40%	352	29,93%	760	230 639	36,4%	759	
	0,53% to 0,95%	575 097	389 682	70,47%	845 926	0,70%	386	38,73%	796	578 805	68,4%	2 291	
	0,95% to 1,73%	454 270	264 029	67,33%	630 286	1,30%	298	40,40%	512	516 042	81,9%	3 309	
	1,73% to 2,92%	1 195 783	300 324	62,91%	1 379 303	2,30%	289	36,06%	701	1 312 670	95,2%	11 432	
	2,92% to 4,67%	486 095	318 907	48,23%	622 966	3,70%	273	36,29%	1 013	742 007	119,1%	8 353	
	4,67% to 7,00%	204 156	157 898	34,66%	254 554	5,90%	185	34,43%	975	331 071	130,1%	5 181	
	7,00% to 9,77%	301 680	56 891	29,40%	313 877	8,30%	96	38,89%	1 138	541 260	172,4%	10 138	
	9,77% to 13,61%	418 068	252 701	35,43%	504 282	11,50%	297	34,68%	1 190	867 362	172,0%	20 081	
	13,61% to 100,00%	24 828	22 492	27,29%	30 966	50,85%	63	37,22%	721	57 218	184,8%	5 802	
	100,00% (default)	2 119 178	247 739	43,34%	2 226 548	100,00%	193	69,45%	1 203	265 881	11,9%	1 469 110	
	SUBTOTAL	6 858 098	3 216 718	62,62%	8 838 930	27,22%	2 891	45,50%	890	5 951 550	67,3%	1 537 629	-1 540 643
SME	0,01% to 0,05%												
	0,05% to 0,07%	45	612	45,07%	321	0,05%	7	39,65%	411	27	8,4%	0	
	0,07% to 0,14%	4 349	3 736	55,26%	5 937	0,10%	72	36,54%	778	966	16,3%	2	
	0,14% to 0,28%	62 978	107 648	72,85%	137 686	0,20%	494	39,53%	537	32 041	23,3%	108	
	0,28% to 0,53%	170 979	226 083	61,31%	281 351	0,40%	948	39,03%	673	98 784	35,1%	440	
	0,53% to 0,95%	288 494	197 166	59,16%	391 575	0,70%	975	37,48%	755	189 738	48,5%	1 022	
	0,95% to 1,73%	317 960	183 570	57,48%	359 846	1,30%	984	38,83%	597	214 130	59,5%	1 809	
	1,73% to 2,92%	638 914	163 874	42,70%	649 023	2,30%	756	39,07%	1 226	690 223	106,4%	5 832	
	2,92% to 4,67%	252 629	210 409	34,56%	272 827	3,70%	637	36,59%	635	215 430	79,0%	3 656	

4,67% to 7,00%	218 921	105 519	39,65%	243 097	5,90%	556	35,68%	765	228 510	94,0%	5 079	
7,00% to 9,77%	121 777	93 629	33,64%	141 210	8,30%	281	35,50%	697	143 548	101,7%	4 112	
9,77% to 13,61%	672 121	188 158	35,96%	718 520	11,50%	1 854	33,61%	907	886 711	123,4%	27 696	
13,61% to 100,00%	149 693	15 364	30,72%	154 412	51,44%	150	33,94%	1 503	235 812	152,7%	26 918	
100,00% (default)	926 963	140 901	23,72%	960 385	100,00%	836	56,34%	1 218	161 937	16,9%	490 977	
SUBTOTAL	3 825 825	1 636 671	46,64%	4 316 190	25,96%	8 550	40,99%	938	3 097 857	71,8%	567 652	-557 371
TOTAL	10 683 923	4 853 390	-	13 155 119	-	-	-	-	9 049 407	68,8%	2 105 282	-2 098 014

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

30/06/2018

(Thousand euros, Units)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
CORPORATE	0,01% to 0,05%												
	0,05% to 0,07%		316	23,40%	74	0,05%	11	42,26%	719	12	16,6%		
	0,07% to 0,14%	20 136	18 643	55,63%	30 508	0,10%	83	42,13%	503	6 479	21,2%	13	
	0,14% to 0,28%	549 004	978 888	80,23%	1 335 968	0,20%	370	41,80%	649	490 418	36,7%	1 117	
	0,28% to 0,53%	468 829	262 931	71,71%	658 125	0,40%	386	29,62%	641	235 639	35,8%	779	
	0,53% to 0,95%	411 964	448 758	75,86%	747 612	0,70%	311	39,77%	733	516 793	69,1%	2 080	
	0,95% to 1,73%	551 404	245 341	68,84%	720 933	1,30%	302	40,34%	645	627 777	87,1%	3 780	
	1,73% to 2,92%	451 873	249 778	61,87%	591 479	2,30%	229	34,28%	585	515 400	87,1%	4 653	
	2,92% to 4,67%	789 018	322 575	50,54%	962 200	3,70%	280	36,69%	645	1 054 342	109,6%	13 058	
	4,67% to 7,00%	253 495	217 779	46,73%	343 388	5,91%	189	34,84%	569	414 909	120,8%	7 068	
	7,00% to 9,77%	484 568	78 963	45,01%	436 600	8,30%	122	30,74%	772	555 619	127,3%	11 063	
	9,77% to 13,61%	487 216	229 583	38,32%	547 430	11,50%	310	32,56%	1 030	862 635	157,6%	20 491	
	13,61% to 100,00%	24 888	15 144	24,82%	28 647	42,52%	24	34,52%	1 064	53 535	186,9%	4 179	
	100,00% (default)	2 546 900	283 282	42,34%	2 666 845	100,00%	212	65,65%	1 111	412 175	15,5%	1 593 400	
	SUBTOTAL	7 039 295	3 351 981	64,45%	9 069 809	31,52%	2 829	45,20%	812	5 745 733	63,4%	1 661 679	-1 670 480
SME	0,01% to 0,05%												
	0,05% to 0,07%	241	702	47,01%	571	0,05%	4	32,71%	365	39	6,8%	0	

0,07% to 0,14%	3 843	3 189	42,31%	4 992	0,10%	70	32,93%	858	767	15,4%	2	
0,14% to 0,28%	71 944	112 202	60,93%	135 972	0,20%	501	38,76%	579	31 444	23,1%	105	
0,28% to 0,53%	258 783	230 835	61,66%	380 904	0,40%	924	38,44%	810	155 132	40,7%	584	
0,53% to 0,95%	255 561	184 320	55,40%	320 531	0,70%	973	38,47%	632	150 849	47,1%	859	
0,95% to 1,73%	300 050	169 652	56,26%	470 565	1,30%	883	36,07%	616	283 778	60,3%	2 180	
1,73% to 2,92%	580 821	120 781	46,50%	583 839	2,30%	696	39,00%	1 318	648 909	111,2%	5 230	
2,92% to 4,67%	258 209	109 971	39,96%	265 054	3,70%	644	36,59%	705	215 597	81,3%	3 551	
4,67% to 7,00%	184 465	75 248	37,22%	194 225	5,90%	496	35,71%	858	182 676	94,1%	4 051	
7,00% to 9,77%	90 865	79 083	36,72%	115 893	8,30%	257	35,01%	716	125 670	108,4%	3 340	
9,77% to 13,61%	573 635	226 435	33,29%	635 175	11,50%	1 700	31,03%	835	714 580	112,5%	22 565	
13,61% to 100,00%	89 915	10 505	25,26%	92 286	47,57%	120	33,26%	1 460	136 090	147,5%	14 557	
100,00% (default)	1 156 151	140 946	24,36%	1 190 489	100,00%	923	57,48%	1 213	180 781	15,2%	603 099	
SUBTOTAL	3 824 482	1 463 868	46,42%	4 390 495	29,70%	8 191	41,70%	950	2 826 311	64,4%	660 124	-654 861
TOTAL	10 863 776	4 815 849		13 460 304					8 572 043	63,7%	2 321 803	-2 325 340

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

TABLE 31 – TEMPLATE 21 / EU CR6 (II) – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE - RETAIL

31/12/2018 (Thousand euros, Units)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
SECURED BY REAL ESTATE	0,01% to 0,05%												
	0,05% to 0,07%	91 755	2 940	97,53%	94 622	0,05%	1 222	16,23%		2 241	2,4%	8	
	0,07% to 0,14%	9 132 511	52 454	92,64%	9 303 387	0,09%	166 840	21,28%		454 273	4,9%	1 774	
	0,14% to 0,28%	4 145 162	36 080	100,62%	4 240 069	0,20%	63 094	19,71%		340 721	8,0%	1 614	
	0,28% to 0,53%	2 417 772	17 847	94,92%	2 476 111	0,40%	38 793	19,41%		333 767	13,5%	1 909	
	0,53% to 0,95%	1 710 787	7 441	90,28%	1 721 471	0,70%	27 565	20,42%		362 347	21,1%	2 473	
	0,95% to 1,73%	1 137 015	5 959	91,97%	1 139 407	1,30%	18 669	20,66%		363 941	31,9%	3 044	
	1,73% to 2,92%	760 518	3 250	103,42%	749 065	2,29%	12 782	20,52%		339 016	45,3%	3 508	

	2,92% to 4,67%	785 748	4 342	98,82%	794 191	3,71%	13 716	19,38%		447 293	56,3%	5 733	
	4,67% to 7,00%	553 513	3 840	69,80%	488 344	5,93%	8 587	19,38%		353 050	72,3%	5 633	
	7,00% to 9,77%	366 074	511	59,10%	321 241	8,47%	5 575	19,28%		273 752	85,2%	5 325	
	9,77% to 13,61%	869 501	2 960	77,03%	768 111	11,50%	13 164	17,11%		642 434	83,6%	15 110	
	13,61% to 100,00%	276 594	283	96,29%	276 819	29,09%	4 156	26,07%		402 065	145,2%	18 591	
	100,00% (default)	1 077 772	569	99,47%	1 078 338	100,00%	12 403	29,42%		963 147	89,3%	264 617	
	SUBTOTAL	23 324 721	138 477	94,35%	23 451 178	5,98%	386 566	20,82%		5 278 049	22,5%	329 338	-221 996
QUALIFYING REVOLVING RETAIL EXPOSURES	0,01% to 0,05%												
	0,05% to 0,07%	2 054	133 317	12,70%	18 985	0,05%	70 043	63,14%		425	2,2%	6	
	0,07% to 0,14%	74 236	541 871	46,60%	326 761	0,08%	286 753	59,55%		10 536	3,2%	160	
	0,14% to 0,28%	101 619	518 416	22,47%	218 099	0,20%	260 853	58,89%		14 272	6,5%	253	
	0,28% to 0,53%	105 510	225 509	29,88%	172 898	0,40%	187 361	58,34%		19 732	11,4%	398	
	0,53% to 0,95%	92 772	118 559	38,81%	138 790	0,71%	130 457	58,80%		25 305	18,2%	577	
	0,95% to 1,73%	85 999	71 710	45,87%	118 889	1,29%	98 986	59,85%		34 873	29,3%	914	
	1,73% to 2,92%	58 239	36 968	40,58%	73 239	2,27%	63 601	60,66%		33 073	45,2%	1 006	
	2,92% to 4,67%	43 805	23 819	37,05%	52 629	3,77%	51 302	60,87%		34 154	64,9%	1 208	
	4,67% to 7,00%	29 053	15 125	33,06%	34 054	6,03%	41 834	59,82%		29 647	87,1%	1 231	
	7,00% to 9,77%	18 805	10 104	35,09%	22 351	9,11%	30 433	61,11%		25 622	114,6%	1 252	
	9,77% to 13,61%	26 421	46 650	12,69%	32 339	11,50%	158 975	60,52%		41 459	128,2%	2 251	
	13,61% to 100,00%	32 151	4 440	69,73%	35 246	29,10%	22 792	65,14%		63 859	181,2%	6 626	
	100,00% (default)	43 310	2 738	7,60%	43 518	100,00%	57 236	77,89%		59 438	136,6%	30 074	
	SUBTOTAL	713 974	1 749 224	32,80%	1 287 799	5,37%	1 460 626	60,22%		392 396	30,5%	45 956	-39 518
OTHER RETAIL – SME	0,01% to 0,05%												
	0,05% to 0,07%	3 045	15 445	44,34%	9 664	0,05%	241	36,73%		425	4,4%	2	
	0,07% to 0,14%	62 593	125 973	35,86%	117 449	0,10%	14 837	32,11%		7 675	6,5%	38	
	0,14% to 0,28%	177 776	134 518	39,85%	239 363	0,20%	18 167	30,51%		24 342	10,2%	149	
	0,28% to 0,53%	187 844	94 217	39,11%	211 506	0,40%	12 757	30,83%		34 318	16,2%	267	
	0,53% to 0,95%	148 194	67 224	39,39%	150 791	0,70%	9 644	29,99%		31 944	21,2%	320	
	0,95% to 1,73%	116 745	30 533	28,36%	96 902	1,30%	7 290	30,78%		27 602	28,5%	394	

	1,73% to 2,92%	76 682	28 264	47,85%	65 584	2,30%	4 624	31,36%		22 728	34,7%	479	
	2,92% to 4,67%	51 896	16 189	54,59%	71 603	3,70%	6 117	30,24%		25 041	35,0%	800	
	4,67% to 7,00%	29 731	8 208	21,00%	22 388	5,90%	2 893	31,79%		8 755	39,1%	424	
	7,00% to 9,77%	21 450	4 251	19,74%	14 447	8,30%	1 780	33,47%		6 309	43,7%	407	
	9,77% to 13,61%	104 767	72 929	28,76%	84 944	11,50%	18 252	34,10%		41 472	48,8%	3 348	
	13,61% to 100,00%	13 796	14 523	26,08%	17 225	50,03%	796	35,90%		12 699	73,7%	3 117	
	100,00% (default)	126 948	94 622	24,16%	149 807	100,00%	3 951	55,20%		106 039	70,8%	74 214	
	SUBTOTAL	1 121 468	706 896	35,39%	1 251 672	13,13%	101 349	33,79%		349 348	27,9%	83 960	-94 787
OTHER RETAIL – NON SME	0,01% to 0,05%												
	0,05% to 0,07%	15 649	5 746	48,67%	18 444	0,05%	704	16,77%		481	2,6%	2	
	0,07% to 0,14%	93 621	13 586	66,66%	108 665	0,10%	4 560	17,57%		4 996	4,6%	19	
	0,14% to 0,28%	330 114	21 858	42,37%	345 018	0,20%	27 427	19,94%		29 419	8,5%	138	
	0,28% to 0,53%	402 353	10 453	57,63%	412 015	0,40%	37 985	25,41%		69 729	16,9%	419	
	0,53% to 0,95%	252 570	8 717	51,44%	258 320	0,70%	26 862	26,59%		62 466	24,2%	481	
	0,95% to 1,73%	198 279	3 937	59,85%	197 317	1,30%	20 479	26,44%		62 124	31,5%	678	
	1,73% to 2,92%	128 907	1 606	55,24%	127 589	2,30%	14 397	27,09%		48 510	38,0%	795	
	2,92% to 4,67%	91 278	2 197	56,84%	94 160	3,70%	10 484	27,40%		38 938	41,4%	954	
	4,67% to 7,00%	84 470	914	37,21%	80 724	5,90%	8 269	32,10%		41 121	50,9%	1 529	
	7,00% to 9,77%	55 062	770	36,62%	51 294	8,30%	7 135	31,91%		27 509	53,6%	1 358	
	9,77% to 13,61%	117 513	4 004	26,61%	113 232	11,50%	13 735	33,76%		70 773	62,5%	4 396	
	13,61% to 100,00%	28 132	979	20,77%	28 316	44,30%	2 335	27,54%		20 465	72,3%	3 430	
	100,00% (default)	236 167	3 409	34,99%	237 359	100,00%	15 567	59,99%		220 687	93,0%	124 731	
	SUBTOTAL	2 034 114	78 176	50,14%	2 072 454	13,76%	189 939	29,31%		697 218	33,6%	138 929	-148 210
TOTAL		27 194 277	2 672 772	-	28 063 104	-	2 138 480	-		6 717 011	23,9%	598 183	-504 511

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

30/06/2018

(Thousand euros, Units)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
SECURED BY REAL ESTATE	0,01% to 0,05%												
	0,05% to 0,07%	85 145	2 597	95,09%	87 615	0,05%	1 221	16,12%		2 065	2,4%	7	
	0,07% to 0,14%	9 168 598	39 816	72,42%	9 295 053	0,09%	169 991	21,45%		456 840	4,9%	1 782	
	0,14% to 0,28%	3 987 280	28 939	95,43%	4 072 511	0,20%	61 319	19,89%		330 871	8,1%	1 566	
	0,28% to 0,53%	2 313 634	15 771	94,79%	2 360 478	0,40%	37 231	19,58%		320 975	13,6%	1 836	
	0,53% to 0,95%	1 632 514	5 436	88,83%	1 640 515	0,70%	26 461	20,60%		348 834	21,3%	2 378	
	0,95% to 1,73%	1 081 542	3 398	97,71%	1 096 828	1,30%	17 898	20,49%		347 533	31,7%	2 906	
	1,73% to 2,92%	745 418	3 222	121,83%	741 474	2,29%	12 404	20,35%		332 787	44,9%	3 445	
	2,92% to 4,67%	753 664	9 676	89,18%	771 114	3,71%	13 139	19,42%		435 214	56,4%	5 575	
	4,67% to 7,00%	562 115	2 198	95,17%	504 995	5,93%	8 548	19,33%		363 816	72,0%	5 806	
	7,00% to 9,77%	381 080	568	53,90%	332 347	8,45%	5 726	19,22%		281 703	84,8%	5 476	
	9,77% to 13,61%	895 024	3 091	50,71%	799 738	11,50%	13 607	17,10%		667 543	83,5%	15 726	
	13,61% to 100,00%	248 860	274	94,60%	249 119	29,15%	3 778	26,49%		368 395	147,9%	17 198	
	100,00% (default)	1 319 520	512	98,31%	1 320 023	100,00%	14 895	27,83%		1 128 593	85,5%	300 559	
	SUBTOTAL	23 174 395	115 498	85,98%	23 271 808	7,05%	386 218	20,95%		5 385 167	23,1%	364 261	-258 644
QUALIFYING REVOLVING RETAIL EXPOSURES	0,01% to 0,05%												
	0,05% to 0,07%	2 006	147 827	12,69%	20 768	0,05%	77 564	62,93%		464	2,2%	7	
	0,07% to 0,14%	70 633	537 183	45,78%	316 567	0,08%	284 728	59,47%		10 205	3,2%	155	
	0,14% to 0,28%	93 405	509 290	22,42%	207 577	0,20%	255 839	58,85%		13 566	6,5%	240	
	0,28% to 0,53%	99 019	216 635	29,67%	163 291	0,40%	181 005	58,42%		18 665	11,4%	377	
	0,53% to 0,95%	87 086	113 864	38,66%	131 112	0,71%	126 698	58,68%		23 855	18,2%	544	
	0,95% to 1,73%	79 484	70 235	48,50%	113 552	1,29%	96 598	60,00%		33 393	29,4%	875	
	1,73% to 2,92%	54 395	36 546	48,09%	71 969	2,27%	62 911	61,01%		32 681	45,4%	994	
	2,92% to 4,67%	41 907	24 123	46,04%	53 013	3,77%	51 727	60,99%		34 470	65,0%	1 220	

	4,67% to 7,00%	26 661	15 380	54,99%	35 119	6,04%	42 581	60,75%		31 080	88,5%	1 291	
	7,00% to 9,77%	17 404	10 171	63,72%	23 885	9,15%	31 172	61,43%		27 588	115,5%	1 351	
	9,77% to 13,61%	25 797	47 499	12,71%	31 836	11,50%	149 585	60,54%		40 834	128,3%	2 216	
	13,61% to 100,00%	29 720	4 132	338,42%	43 705	26,72%	22 587	66,07%		78 822	180,4%	7 648	
	100,00% (default)	52 194	2 991	8,68%	52 454	100,00%	69 560	78,79%		68 705	131,0%	36 849	
	SUBTOTAL	679 713	1 735 878	33,71%	1 264 847	6,28%	1 452 555	60,53%		414 327	32,8%	53 765	-45 022
OTHER RETAIL – SME	0,01% to 0,05%												
	0,05% to 0,07%	3 631	13 491	43,32%	9 476	0,05%	234	34,41%		388	4,1%	2	
	0,07% to 0,14%	59 124	122 245	34,20%	115 688	0,10%	14 442	32,11%		7 443	6,4%	37	
	0,14% to 0,28%	158 460	120 444	37,32%	236 042	0,20%	16 817	30,06%		23 206	9,8%	142	
	0,28% to 0,53%	162 998	78 208	34,62%	200 335	0,40%	11 867	30,30%		30 951	15,5%	242	
	0,53% to 0,95%	124 582	54 571	30,30%	128 251	0,70%	9 201	29,05%		26 045	20,3%	262	
	0,95% to 1,73%	106 226	44 109	37,05%	104 931	1,30%	7 435	29,80%		28 831	27,5%	410	
	1,73% to 2,92%	76 074	22 206	27,06%	61 631	2,30%	4 830	31,06%		20 737	33,7%	444	
	2,92% to 4,67%	52 235	23 287	47,29%	72 538	3,70%	6 117	29,15%		24 545	33,8%	786	
	4,67% to 7,00%	33 213	16 239	23,59%	27 288	5,90%	2 868	31,68%		10 604	38,9%	516	
	7,00% to 9,77%	18 319	4 480	16,93%	12 649	8,30%	1 785	30,44%		4 968	39,3%	321	
	9,77% to 13,61%	104 501	54 278	23,16%	79 863	11,50%	17 287	32,48%		36 925	46,2%	2 981	
	13,61% to 100,00%	8 963	3 387	37,96%	10 085	50,08%	611	35,67%		7 380	73,2%	1 816	
	100,00% (default)	185 093	83 378	23,65%	204 810	100,00%	5 403	61,41%		147 221	71,9%	114 010	
	SUBTOTAL	1 093 420	640 322	32,44%	1 263 587	17,70%	98 897	35,34%		369 244	29,2%	121 968	-140 810
OTHER RETAIL – NON SME	0,01% to 0,05%												
	0,05% to 0,07%	18 363	5 603	47,81%	21 042	0,05%	818	16,28%		532	2,5%	2	
	0,07% to 0,14%	91 661	11 787	61,80%	103 127	0,10%	4 580	17,32%		4 680	4,5%	18	
	0,14% to 0,28%	322 627	17 781	52,29%	338 850	0,20%	26 699	19,97%		28 929	8,5%	135	
	0,28% to 0,53%	366 475	19 205	45,40%	380 681	0,40%	35 127	24,40%		61 866	16,3%	371	
	0,53% to 0,95%	290 732	9 556	50,32%	295 220	0,70%	25 640	24,89%		66 854	22,7%	514	
	0,95% to 1,73%	176 947	3 872	66,79%	177 194	1,30%	19 775	26,42%		55 752	31,5%	608	
	1,73% to 2,92%	134 528	3 687	52,45%	136 747	2,30%	13 957	29,24%		56 198	41,1%	920	

2,92% to 4,67%	83 359	1 364	48,89%	84 145	3,70%	10 205	26,65%		33 881	40,3%	830	
4,67% to 7,00%	67 300	1 742	24,32%	62 805	5,90%	7 790	29,79%		29 598	47,1%	1 104	
7,00% to 9,77%	54 981	343	32,61%	51 299	8,30%	6 844	26,28%		22 651	44,2%	1 119	
9,77% to 13,61%	137 690	2 735	38,13%	132 270	11,50%	14 511	34,13%		83 734	63,3%	5 192	
13,61% to 100,00%	17 445	966	20,96%	17 645	43,28%	2 321	31,13%		14 358	81,4%	2 399	
100,00% (<i>default</i>)	346 084	2 958	36,76%	347 171	100,00%	22 193	65,11%		285 296	82,2%	203 394	
SUBTOTAL	2 108 192	81 598	50,05%	2 148 197	18,19%	190 460	31,35%		744 329	34,7%	216 605	-227 814
TOTAL	27 055 720	2 573 296		27 948 438					6 913 067	24,7%	756 599	-672 289

NOTE: This data does not include the exposures on Derivatives and Specialised Lending.

TABLE 32 – TEMPLATE 5 / EU CR10 (I) – IRB (SPECIALISED LENDING)

31/12/2018		(Thousand euros)					
Regulatory categories	Remaining maturity	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Expected losses
Category 1	Less than 2.5 years			50%			
	Equal to or more than 2.5 years	45 090		70%	45 144	31 601	181
Category 2	Less than 2.5 years			70%			
	Equal to or more than 2.5 years	850 624	330 340	90%	1 118 908	1 007 017	8 951
Category 3	Less than 2.5 years			115%			
	Equal to or more than 2.5 years	107 937	34 584	115%	111 533	127 752	3 123
Category 4	Less than 2.5 years			250%			
	Equal to or more than 2.5 years	16 320	3 273	250%	18 130	45 325	1 450
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years	6 134	3 012		7 878	12 661	1 812
TOTAL	Less than 2.5 years						
	Equal to or greater than 2.5 years	1 026 104	371 211		1 301 594	1 224 355	15 517

30/06/2018		(Thousand euros)					
Regulatory categories	Remaining maturity	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Expected losses
Category 1	Less than 2.5 years			50%			
	Equal to or more than 2.5 years	20 350		70%	20 361	14 252	81
Category 2	Less than 2.5 years			70%			
	Equal to or more than 2.5 years	901 563	354 026	90%	1 186 577	1 067 919	9 493
Category 3	Less than 2.5 years			115%			
	Equal to or more than 2.5 years	117 849	39 518	115%	121 894	139 622	3 413
Category 4	Less than 2.5 years			250%			
	Equal to or more than 2.5 years	16 754	3 266	250%	18 838	47 094	1 507
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years	1 529	2 438		2 934		1 467
TOTAL	Less than 2.5 years						
	Equal to or greater than 2.5 years	1 058 045	399 248		1 350 603	1 268 888	15 961

TABLE 33 – TEMPLATE 5 / EU CR10 (II) – IRB (EQUITY POSITIONS)

31/12/2018				(Thousand euros)			
Equities under the simple risk-weighted approach							
Categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Own funds requirements	Expected losses
Private equity exposures	1 065 341		190%	1 065 341	2 024 149	161 932	8 523
Exchange-traded equity exposures	19 265		290%	19 265	55 867	4 469	154
Other equity exposures	136 081		370%	136 081	503 500	40 280	3 266
TOTAL	1 220 687			1 220 687	2 583 516	206 681	11 943

30/06/2018

(Thousand euros)

Equities under the simple risk-weighted approach

Categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Own funds requirements	Expected losses
Private equity exposures	1 216 760		190%	1 216 760	2 311 843	184 948	9 734
Exchange-traded equity exposures	7 303		290%	7 303	21 180	1 694	58
Other equity exposures	97 955		370%	97 955	362 434	28 995	2 351
TOTAL	1 322 018			1 322 018	2 695 457	215 637	12 143

TABLE 34 – TEMPLATE 23 / EU CR8 – RWA FLOW STATEMENTS OF CCR EXPOSURES UNDER THE IRB APPROACH

	31 Dec 2018		30 Sep 2018	
	RWA amounts	Capital requirements	RWA amounts	Capital requirements
RWA AS AT THE END OF THE PREVIOUS REPORTING PERIOD ^(*)	20 971 750	1 677 740	20 623 601	1 649 888
Asset size	-441 433	-35 315	12 428	994
Asset quality				
Model updates				
Methodology and policy				
Acquisitions and disposals				
Foreign exchange movements	-31 005	-2 480	-4 465	-357
Other	267 095	21 368	340 185	27 215
RWA AS AT THE END OF THE REPORTING PERIOD ^(**)	20 766 407	1 661 313	20 971 750	1 677 740

^(*) 30/06/2018 for Sep 2018; 30/09/2018 for Dec 2018^(**) 30/09/2018 for Sep 2018; 31/12/2018 for Dec 2018

4.5.5. STANDARDISED APPROACH – EXPOSURES AND RISK WEIGHTS BY REGULATORY RISK CLASSES

TABLE 36 – TEMPLATE 20 / EU CR5 – STANDARDISED APPROACH

The on- and off-balance sheet risk positions within the scope of the regulatory consolidation, net from specific credit risk adjustments and cancellations, post conversion factors and post CRM techniques, relative to portfolios that are treated under the standardised approach, as at 31 December and 30 June 2018, are broken down in the following table:

Exposure classes	Risk weights															(Thousand euros)		
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Outros	Deduzidas	TOTAL	RWA
Central Governments or Central Banks	14 669 778				12 811		50 252			553 657	789 057				14		16 075 569	1 764 934
Regional Governments or Local Authorities					563 518		4			77	0				127		563 727	112 808
Public Setor Entities					87		12 529			21	87 176				0		99 814	137 068
Multilateral Development Banks	19 139																19 139	
International Organisations																		
Institutions					1 230 311		243 264			76 844	2 684				200 203		1 753 305	452 567
Corporates					10 186		46 764			4 711 265	108 035				76 388		4 952 637	4 713 704
Retail									2 778 714								2 778 714	1 977 644
Secured by mortgages on immovable property					175		739 998		34 210	208 692	132 941				42 901		1 158 918	791 032
Exposures in default	1 315						0			276 679	104 082						382 075	432 802
Items associated with particularly high risk																		
Covered bonds																		
Claims on institutions and corporates with a short-term credit assessment																		
Collective Investment Undertakings										2	22 557				134 917		157 476	109 579
Equity exposures										1 148		28 308					29 457	71 919
Other exposures																		
TOTAL	14 690 232				1 817 088		1 092 811		2 812 924	5 828 385	1 246 532	28 308			454 551		27 970 832	10 564 057

30/06/2018

(Thousand euros)

Exposure classes	Risk weights															Deduzidas	TOTAL	RWA
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Outros			
Central Governments or Central Banks	12 747 089				10 205		46 128			487 234	812 773				8		14 103 437	1 731 502
Regional Governments or Local Authorities					653 525		4			158					125		653 812	130 890
Public Setor Entities					9		11 017			11	110 274						121 311	170 933
Multilateral Development Banks	18 486																18 486	
International Organisations																		
Institutions	46 326				1 264 644		292 021			68 100	6 381				261 898		1 939 370	559 912
Corporates					9 583		50 106			4 257 394	258 393				78 463		4 653 938	4 482 672
Retail									2 370 715								2 370 715	1 675 272
Secured by mortgages on immovable property					198		608 368		26 711	197 112	21 803				47 354		901 545	535 749
Exposures in default	1 229									279 994	105 532						386 756	438 293
Items associated with particularly high risk																		
Covered bonds																		
Claims on institutions and corporates with a short-term credit assessment																		
Collective Investment Undertakings										3	22 649						22 652	33 977
Equity exposures										1 171		20 903					22 074	53 429
Other exposures																		
TOTAL	12 813 129				1 938 163		1 007 643		2 397 426	5 291 177	1 337 807	20 903			387 847		25 194 095	9 812 627

5. COUNTERPARTY CREDIT RISK

The counterparty credit risk translates the risk of counterparties being unable to meet their liabilities resulting from securities contracts such as derivatives for instance.

The total exposure limit for counterparties that are not financial institutions in contracts subject to this type of risk is divided into two components: one for traditional credit operations (financial and/or signature) and another for treasury products.

The Bank gives preference to the definition of exposure limits to counterparty credit risk, bilateral contracts to guarantee exposures resulting from derivatives and the creation of collaterals within the scope of these agreements as preferred tools to mitigate counterparty credit risk.

The manual Credit Regulations for Sovereigns and Financial Institutions defines the way in which the consumptions of the counterparty credit risk limits are determined. This calculation is regularly made based on the market value of the operations, to which a factor arising from the future potential variation of that same value is added, adjusting for the volatility and deadline of each operation.

The Bank has a policy of closing bilateral contracts to guarantee exposures resulting from OTC derivatives contracted with Banks under the ISDA Master Agreement (ISDA – International Swaps and Derivatives Association).

In addition, an ISDA Master Agreement may frame the creation of collateral using an annex or ISDA Credit Support Document. As a template for the Credit Support Document, the Bank chose the Credit Support Annexes (CSA) contracts to guarantee the constitution, by the entity with net values payable in the future, of financial collaterals from the other party to guarantee the payment of these contractual obligations. In these contracts, the Bank (almost exclusively) accepts deposits in Euros as collateral.

Generally speaking, the Bank does not use netting as a technique for credit risk mitigation/reduction under RWA/capital requirements calculation; only in accounting, non-prudential terms, netting is used for interest rate swaps, per operation. The exception to this are the approved ISDA Master Netting Agreements (MNA) celebrated with 5 entities form the “Institutions” risk class that effectively provide prudential credit risk mitigation.

Finally, the Bank uses a framework agreement model of TBMA/ISMA (The Bond Market Association/International Securities Market Association) within the scope of the repo operations it carries out. This framework agreement, the Global Master Repurchase Agreement (GMRA), defines the repo transactions between the parties and regulates the creation of the collateral that guarantees the exposure.

Both in 2018 and in 2017, for the purposes of reducing counterparty credit risk, the Group used the financial collateral comprehensive method, as established in article 223, Section 4, Chapter 4, Title II, Part III of the CRR, and the mark-to-market method to calculate the future exposure in the relevant positions with credit risk, as defined in article 274, Section 3, Chapter 6, Title II, Part III of the CRR.

After estimating the exposures as at 2018 and 2017, the own funds requirements were computed, on one hand, according to Chapter 2, Title II, Part III of the CRR, for risk scores and portfolios that followed the standardised approach, and, on the other hand, according to Chapter 3, Title II, Part III of the CRR, for the portfolios for which the Supervisor has authorised the IRB Approach.

According to the mark-to-market method, the necessary values to calculate the exposure in the relevant positions have two components: (i) the market value of each operation and (ii) the percentage of the nominal to be applied as an add-on to that market value.

The market values of the operations are directly collected from the Bank’s front-end application (namely Kondor+), in which the management and evaluation of the operations is carried out, whilst the add-on values to be applied are directly identifiable in table I of paragraph c) of article 274, Section 3, Chapter 6, Title II, Part III of the CRR.

Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories – commonly referred to as EMIR (European Markets Infrastructure Regulation) – has introduced legal obligations with the aim of improving post-trade transparency and reducing the risks associated with the derivatives market, in particular through the need to bring in a central counterparty or the adoption of risk mitigation techniques for derivatives not centrally cleared.

Taking into account the regulations applicable to its category, the Group became obliged to carry out the clearing of the OTC derivatives portfolio within the criteria defined by the EMIR, with a qualified CCP. This clearing obligation is, in a first stage, applicable to the simpler derivatives, namely, those relating to interest rate (IRS and FRA) and in the most common currencies (EUR, GBP, JPY, USD). Afterwards, there will be a phased extension of these obligations to a broader set of derivatives.

The Bank’s negotiating policy for ISDA CSA clauses privileges bilateral conditions, without any terms associated with the counterparties’ ratings. Moreover, after the implementation of the last phase of EMIR, the conditions defined for OTC

collateral contracts cannot be linked to credit ratings. In this context, there is currently no relation between the collateral requirements for OTC derivatives and the rating of the Bank.

As at December 2017, the Group did not have any formal counterparty credit risk coverage operation in force.

The next tables (36 to 44) present further details on the exposures to counterparty credit risk.

TABLE 36 – TEMPLATE 25 / EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

31/12/2018 (Thousand euros)

	Notional	Replacement cost / Current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		348 569	499 069			668 721	433 632
Original exposure							
Standardised approach							
Internal Model Method - IMM (for derivatives and SFTs)							
Of which: securities financing transactions							
Of which: derivatives and long settlements transactions							
Of which: from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR (Value at risk) for SFTs							
TOTAL							433 632

30/06/2018 (Thousand euros)

	Notional	Replacement cost / Current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		372 437	493 874			669 751	456 432
Original exposure							
Standardised approach							
Internal Model Method - IMM (for derivatives and SFTs)							
Of which: securities financing transactions							
Of which: derivatives and long settlements transactions							
Of which: from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR (Value at risk) for SFTs							
TOTAL							456 432

TABLE 37 – TEMPLATE 26 / EU CCR2 – CVA CAPITAL CHARGE

(Thousand euros)

	31 Dec 2018		30 Jun 2018	
	Exposure value	RWA	Exposure value	RWA
Total portfolios subject to the advanced method				
(i) VaR component (including the 3x multiplier)				
(ii) SVaR component (including the 3x multiplier)				
All portfolios subject to the standardised method	415 898	151 302	410 129	156 587
Based on the original exposure method				
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE	415 898	151 302	410 129	156 587

TABLE 38 – TEMPLATE 27 / EU CCR8 – EXPOSURES TO CCP

31/12/2018	(Thousand euros)	
	EAD post CRM	RWA
EXPOSURES TO QCCP (TOTAL)		
Exposures for trades at QCCP (excluding initial margin and default fund contributions); of which:		
(i) OTC derivatives	208 451	7 910
(ii) Exchange-traded derivatives		
(iii) SFT		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin	140 420	
Non-segregated initial margin		
Prefunded default fund contributions		
Alternative calculation of own funds requirements for exposures		
EXPOSURES TO NON-QCCP (TOTAL)		
Exposures for trades at non-QCCP (excluding initial margin and default fund contributions); of which:		
(i) OTC derivatives		
(ii) Exchange-traded derivatives		
(iii) SFT		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Prefunded default fund contributions		
Unfunded default fund contributions		

30/06/2018	(Thousand euros)	
	EAD post CRM	RWA
EXPOSURES TO QCCP (TOTAL)		6 353
Exposures for trades at QCCP (excluding initial margin and default fund contributions); of which:		
(i) OTC derivatives	179 225	6 353
(ii) Exchange-traded derivatives		
(iii) SFT		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin	141 531	
Non-segregated initial margin		
Prefunded default fund contributions		
Alternative calculation of own funds requirements for exposures		
EXPOSURES TO NON-QCCP (TOTAL)		
Exposures for trades at non-QCCP (excluding initial margin and default fund contributions); of which:		
(i) OTC derivatives		
(ii) Exchange-traded derivatives		
(iii) SFT		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Prefunded default fund contributions		
Unfunded default fund contributions		

TABLE 39 – TEMPLATE 28 / EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK

31/12/2018													(Thousand euros)
Exposure classes	Risk weights											Total	RWA
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other		
Central Governments or Central Banks	25 999								39			26 038	39
Regional Governments or Local Authorities													
Public Setor Entities					2							2	0
Multilateral Development Banks													
International Organisations													
Institutions					136 455	198 516			2 538		200 203	537 712	133 091
Corporates									132 239			132 239	131 874
Retail								0				0	0
Institutions and corporates with a short-term credit assessment													
Other items													
TOTAL	25 999				136 457	198 516		0	134 815		200 203	695 991	265 004

31/12/2018													(Thousand euros)
Exposure classes	Risk weights											Total	RWA
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other		
Central Governments or Central Banks	12 049								28			12 077	28
Regional Governments or Local Authorities													
Public Setor Entities					0							0	
Multilateral Development Banks													
International Organisations													
Institutions					124 439	226 330			5 477		172 797	529 044	146 113
Corporates									116 155			116 155	115 399
Retail								63				63	36
Institutions and corporates with a short-term credit assessment													
Other items													
TOTAL	12 049				124 439	226 330		63	121 661		172 797	657 339	261 576

TABLE 40 – TEMPLATE 29 / EU CCR4 (I) – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE - CORPORATES

31/12/2018		(Thousand euros)						
	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
CORPORATE	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%	2	0,10%	1	42,26%	365	0	18,6%
	0,14% to 0,28%	134	0,20%	2	42,26%	365	40	29,9%
	0,28% to 0,53%	360	0,40%	2	42,26%	365	165	45,8%
	0,53% to 0,95%	2 870	0,70%	9	42,26%	572	1 972	68,7%
	0,95% to 1,73%	15	1,30%	4	42,26%	365	12	81,3%
	1,73% to 2,92%	5 537	2,30%	6	42,26%	1 171	7 072	127,7%
	2,92% to 4,67%	65	3,70%	1	42,26%	365	76	117,5%
	4,67% to 7,00%	68	5,90%	1	42,26%	365	96	140,2%
	7,00% to 9,77%							
	9,77% to 13,61%	3 091	11,50%	4	42,26%	978	6 312	204,2%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	12 141	4,21%	30	42,26%	938	15 745	129,7%
SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%	21	0,20%	7	38,66%	365	5	22,3%
	0,28% to 0,53%	8	0,40%	2	44,40%	365	2	29,5%
	0,53% to 0,95%	27	0,70%	5	39,60%	365	14	49,7%
	0,95% to 1,73%	76	1,30%	10	38,94%	645	47	61,4%
	1,73% to 2,92%	2	2,30%	3	44,40%	365	1	73,0%
	2,92% to 4,67%	37	3,70%	3	38,66%	365	26	71,2%
	4,67% to 7,00%	33	5,90%	4	41,34%	511	37	113,8%
	7,00% to 9,77%	229	8,30%	3	44,40%	844	322	140,7%
	9,77% to 13,61%	52	11,50%	5	35,64%	536	61	118,4%
	13,61% to 100,00%							
	100,00% (default)	79	100,00%	2	58,68%	365	5	6,3%
	SUBTOTAL	564	19,34%	44	43,87%	621	521	92,4%
TOTAL		12 705	-	74	-	-	16 266	128,0%

NOTE: This data does not include the Specialised Lending exposures.

30/06/2018		(Thousand euros)						
	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
CORPORATE	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%	3	0,10%	1	42,26%	365	1	18,8%
	0,14% to 0,28%	133	0,20%	3	42,26%	365	40	29,9%
	0,28% to 0,53%	453	0,40%	4	42,26%	365	208	45,8%
	0,53% to 0,95%	459	0,70%	4	42,26%	600	320	69,7%
	0,95% to 1,73%	1 599	1,30%	6	42,26%	713	1 495	93,5%
	1,73% to 2,92%	5 601	2,30%	8	42,26%	1 308	7 418	132,4%
	2,92% to 4,67%	14	3,70%	1	42,26%	365	17	117,6%
	4,67% to 7,00%			1				
	7,00% to 9,77%							
	9,77% to 13,61%	61	11,50%	2	34,68%	644	98	159,0%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	8 325	1,95%	30	42,20%	1 081	9 595	115,3%

SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%	432	0,20%	7	38,66%	365	103	23,9%
	0,28% to 0,53%	1	0,40%	5	44,40%	365	0	30,8%
	0,53% to 0,95%	38	0,70%	6	39,08%	965	18	47,1%
	0,95% to 1,73%	69	1,30%	9	39,59%	409	40	58,6%
	1,73% to 2,92%	30	2,30%	5	42,98%	365	21	69,5%
	2,92% to 4,67%	38	3,70%	7	44,40%	365	30	80,3%
	4,67% to 7,00%	23	5,90%	3	39,21%	695	24	102,2%
	7,00% to 9,77%	70	8,30%	3	44,40%	365	107	152,6%
	9,77% to 13,61%	317	11,50%	5	44,40%	931	517	162,8%
	13,61% to 100,00%							
	100,00% (default)	152	100,00%	1	58,68%	365	10	6,2%
	SUBTOTAL	1 170	17,10%	51	43,55%	547	869	74,3%
TOTAL		9 495		81			10 464	110,2%

NOTE: This data does not include the Specialised Lending exposures.

TABLE 41 – TEMPLATE 29 / EU CCR4 (II) – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE - RETAIL

31/12/2018

(Thousand euros)

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
OTHER RETAIL – SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%	1	0,10%	1	45,18%		0	9,1%
	0,14% to 0,28%	10	0,20%	2	15,06%		1	4,9%
	0,28% to 0,53%	3	0,40%	3	46,39%		1	23,7%
	0,53% to 0,95%							
	0,95% to 1,73%							
	1,73% to 2,92%	2	2,30%	1	43,17%		1	46,4%
	2,92% to 4,67%							
	4,67% to 7,00%							
	7,00% to 9,77%	1	8,30%	1	26,39%		0	34,0%
	9,77% to 13,61%	312	11,50%	4	62,05%		276	88,4%
	13,61% to 100,00%							
	100,00% (default)	5	100,00%	100,00%	25,54%		9	191,8%
	SUBTOTAL	335	12,11%	13	59,63%		287	85,8%
OTHER RETAIL – NON SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%							
	0,28% to 0,53%							
	0,53% to 0,95%							
	0,95% to 1,73%							
	1,73% to 2,92%							
	2,92% to 4,67%							
	4,67% to 7,00%							
	7,00% to 9,77%							
	9,77% to 13,61%							
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL							
TOTAL		335	-	13	-		287	85,8%

NOTE: This data does not include the Specialised Lending exposures.

30/06/2018

(Milhares de euros)

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
OTHER RETAIL – SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%	1	0,10%	2	45,18%		0	7,7%
	0,14% to 0,28%	43	0,20%	6	32,50%		5	10,7%
	0,28% to 0,53%	7	0,40%	1	13,70%		1	7,6%
	0,53% to 0,95%	20	0,70%	2	40,44%		6	27,9%
	0,95% to 1,73%	2	1,30%	1	22,44%		1	21,7%
	1,73% to 2,92%							
	2,92% to 4,67%	5	3,70%	2	34,18%		2	40,0%
	4,67% to 7,00%		5,90%	1	13,70%			
	7,00% to 9,77%	18	8,30%	1	85,66%		20	110,6%
	9,77% to 13,61%	308	11,50%	4	59,66%		262	85,0%
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL	404	9,24%	20	55,63%		295	72,9%
OTHER RETAIL – NON SME	0,01% to 0,05%							
	0,05% to 0,07%							
	0,07% to 0,14%							
	0,14% to 0,28%							
	0,28% to 0,53%							
	0,53% to 0,95%							
	0,95% to 1,73%							
	1,73% to 2,92%							
	2,92% to 4,67%							
	4,67% to 7,00%							
	7,00% to 9,77%							
	9,77% to 13,61%							
	13,61% to 100,00%							
	100,00% (default)							
	SUBTOTAL							
TOTAL		404		20			295	72,9%

TABLE 42 – TEMPLATE 31 / EU CCR5-A – IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

31/12/2018

(Thousand euros)

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	485 061	44 815	440 246	103 224	351 212
Value of collateral held without impact				14 190	
SFT					
Cross-product netting					
TOTAL	485 061	44 815	440 246	103 224	351 212

(Thousand euros)

30/06/2018

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	937 842	59 363	878 480	54 587	827 668
Value of collateral held without impact				3 775	
SFT					
Cross-product netting					
TOTAL	937 842	59 363	878 480	54 587	827 668

TABLE 43 – TEMPLATE 32 / EU CCR5-B – COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR**31/12/2018**

(Thousand euros)

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	2 327	41 616	12 024	255 948	0	21 420
Other assets			130 723			
TOTAL	2 327	41 616	142 747	255 948	0	21 420

30/06/2018

(Thousand euros)

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	2 589	40 361	14 258	271 915	7 201	55 362
Other assets	0	0	129 862	0	0	0
TOTAL	2 589	40 361	144 120	271 915	7 201	55 362

TABLE 44 – TEMPLATE 33 / EU CCR6 – CREDIT DERIVATIVES EXPOSURES**31/12/2018**

(Thousand euros)

	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
NOTIONALS			
Credit default swaps	62 850	68 500	
Total return swaps			
Credit linked notes			30 000
Other credit derivatives			
TOTAL NOTIONALS	62 850	68 500	30 000
FAIR VALUES			
Positive fair value (asset)	454		
Negative fair value (liability)	346		2 094

30/06/2018

(Thousand euros)

	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
NOTIONALS			
Credit default swaps	92 850	98 500	
Total return swaps			
Credit linked notes			30 000
Other credit derivatives			
TOTAL NOTIONALS	92 850	98 500	30 000
FAIR VALUES			
Positive fair value (asset)	1 343		
Negative fair value (liability)	1 145		4 336

6. CREDIT RISK MITIGATION TECHNIQUES

6.1. ELIGIBILITY AND TYPE OF MITIGATION INSTRUMENTS

On the risk evaluation of an operation or of a group of operations, the mitigation elements of credit risk associated to those operations are considered in accordance with the rules and internal procedures that fulfil the requirements defined by the regulations in force, also reflecting the experience of the loans recovery areas and the Legal Department opinions with respect to the entailment of the various mitigation instruments.

The collaterals and the relevant guarantees can be aggregated in the following categories:

- Financial collaterals, real estate collaterals or other collaterals;
- Receivables;
- First demand guarantees, issued by banks or other entities with Risk Grade 7 or better on the Rating Master Scale;
- Personal guarantees, when the persons are classified with Risk Grade 7 or better;
- Credit derivatives.

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

In this context, it is important to refer that the Bank's shares are not accepted as financial collaterals of new credit operations and are only accepted for the reinforcement of guarantees of existing credit operations, or in restructuring process associated to credit recoveries.

Regarding guarantees and credit derivatives, it can be applied the substitution principle by replacing the Risk Grade of the client by the Risk Grade of the guarantor, (if the Risk of Grade Degree of the guarantor is better than the client's), when the protection is formalized through:

- State, Financial Institutions or Mutual Guarantee Societies guarantees exist;
- personal guarantees (or, in the case of Leasing, there is a recovery agreement of the provider);
- Credit derivatives;
- Formalization of the clause of the contracting party in leasing contracts in which it is an entity that is in a relationship of dominion or group with the lessee.

6.2. PROTECTION LEVELS

An internal level of protection is attributed to all credit operations at the moment of the credit granting decision, considering the credit amount as well as the value and type of the collaterals involved. The protection level corresponds to the loss reduction in case of default that is linked to the various collateral types, considering their market value and the amount of the associated exposure.

In the case of financial collaterals, adjustments are made to the protection value by the use of a set of haircuts, in order to reflect the price volatility of the financial instruments.

6.3. COLLATERAL VALUATION

In the case of real estate mortgages, the initial appraisal of the real estate value is done during the credit analysis and and before decision process.

Either the initial evaluations or the subsequent reviews carried out are performed by external expert valuers and the ratification process is centralized in the Appraisals Unit, which is independent of the clients' areas.

In any case, they are the subject to a written report, in a standardized digital format, based on a group of predefined methods that are aligned with the sector practices – income, replacement cost and/or market comparative – mentioning the obtained value, for both the market value and for purposes of the mortgage guarantee, depending on the type of the real estate. The evaluations have a declaration/certification of an expert valuer since 2008, as requested by Regulation (EU) 575/2013 (CRR) and Law 153/2015 of 14 September and are ratified by the Appraisals Unit.

Regarding residential real estate, after the initial valuation and in accordance with Notice n. 5/2006 of Bank of Portugal and e CRR 575/2013, the Bank monitors the respective values through market indexes. If the index is lower than 0.9, the Bank revalues choosing one of the following two methods:

- i. Depreciation of the property by direct application of the index, if the amount owed does not exceed 300,000 euros;
- ii. Review of the property value by external valuers, depending on the value of the credit operation, and in accordance with the established standards from ECB and Bank of Portugal.

For all non-residential real estate, the Bank also monitors its values through market indexes and to the regular valuation reviews with the minimum periodicities in accordance with the Regulation (EU) 575/2013, in the case of offices, commercial spaces, warehouses and industrial premises.

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

For the remaining real estate (land or country side buildings for example) there are no market indexes available for the monitoring of appraisal values, after the initial valuations. Therefore, for these cases and in accordance with the minimum periodicity established for the monitoring and reviewing of this type of real estate, valuation reviews are carried out by expert valuers.

The indexes currently used are supplied to the Bank by an external specialized entity that, for more than a decade, has been collecting and processing the data upon which the indexes are built.

In the case of financial collaterals, their market value is daily and automatically updated, through the IT connection between the collaterals management system and the relevant financial markets data.

The next tables (45 and 46) show figures concerning the use of credit risk mitigation techniques, as at 31/12/2018 e 30/06/2018.

TABLE 45 – TEMPLATE 18 / EU CR3 – CRM TECHNIQUES - OVERVIEW

31/12/2018 (Thousand euros)					
Exposures:	Unsecured	Secured	Secured by collateral	Secured by financial guarantees	Secured by credit derivatives
Total loans	11 388 406	35 403 650	31 284 829	4 118 821	
Total debt securities	17 738 173	991 381	696 932	294 449	
TOTAL EXPOSURES	29 126 578	36 395 031	31 981 761	4 413 270	
Of which: defaulted	391 271	2 308 803	2 085 204	223 599	

Note: Securities of the Trading Book are not included.

30/06/2018 (Thousand euros)					
Exposures:	Unsecured	Secured	Secured by collateral	Secured by financial guarantees	Secured by credit derivatives
Total loans	10 560 146	35 482 654	31 496 384	3 986 270	
Total debt securities	16 890 874	124		124	
TOTAL EXPOSURES	27 451 020	35 482 778	31 496 384	3 986 394	
Of which: defaulted	10 560 146	35 482 654	31 496 384	3 986 270	

Note: Securities of the Trading Book are not included.

TABLE 46 – TEMPLATE 19 / EU CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

31/12/2018 (Thousand euros)						
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central Governments or Central Banks	14 854 054	298 896	15 904 766	144 765	1 764 895	11,0%

Regional Governments or Local Authorities	768 219	38 651	554 504	9 223	112 808	20,0%
Public Sctor Entities	97 214	47 440	90 433	9 379	137 067	137,3%
Multilateral Development Banks	19 139		19 139			
International Organisations						
Institutions	1 156 415	1 008 427	1 161 168	54 426	319 477	26,3%
Corporates	5 370 461	3 104 489	4 646 973	173 425	4 581 830	95,1%
Retail	2 852 686	319 298	2 775 098	3 616	1 977 644	71,2%
Secured by mortgages on immovable property	1 198 570	21 699	1 153 513	5 406	791 032	68,3%
Exposures in default	689 791	97 602	379 732	2 343	432 802	113,3%
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective Investment Undertakings	157 476		157 476		109 579	69,6%
Equity exposures	29 457		29 457		71 919	244,2%
Other exposures						
TOTAL	27 193 483	4 936 502	26 872 259	402 583	10 299 053	37,8%

30/06/2018

(Thousand euros)

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central Governments or Central Banks	13 386 068	188 023	14 010 800	80 561	1 731 502	12,3%
Regional Governments or Local Authorities	763 373	69 687	636 994	16 818	130 890	20,0%
Public Sctor Entities	103 300	109 632	95 543	25 768	170 933	140,9%
Multilateral Development Banks	18 486		18 486			
International Organisations						
Institutions	1 168 047	949 812	1 355 331	54 995	559 912	39,7%
Corporates	5 008 117	2 893 439	4 379 236	158 547	4 482 672	98,8%
Retail	2 435 762	314 310	2 364 722	5 930	1 675 272	70,7%
Secured by mortgages on immovable property	941 711	24 330	894 867	6 678	535 749	59,4%
Exposures in default	690 377	116 690	383 721	3 035	438 293	113,3%
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective Investment Undertakings	22 652		22 652		33 977	150,0%
Equity exposures	22 074		22 074		53 429	242,0%
Other exposures						
TOTAL	24 559 966	4 665 923	24 184 425	352 331	9 812 627	40,0%

6.4. WRONG WAY RISK

The Wrong Way risk corresponds to the risk of a given exposure being adversely correlated with the counterparty's credit risk. Within credit granting this risk stems from the correlation between the collateral value and the credit worthiness of the borrower, i.e., when the deterioration of the credit risk of the latter leads to a devaluation of the collateral.

Similarly, in the case of derivative and repo transactions, this translates to the risk associated with the fact that the exposure at risk is adversely impacted by the credit quality of the counterparty.

Overall, the Bank considers this risk as immaterial, taking into account the composition of financial collateral. In terms of

credit granted, the borrower's own securities (shares or bonds) represents a very small percentage of the total amount of credit, corresponding mainly to structured finance, including Project Finance, where the usual pledge of shares from the companies or vehicles is part of a comprehensive guarantees' package. Indeed, almost all of the credits that have a securities' pledge have additional collateral to secure the exposure.

In the case of derivative and repo operations, in which the Bank mitigates counterparty credit risk through ISDA contracts with CSA, the coverage of market receivables is exclusively made through deposits at the Group itself; hence, wrong-way risk does not apply. In terms of credit default derivatives (CDS or TRS) or other guarantees provided by counterparties, the Bank is also not subject to material wrong-way risk, as the risk covered is not positively correlated with the protection provider.

7. EQUITY EXPOSURES IN THE BANKING BOOK

The Group holds equity exposures in the Banking Book, characterised by stability and with the objective of creating value. The holding of these positions, which include shares and risk capital fund participation units, complies with at least one of the following objectives:

- The development of entities or projects of strategic interest for the Group;
- Generating a return or opportunities for growth of the banking business;
- The development of entities with appreciation potential;
- Making entities with the capacity to recover viable, including namely shares received as payment or by converting credits into capital.

The equity exposures in the Banking Book are initially recognised at fair value, including gains and losses associated with the transactions, and are afterwards valued at their fair value based on the following hierarchy of criteria: market price listed in regulated and active market or, in its absence, based on external valuations made by independent entities, duly recognised, or based on the valuation measurement input from transactions deemed valid between reputable counterparties.

The Group maintains a monitoring process of these positions' fair value.

Changes in the fair value of these equities are registered against fair value changes until they are sold.

Impairment is not recognised for equity instruments at fair value through other comprehensive income, and the respective accumulated gains or losses recorded in fair value changes are transferred to retained earnings at the time of their derecognition. Dividends are recognised under earnings when the rights to receiving them are attributed.

The equity exposures in the Banking Book are shown in Table 47, as follows:

TABLE 47 – EQUITY EXPOSURES IN THE BANKING BOOK

	(Milhares de euros)							
	Listed shares		Unlisted shares		Other capital instruments ^(*)		Total	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Acquisition cost / Notional amount	42 744	25 523	58 688	84 981			101 432	93 221
Fair value	19 944	8 240	51 289	38 242			71 233	46 482
Market price	19 944	8 240	51 289	38 242			71 233	46 482
Balance sheet value	19 944	8 240	51 289	38 242			71 233	46 482
Gains or losses arising from sales and settlements in the period							14 587	15 218 (1)
Total unrealised gains or losses							-30 199	10 073 (2)
Total latent revaluation gains or losses							-30 199	-46 739 (3)

Note: Equity issued by the Bank as well as derivatives indexed to those instruments are not included.

(*) Venture capital funds, similar to equity.

(1) Gains or losses arising from sales and settlements in the period: results before taxes.

(2) Total unrealised gains or losses: reports the amount of the fair value reserves in this portfolio on the reporting dates and, therefore, it does not incorporate eventual impairments or goodwill related to the respective securities; corresponds to potential accounting capital gains/losses for this portfolio, to be booked to the profit and loss account in case of divestment.

(3) Total latent revaluation gains or losses: difference between the fair value and the acquisition cost of the securities in the portfolio on the reporting dates. Reflects the total gains/losses underlying the shares of the Investment Portfolio; however, part of the unrealised losses may have already been recognised, via results or reserves (namely by impairment or goodwill).

Within the scope of the approval by Banco de Portugal for the use of IRB methodologies, the Group used the simple risk weight method to compute own funds requirements for the equity in the Banking Book held by Group entities headquartered in Portugal and Poland. The own funds requirements for other operations and countries are still determined using the standardised approach.

The simple risk weight method applies 290% and 370% weights to exposures in listed and unlisted stocks, respectively,

and may apply a lower weight (190%) to risk exposures resulting from shareholdings in unlisted companies included in portfolios that are sufficiently diversified. The significant exposures held over financial institutions and insurance companies that are not deducted to own funds are risk weighted at 250%.

The risk positions and risk weighted assets for equity exposures in the Banking Book are presented in Table 48.

TABLE 48 – EQUITY EXPOSURES

	(Thousand euros)			
	Risk positions		Risk weighted assets	
	31 Dec. 18	31 Dec. 17	31 Dec. 18	31 Dec. 17
STANDARDISED APPROACH	29 457	22 453	71 919	11 480
IRB APPROACH ^(*)	155 346	121 110	559 367	125 126
Listed shares	19 265	28 839	55 867	23 825
Unlisted shares	136 081	92 270	503 500	101 302
EQUITY EXPOSURES SUBJECT TO RISK WEIGHTING	331 649	472 838	670 757	1 255 979
TOTAL	516 451	616 401	1 302 043	1 392 586

^(*) Simple risk weight approach.

8. SECURITISATION OPERATIONS

8.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2018, the Group had six ongoing credit securitisation operations originated by the operation in Portugal. Four operations are traditional securitisation operations and the other two are synthetic securitisation operations.

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

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

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

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

As an investor, the Group does not hold, and given its profile and investment policy is not expected to hold, any significant position in securitisation transactions. In any case, pursuant to article 449 f), the Bank has a broad risk management and controlling operation, based on models established across a wide range of credit products, including monitoring credit and market risks of securitisation positions.

In this context, and being a Bank with IRB methodology approved by the regulator for securitisation positions, the provisions of Part III, Title II, Chapter 5 are observed, with emphasis on the risk weights resulting from articles 261 and 262 of the CRR, thus sustaining an adequate level of own funds. On the other hand, the book value reflects at each moment the market risk component of the security, allowing an adequate assessment of the risk return profile of the underlying asset. Any changes in the risk of these positions are thus subject to rigorous monitoring with reflection not only on the level of own funds but also on the Bank's results. Such changes are also considered and monitored under stress testing scenarios.

Currently, under the terms of article 449 (g) of the CRR, given the insignificance of risks involved, there is no specific hedging or personal protection transaction to reduce the risk of securitization positions held. The specific need for hedging will always depend on the level of risk and of the amounts involved, as this analysis and follow-up is carried out on a case-by-case basis. The same would apply to eventual re-securitisation operations (which were not held by the Bank at 31/12/2018 or 31/12/2017).

It should also be referred that the entity of the Group that acts as Originator (BCP, in all of the active operations) also intervenes as Servicer and, usually, as Transaction Manager.

The main features of the securitisation operations of assets originated by the Group, namely in terms of its goal, form and level of involvement, the existence or not of a significant risk transfer in each transaction and of the securitised values and in debt, for active operations as at 31 December 2018, are summarised in Table 49.

TABLE 49 – DESCRIPTION OF SECURITISATION OPERATIONS

MAGELLAN No. 1	
Identification of the securitisation operation	Magellan Mortgages No. 1 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
	Credit lender
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	18 December 2001
Legal maturity	15 December 2036
Step-up clause (date)	15 December 2008
Revolving (years)	N.A
Securitised assets (in million euros)	1,000.0
Significant credit risk transfer ⁽¹⁾	No
MAGELLAN No. 2	
Identification of the securitisation operation	Magellan Mortgages No. 2 Limited
Initial objective of the securitisation operation	Securing funding and risk management ⁽²⁾
Form of the securitisation operation	Traditional securitisation
	Credit lender (Banco Comercial Português, S. A. and Banco de Investimento Imobiliário, S. A.)
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	24 October 2003
Legal maturity	18 July 2036
Step-up clause (date)	18 October 2010
Revolving (years)	N.A
Securitised assets (in million euros)	1,000.0
Significant credit risk transfer ⁽¹⁾	No
MAGELLAN No. 3	
Identification of the securitisation operation	Magellan Mortgages No. 3 Limited
Initial objective of the securitisation operation	Securing funding and risk management ⁽²⁾
Form of the securitisation operation	Traditional securitisation
	Credit lender
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	30 June 2005
Legal maturity	15 May 2058
Step-up clause (date)	15 August 2012
Revolving (years)	N.A
Securitised assets (in million euros)	1,500.0
Significant credit risk transfer ⁽¹⁾	No

MAGELLAN No. 4	
Identification of the securitisation operation	Magellan Mortgages No. 4 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
	Credit lender
	Manager of the assigned credits
	Escrow bank of the Securitisation Credit Fund
	Transaction Manager
Start date	13 July 2006
Legal maturity	20 July 2059
Step-up clause (date)	20 July 2015
Revolving (years)	N.A.
Securitised assets (in million euros)	1,500.0
Significant credit risk transfer ⁽¹⁾	No
CARAVELA SME No.3	
Identification of the securitisation operation	Caravela SME No. 3
Initial objective of the securitisation operation	Reduction of the RWAs associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Manager of the assigned credits
	Counterparty of the Credit Default Swap
Start date	28 June 2013
Legal maturity	25 March 2036
Step-up clause (date)	N.A.
Revolving (years)	4 years
Securitised assets (in million euros)	2,383.0
Significant credit risk transfer ⁽¹⁾	Yes
CARAVELA SME No.4	
Identification of the securitisation operation	Caravela SME No. 4
Initial objective of the securitisation operation	Reduction of the RWAs associated with the portfolio
Form of the securitisation operation	Synthetic securitisation
	Originator of the securitised assets
	Manager of the assigned credits
	Counterparty of the Credit Default Swap
Start date	5 June 2014
Legal maturity	25 September 2043
Step-up clause (date)	N.A.
Revolving (years)	5 years
Securitised assets (in million euros)	1,000.0
Significant credit risk transfer ⁽¹⁾	Yes

⁽¹⁾ For regulatory purposes.

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

The main features of the asset securitisation operations originated in the Group at the end of 2018 and 2017 are summarised in Table 50.

TABLE 50 - MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS

INFORMATION ON THE TRANSACTIONS	Traditional							
	Magellan 1		Magellan 2		Magellan 3		Magellan 4	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Amounts in debt (in million euros)	79	100	106	127	328	380	368	410
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION								
'Implicit support' situations	N.A.		N.A.		Yes*		N.A.	
Assets assigned (per institution)/Securitised assets (total) (%)	2%	3%	3%	3%	9%	10%	10%	11%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. - Not applicable

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

INFORMATION ON THE TRANSACTIONS	Synthetic			
	Caravela SME 3		Caravela SME 4	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Amounts in debt (in million euros)	1 678	1 840	1 174	991
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION				
'Implicit support' situations	N.A.		N.A.	
Assets assigned (per institution)/Securitised assets (total) (%)	45%	48%	31%	26%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.

N.A. - Not applicable

8.2. GROUP ACCOUNTING POLICIES

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

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

- The SPE's activities are being mainly carried out in favour of the Group, according to its specific business needs, so that the Group benefits from the operation of the SPE;
- The Group has the power to decide to obtain most of the benefits of the SPE's activities, or, by establishing auto-pilot mechanisms, the entity delegated such decision-making powers;
- The Group has the right to obtain most of the benefits of the SPE's activities and is therefore exposed to the SPE's underlying risks;
- The Group holds most residual or property risks of the SPE or its assets, so as to benefit from its activities.

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

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

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

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

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

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

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

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

8.3. OWN FUNDS REQUIREMENTS

On 31 December 2018, the Group held securitisation positions both as an investor and as an originator entity. For some of the securitisation positions as an originator there was no significant credit risk transfer, according to the criteria defined in the CRR, articles 243 and 244, Section 2, Chapter 5, Title II, Part III and, therefore, the own funds requirements were determined as if these securitisations had not occurred.

The computation of the own funds requirements of the securitisation operations by the end of 2018 was made according to Section 3, Chapter 5, Title II, Part III of the CRR.

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

The ECAI used in 2018 to compute the own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

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

The risk weighted assets for securitisation operations computed according to the IRB approach, at the end of 2018 and 2017, are shown in Tables 51 and 52.

TABLE 51 - SECURITISATION OPERATIONS: IRB APPROACH (TRADITIONAL)

(Thousand euros)

Traditional securitisations	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value	Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%				Risk weighted assets	
			Internal ratings approach		1250%		31 Dec 18	31 Dec 17
			Amounts deducted from own funds (-)	12% - 18%	100%	Position subject to notation	Position not subject to notation	
TOTAL EXPOSURES (=A+B+C)	5 894						1 946	3 781
A - LENDER ENTITY: TOTAL EXPOSURES								
B - INVESTOR: TOTAL EXPOSURES	5 894			5 793		101	1 946	3 781
B.1 - Balance sheet items	5 894			5 793		101	1 946	3 781
Most senior	5 793			5 793			614	2 456
Mezzanine								
First loss	101					101	1 332	1 325
B.2 - Off-balance sheet items and derivatives								
C - SPONSOR: TOTAL EXPOSURES								

TABLE 52 - SECURITISATION OPERATIONS: IRB APPROACH (SYNTHETIC)

(Thousand euros)

Synthetic securitisations	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value	Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%		Risk weighted assets	
		Amounts deducted from own funds (-)	Regulatory formula approach		31 Dec 18	31 Dec 17
				Average risk weight (%)		
TOTAL EXPOSURES (=A+B+C)	2 430 377	2 155 828	2 155 828	16%	282 127	346 888
A - LENDER ENTITY: TOTAL EXPOSURES	2 430 377	2 155 828	2 155 828	16%	282 127	346 888
A.1 - Balance sheet items	2 155 828	1 881 280	1 881 280	15%	227 217	290 113
Most senior	1 873 594	1 873 594	1 873 594	9%	131 152	177 694
Mezzanine	272 627					
First loss	9 607	7 685	7 685	1463%	96 066	112 420
A.2 - Off-balance sheet items and derivatives	274 549	274 549	274 549	21%	54 910	56 774
A.3 - Early amortisation						
B - INVESTOR: TOTAL EXPOSURES						
C - SPONSOR: TOTAL EXPOSURES						

On 31 December 2018 and 2017 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.

9. MARKET RISKS (TRADING BOOK)

The Trading Book is composed of positions held with the purpose of obtaining short-term gains, via sales or revaluations. These positions are actively managed and rigorously and frequently evaluated.

In a letter dated 30 April 2009, Banco de Portugal authorised the Group to use the internal models approach to compute own funds requirements in terms of generic market risk of the Trading Book.

This authorisation encompassed all the sub-portfolios of the Trading Book that are part of the perimeter that is centrally managed from Portugal, which includes all the trading operations related with financial markets and products, namely those carried out by Banco Comercial Português, S.A..

Thus, as at 31 December 2018 and 2017, own funds requirements for generic market risks of the Group's Trading Book were calculated in accordance with the internal models approach for generic risk, within the universe of entities centrally managed from Portugal. For the remaining entities, the own funds requirements were calculated in accordance with the standardised approach.

MARKET RISKS

Generic risk over debt instruments and equity securities	Internal Model
FX risk	Internal Model
Commodities risk and specific risk over debt instruments and equity securities	Standardised Approach

The Bank uses a standardised approach for specific risk and does not have a correlation trading portfolio (CPT). Hence, incremental risk capital charges, migration risk or specific risk measurement for the CTP do not apply.

The RWA and own funds requirements for market risks, as at 31/12/2018 and 30/06/2018 and calculated through the Standardised Approach are shown in the following tables .

TABLE 53 – TEMPLATE 34 / MR1 - MARKET RISK UNDER THE STANDARDISED APPROACH

31/12/2018

(Thousand euros)

	RWA	Capital requirements
OUTRIGHT PRODUCTS		
Interest rate risk (general and specific)	13 815	1 105
Equity risk (general and specific)	17 706	1 417
Foreign exchange risk	453 000	36 240
Commodity risk	609	49
OPTIONS		
Simplified approach		
Delta-plus method		
Scenario approach		
SECURITISATION (SPECIFIC RISK)		
TOTAL	485 130	38 810

30/06/2018

(Thousand euros)

	RWA	Capital requirements
OUTRIGHT PRODUCTS		
Interest rate risk (general and specific)	46 690	3 735
Equity risk (general and specific)	9 458	757
Foreign exchange risk	844 028	67 522
Commodity risk	239	19
OPTIONS		
Simplified approach		
Delta-plus method		
Scenario approach		
SECURITISATION (SPECIFIC RISK)		
TOTAL	900 415	72 033

9.1. CALCULATION METHODOLOGIES

The calculation of own funds requirements for generic market risk, via the standardised approach, was based on the following methodologies, according to the specific type of financial instrument:

- Debt instruments: in this portfolio, own funds requirements for generic market risk were calculated in accordance with the duration-based approach, as defined by article 340, Section 2, Chapter 2, Title IV, Part III of the CRR. These positions have been treated in accordance to the provisions of Section 1 of the same chapter.
- Capital instruments: for this portfolio, own funds requirements for generic market risk were calculated in accordance with the methodology described in Section 3, Chapter 2, Title IV, Part III of the CRR.

In addition, for the application purposes of the internal models approach, the Group applies a VaR methodology to measure generic market risk – including interest rate risk, foreign exchange risk and equity risk – for all sub-portfolios covered by the previously mentioned authorisation for internal modelling.

The valuation procedures are established in terms of the potential negative impact of market conditions, in both normal and stressful circumstances, on the Trading Book of the Group's business units.

As already mentioned, with respect to risk measurement models used in the Group, the Bank is authorized to use the internal models approach in assessing the generic market risk capital requirements of the trading sub-portfolios that are part of Portugal's centrally managed perimeter (by Banco Comercial Portugues, SA). With reference to December 31, 2018, the capital requirements calculated by internal model corresponded to 55% of the total requirements of the Group.

The methodology used to measure market risk is the Value-at-Risk (VaR), which indicates the maximum losses that can occur in the portfolios, with a certain level of confidence and time horizon. The VaR calculation considers a time horizon of ten business days and a significance level of 99%.

This methodology is widely used in the market and has the advantage of summarizing, in a single metric, the inherent risks of the trading activity, taking into account the relationships between all of them, providing an estimate of the Trading Book losses as a result of changes in the stock markets' prices, interest rates, FX rates and commodities' prices. In addition, for some positions, other risks are considered, such as credit spreads' risk, base risk, volatility risk and correlation risk.

The daily VaR is determined by calculating the impact, on the current value of the portfolio, of the historical changes of last years' risk factors, with a daily update of the observation window. As of December 31, 2018, the Bank did not apply any weighting system to the seniority of historical variations. The holding period is modelled through multiplying the 1-day VaR by the square root of 10.

In accordance with the implemented methodology, the Bank carries out a total revaluation, using the logarithmic returns of the risk factors; for interest rates, the logarithmic returns of the discount factors are used.

As a complement, other metrics are used for the remaining types of risk, namely, a non-linear risk measure that incorporates the options' risk not covered in the VaR model, with a confidence interval of 99%, and a measure defined by the standard methodology in the VaR model for commodities' risk. These measures are integrated into the market risk indicator with the conservative assumption of perfect correlation between the different types of risk (worst-case scenario).

In what concerns the capital requirements calculation, the VaR amount measured is increased by the amount measured for SVaR (stressed VaR). For both the VaR and the SVaR, pursuant to Article 366 of the CRR, a regulatory multiplier is additionally applied.

The SVaR calculation process consists of calculating historical VaR, with a confidence interval of 99%, based on the daily variations of market prices during a stress period of 12 consecutive months. The analysis to define the stress period is carried out weekly, and may lead to a review of the period to be considered as the one that maximizes the VaR of the portfolio at the time of analysis. As of December 31, 2018, the stress period considered was between 26/04/2011 and 25/04/2012.

The SVaR calculation is based on the same methodology and structure used for the VaR, the only difference being the historical period used. Regarding the process of determining the holding period, this also results from multiplying the 1-day VaR by the square root of 10.

Table 54 shows the main VaR and SVaR statistics, calculated in accordance to the approved internal model methods, exclusively for the universe of entities managed centrally from Portugal, on 31/12/2018 and 30/06/2018:

TABLE 54 – TEMPLATE 37 / EU MR3 – IMA VALUES FOR TRADING PORTFOLIOS

31/12/2018		(Thousand euros)
VaR (10 day 99%)		
Maximum value		5 468
Average value		2 870
Minimum value		1 574
Period end		3 092
SVaR (10 day 99%)		
Maximum value		17 454
Average value		10 228
Minimum value		4 794
Period end		10 185
IRC (99,9%)		
Maximum value		
Average value		
Minimum value		
Period end		
COMPREHENSIVE RISK CAPITAL CHARGE (99.9%)		
Maximum value		
Average value		
Minimum value		
Period end		
30/06/2018		
		(Thousand euros)
VaR (10 day 99%)		
Maximum value		5 468
Average value		3 027
Minimum value		1 574
Period end		4 926
SVaR (10 day 99%)		
Maximum value		17 454
Average value		11 226
Minimum value		4 794
Period end		8 845
IRC (99,9%)		
Maximum value		
Average value		
Minimum value		
Period end		
COMPREHENSIVE RISK CAPITAL CHARGE (99.9%)		
Maximum value		
Average value		
Minimum value		
Period end		

Own funds requirements for specific market risk continued to be calculated in accordance with the standardised approach, including those of the sub-Trading Books regarding which Banco de Portugal authorised the use of the internal models approach to calculate the generic market risk, as previously mentioned.

These requirements were determined, for all the positions of the Group's Trading Book, pursuant to Sub-Section 1, Section 2, Chapter 2, Title IV, Part III and article 342 of Section 3, Chapter 2, Title IV, Part III of the CRR, according to the type of financial instruments at stake (debt instruments or capital instruments, respectively).

The 2018 average for the stressed VaR of the Trading Book positions amounted to € 10.23 M. Regarding the stressed VaR as at 31st of December 2018, the amount measured was of € 10.19 M.

9.2. STRESS TESTS ON THE TRADING BOOK

Besides calculating the VaR, and aiming at identifying the concentration of risks not captured by that metric and to assess other possible losses, the Group continually tests a wide set of stress scenarios on the Trading Book, analysing the results of those stress tests.

Table 55 summarises the results of these tests on the Group's global Trading Book on 31 December 2017, indicating that the exposure to the various risk factors is limited and that the main risk to take into account, under the standard scenarios tested, is an increase in interest rates, especially when accompanied by an increase in the slope of the yield curve.

TABLE 55 - STRESS TESTS OVER THE TRADING BOOK

(Thousand euros)

STANDARD SCENARIOS (tested as at 31/12/2018)	Negative result scenario	Result
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
Parallel shift of the yield curve by +/- 100 bps	-20 bps	-1.058
NON-STANDARD SCENARIOS (tested as at 31/12/2018)	Negative result scenario	Result
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.

9.3. BACKTESTING OF THE INTERNAL MODELS APPROACH

The Group carries out backtests of the internal models approach results, in relation to the theoretical results obtained by the target portfolio of the calculation, unchanged between two consecutive working days and revaluated at market prices of the second day. In parallel, the Group has a complementary process to verify the results of the model in relation to the actual results obtained, excluding the effects of operations carried out via intermediation.

The evaluation of the financial assets and liabilities included in the Trading Book is carried out by a unit that is totally independent from the negotiation of those assets, and the control of the evaluations was assured, in 2018, by the Models Monitoring and Validation Unit. The evaluation and control procedures are documented in the Group's internal regulations. The segregation between position-taking and position-evaluation duties is also contemplated at the level of information technology systems that intervene in the global process involving the management, evaluation, settlement and accounting of operations.

In what concerns the ex-post verification of the model's results, the number of excesses registered in 2018 and 2018, relative to the global Trading Book of companies centrally managed from Portugal, for which Banco de Portugal has approved the use of the internal models approach to compute generic risk capital requirements, is shown in Table 56.

TABLE 56 - BACKTESTING OF THE VAR APPROACH APPLIED IN MARKET RISK CALCULATION

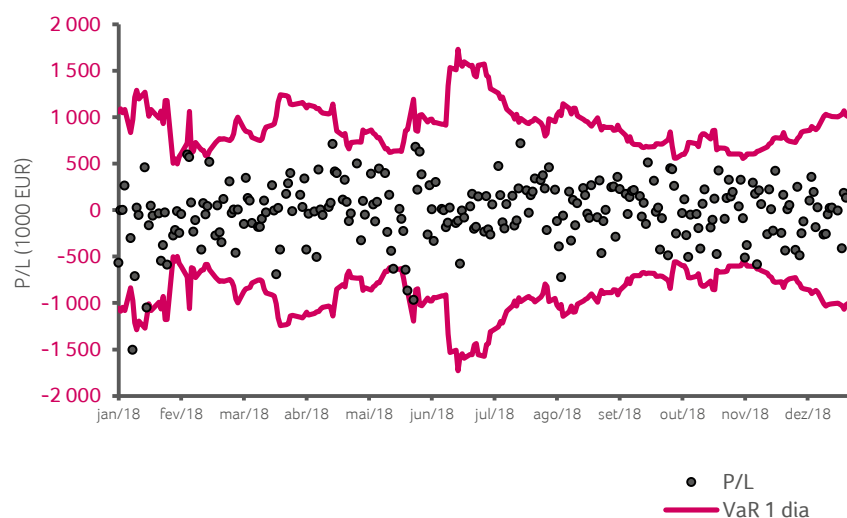
Year	Result	
	Positive	Negative
2017	4	1
2018	0	3

Note: The model used for the purpose of a posteriori verification is focused on the excesses occurred in both sides of the distribution and the expected number of excesses, according to the significance level applied, is 5 per year (2% x 250 annual observations).

The accuracy of the model used to estimate generic risk is monitored on a daily basis by the backtesting process that compares the risk values computed on a given day (VaR) with the (theoretical) result of applying the following day's market rates to those exposures.

The following charts show the results of the hypothetical and real backtesting, for the Trading Book centrally managed from Portugal, in 2018.

GRAPH 1 – HYPOTHETICAL VAR BACKTESTING (TRADING BOOK)



As illustrated by Graph 1, there were three excesses in 2018 (negative) over the hypothetical results of the model, representing a frequency of 1.17% in 257 daily observations. This result is aligned with the theoretical amount expected for bilateral excesses; hence, the model is considered to be adequate.

GRAPH 2 – REAL VAR BACKTESTING (TRADING BOOK)

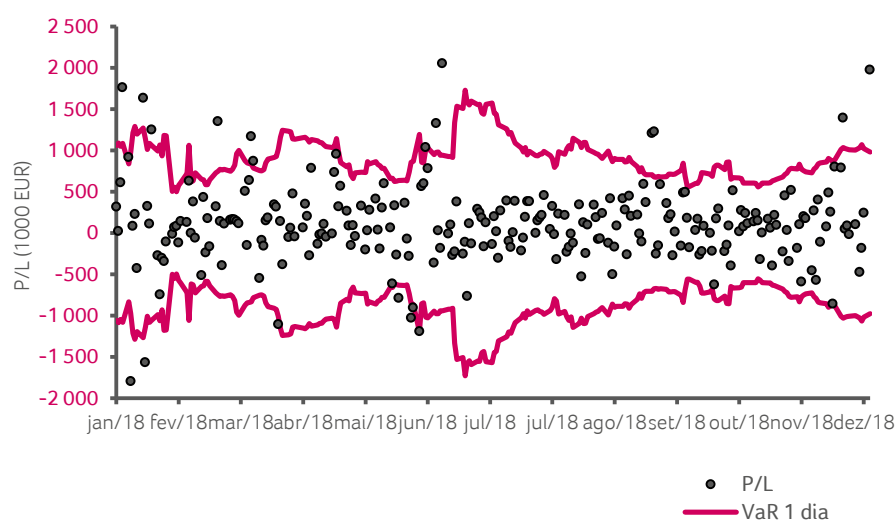


Table 57 A presents the detailed results of the daily hypothetical backtesting of the Trading Book centrally managed from Portugal in 2018. An excess occurs when the return registered for the portfolio is higher (in absolute value) than the theoretical result of the VaR model:

TABLE 57 A – TEMPLATE 38 / EU MR4 (I) - HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2017

(Thousand euros)

Date	VaR	Theoretical result	Date	VaR	Theoretical result	Date	VaR	Theoretical result
02/01/2018	1 058	-568	06/03/2018	846	344	10/05/2018	780	86
03/01/2018	1 087	-6	07/03/2018	841	127	11/05/2018	780	442
04/01/2018	1 048	-3	08/03/2018	834	98	14/05/2018	659	396
05/01/2018	1 082	262	09/03/2018	784	-143	15/05/2018	662	-238
08/01/2018	836	-303	12/03/2018	753	-184	16/05/2018	621	161
09/01/2018 ⁽¹⁾	976	-1 505	13/03/2018	750	-184	17/05/2018	626	-442
10/01/2018	1 213	-716	14/03/2018	764	-98	18/05/2018 ⁽²⁾	635	-636
11/01/2018	1 290	24	15/03/2018	847	99	21/05/2018	637	9
12/01/2018	1 195	-55	16/03/2018	893	-30	22/05/2018	630	-98
15/01/2018	1 269	456	19/03/2018	914	262	23/05/2018	736	-228
16/01/2018	1 140	-1 053	20/03/2018	926	-7	24/05/2018	854	-644
17/01/2018	1 009	-166	21/03/2018	1 009	-693	25/05/2018 ⁽³⁾	866	-870
18/01/2018	1 083	45	22/03/2018	1 162	21	28/05/2018	1 193	-969
19/01/2018	1 060	-63	23/03/2018	1 242	-427	29/05/2018	857	677
22/01/2018	990	-39	26/03/2018	1 232	171	30/05/2018	848	215
23/01/2018	1 065	-551	27/03/2018	1 221	285	31/05/2018	1 020	626
24/01/2018	931	-380	28/03/2018	1 139	394	01/06/2018	1 028	380
25/01/2018	1 179	-28	29/03/2018	1 133	-16	04/06/2018	948	-268
26/01/2018	1 178	-590	02/04/2018	1 152	160	05/06/2018	977	263
29/01/2018	502	-278	03/04/2018	1 159	30	06/06/2018	979	4
30/01/2018	551	-219	04/04/2018	1 135	336	07/06/2018	942	-334
31/01/2018	498	-15	05/04/2018	1 098	-430	08/06/2018	942	300
01/02/2018	576	-248	06/04/2018	1 130	-44	11/06/2018	923	10
02/02/2018	606	-45	09/04/2018	1 113	-19	12/06/2018	923	-4
05/02/2018	721	596	10/04/2018	1 094	-509	13/06/2018	912	-187
06/02/2018	1 061	567	11/04/2018	1 093	431	14/06/2018	1 336	-139
07/02/2018	618	77	12/04/2018	1 063	3	15/06/2018	1 533	23
08/02/2018	629	-235	13/04/2018	1 046	-58	18/06/2018	1 508	-142
09/02/2018	726	-110	16/04/2018	1 033	28	19/06/2018	1 729	-117
12/02/2018	649	-427	17/04/2018	1 047	74	20/06/2018	1 578	-578
13/02/2018	642	71	18/04/2018	1 141	708	21/06/2018	1 547	-10
14/02/2018	585	-50	19/04/2018	990	413	22/06/2018	1 594	-82
15/02/2018	585	39	20/04/2018	851	396	25/06/2018	1 552	38
16/02/2018	642	517	23/04/2018	802	109	26/06/2018	1 557	171
19/02/2018	728	-278	24/04/2018	825	324	27/06/2018	1 451	-204
20/02/2018	747	46	25/04/2018	699	85	28/06/2018	1 435	-185
21/02/2018	769	-244	26/04/2018	657	-122	29/06/2018	1 558	145
22/02/2018	762	-349	27/04/2018	727	-38	02/07/2018	1 572	-237
23/02/2018	769	116	30/04/2018	734	497	03/07/2018	1 447	146
26/02/2018	748	305	02/05/2018	731	-329	04/07/2018	1 435	-212
27/02/2018	768	-37	03/05/2018	863	94	05/07/2018	1 307	-268
28/02/2018	820	3	04/05/2018	835	-53	06/07/2018	1 297	57
01/03/2018	959	-464	07/05/2018	861	388	09/07/2018	1 258	471
02/03/2018	999	2	08/05/2018	827	57	10/07/2018	1 198	158
05/03/2018	876	-154	09/05/2018	814	-124	11/07/2018	1 215	-137

(Continues)

(Continued)

Date	VaR	Theoretical result	Date	VaR	Theoretical result	Date	VaR	Theoretical result
12/07/2018	1 154	-203	13/09/2018	724	203	15/11/2018	638	208
13/07/2018	1 087	63	14/09/2018	705	213	16/11/2018	650	59
16/07/2018	1 028	152	17/09/2018	705	146	19/11/2018	678	-263
17/07/2018	979	-170	18/09/2018	676	-74	20/11/2018	709	220
18/07/2018	1 032	-117	19/09/2018	672	74	21/11/2018	723	4
19/07/2018	944	229	20/09/2018	684	-152	22/11/2018	767	-227
20/07/2018	986	715	21/09/2018	678	508	23/11/2018	780	419
23/07/2018	938	211	24/09/2018	682	313	26/11/2018	772	-249
24/07/2018	931	-31	25/09/2018	713	-22	27/11/2018	833	161
25/07/2018	952	158	26/09/2018	713	24	28/11/2018	772	-440
26/07/2018	958	197	27/09/2018	710	-427	29/11/2018	753	6
27/07/2018	987	336	28/09/2018	712	-90	30/11/2018	740	49
30/07/2018	938	320	01/10/2018	759	-489	03/12/2018	726	-433
31/07/2018	901	369	02/10/2018	842	448	04/12/2018	774	246
01/08/2018	795	230	03/10/2018	690	436	05/12/2018	792	-490
02/08/2018	822	-218	04/10/2018	558	256	06/12/2018	837	-254
03/08/2018	984	455	05/10/2018	559	-257	07/12/2018	846	-127
06/08/2018	952	215	08/10/2018	600	-34	10/12/2018	859	99
07/08/2018	1 022	-122	09/10/2018	599	111	11/12/2018	900	354
08/08/2018	1 059	-392	10/10/2018	643	-273	12/12/2018	881	193
09/08/2018	1 015	-724	11/10/2018	727	-508	13/12/2018	864	-187
10/08/2018	1 145	-63	12/10/2018	728	-54	14/12/2018	886	27
13/08/2018	1 096	197	15/10/2018	713	-44	17/12/2018	1 009	-267
14/08/2018	1 033	-330	16/10/2018	684	-197	18/12/2018	1 032	-258
15/08/2018	1 097	107	17/10/2018	798	-418	19/12/2018	1 021	-48
16/08/2018	1 095	-168	18/10/2018	820	63	20/12/2018	1 013	21
17/08/2018	1 012	72	19/10/2018	820	218	21/12/2018	1 007	24
20/08/2018	977	232	22/10/2018	766	-192	24/12/2018	1 001	-8
21/08/2018	960	159	23/10/2018	853	-110	26/12/2018	1 030	-416
22/08/2018	951	-42	24/10/2018	859	120	27/12/2018	1 067	180
23/08/2018	924	-88	25/10/2018	649	-476	28/12/2018	1 021	130
24/08/2018	903	264	26/10/2018	668	421	31/12/2018	978	-927
27/08/2018	992	-82	29/10/2018	664	-99			
28/08/2018	919	317	30/10/2018	657	126			
29/08/2018	863	-468	31/10/2018	602	321			
30/08/2018	900	-120	01/11/2018	603	143			
31/08/2018	889	-1	02/11/2018	602	193			
03/09/2018	890	245	05/11/2018	603	38			
04/09/2018	858	251	06/11/2018	600	324			
05/09/2018	861	-292	07/11/2018	556	-90			
06/09/2018	912	355	08/11/2018	572	-516			
07/09/2018	864	222	09/11/2018	603	-380			
10/09/2018	802	171	12/11/2018	604	291			
11/09/2018	740	-45	13/11/2018	605	171			
12/09/2018	791	136	14/11/2018	632	-586			

(1) 10% devaluation of the Kwanza em 10%. (2) 5 bps reduction in the German bonds' rates (7 and 9 years terms) and increase of 9 to 16 bps in the Portuguese bonds' rates (terms of 3 to 20 years). (3) 6 bps reduction in the German bonds' rates (7 and 9 years terms) and increase of 7 to 12 bps in the Portuguese bonds' rates (terms of 3 to 20 years).

10-days VaR with 99% unilateral confidence level; theoretical result obtained in the ex-post VaR model validation process (daily result scaled for 10 days thorough the square root of time).

Table 57 B presents the detailed results of the daily real backtesting of the Trading Book centrally managed from Portugal in 2018. An excess occurs when the real return registered for the portfolio is higher (in absolute value) than the theoretical result of the VaR model:

TABLE 57 B - TEMPLATE 38 / EU MR4 (II) - REAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2017

(Thousand euros)

Date	VaR	Real result	Date	VaR	Real result	Date	VaR	Real result
02/01/2018	1 058	316	06/03/2018	846	-149	10/05/2018	780	301
03/01/2018	1 087	19	07/03/2018	841	637	11/05/2018	780	597
04/01/2018	1 048	609	08/03/2018	834	1 165	14/05/2018	659	62
05/01/2018	1 082	1 759	09/03/2018	784	869	15/05/2018	662	-617
08/01/2018	836	917	12/03/2018	753	-552	16/05/2018	621	332
09/01/2018 ⁽¹⁾	976	-1 798	13/03/2018	750	-90	17/05/2018	626	-265
10/01/2018	1 213	82	14/03/2018	764	-158	18/05/2018 ⁽⁴⁾	635	-791
11/01/2018	1 290	227	15/03/2018	847	149	21/05/2018	637	361
12/01/2018	1 195	-428	16/03/2018	893	183	22/05/2018	630	-75
15/01/2018	1 269	1 633	19/03/2018	914	341	23/05/2018	736	-284
16/01/2018 ⁽²⁾	1 140	-1 570	20/03/2018	926	314	24/05/2018 ⁽⁵⁾	854	-1 030
17/01/2018	1 009	324	21/03/2018 ⁽³⁾	1 009	-1 110	25/05/2018 ⁽⁶⁾	866	-905
18/01/2018	1 083	110	22/03/2018	1 162	142	28/05/2018	1 193	-1 193
19/01/2018	1 060	1 250	23/03/2018	1 242	-381	29/05/2018	857	563
22/01/2018	990	-276	26/03/2018	1 232	-52	30/05/2018	848	599
23/01/2018	1 065	-748	27/03/2018	1 221	59	31/05/2018	1 020	1 037
24/01/2018	931	-306	28/03/2018	1 139	475	01/06/2018	1 028	779
25/01/2018	1 179	-345	29/03/2018	1 133	-46	04/06/2018	948	-364
26/01/2018	1 178	-107	02/04/2018	1 152	63	05/06/2018	977	1 327
29/01/2018	502	-14	03/04/2018	1 159	348	06/06/2018	979	27
30/01/2018	551	66	04/04/2018	1 135	201	07/06/2018	942	-186
31/01/2018	498	82	05/04/2018	1 098	-274	08/06/2018	942	2 049
01/02/2018	576	-120	06/04/2018	1 130	784	11/06/2018	923	-9
02/02/2018	606	140	09/04/2018	1 113	-133	12/06/2018	923	99
05/02/2018	721	128	10/04/2018	1 094	-21	13/06/2018	912	-269
06/02/2018	1 061	630	11/04/2018	1 093	-9	14/06/2018	1 336	-230
07/02/2018	618	-4	12/04/2018	1 063	104	15/06/2018	1 533	378
08/02/2018	629	375	13/04/2018	1 046	-50	18/06/2018	1 508	-256
09/02/2018	726	-62	16/04/2018	1 033	-11	19/06/2018	1 729	-111
12/02/2018	649	-516	17/04/2018	1 047	731	20/06/2018	1 578	-766
13/02/2018	642	432	18/04/2018	1 141	953	21/06/2018	1 547	113
14/02/2018	585	-238	19/04/2018	990	319	22/06/2018	1 594	-130
15/02/2018	585	175	20/04/2018	851	566	25/06/2018	1 552	289
16/02/2018	642	-167	23/04/2018	802	263	26/06/2018	1 557	246
19/02/2018	728	317	24/04/2018	825	84	27/06/2018	1 451	185
20/02/2018	747	1 347	25/04/2018	699	-151	28/06/2018	1 435	-165
21/02/2018	769	142	26/04/2018	657	89	29/06/2018	1 558	123
22/02/2018	762	-395	27/04/2018	727	-43	02/07/2018	1 572	-140
23/02/2018	769	110	30/04/2018	734	325	03/07/2018	1 447	196
26/02/2018	748	154	02/05/2018	731	-204	04/07/2018	1 435	15
27/02/2018	768	161	03/05/2018	863	29	05/07/2018	1 307	-304
28/02/2018	820	158	04/05/2018	835	277	06/07/2018	1 297	267
01/03/2018	959	141	07/05/2018	861	412	09/07/2018	1 258	387
02/03/2018	999	113	08/05/2018	827	36	10/07/2018	1 198	-100
05/03/2018	876	505	09/05/2018	814	-193	11/07/2018	1 215	-175

(Continues)

(Continued)

Date	VaR	Real result	Date	VaR	Real result	Date	VaR	Real result
12/07/2018	1 154	4	13/09/2018	724	591	15/11/2018	638	215
13/07/2018	1 087	386	14/09/2018	705	367	16/11/2018	650	94
16/07/2018	1 028	-216	17/09/2018	705	1 207	19/11/2018	678	-227
17/07/2018	979	-62	18/09/2018	676	1 226	20/11/2018	709	451
18/07/2018	1 032	192	19/09/2018	672	-255	21/11/2018	723	30
19/07/2018	944	380	20/09/2018	684	-155	22/11/2018	767	-345
20/07/2018	986	380	21/09/2018	678	587	23/11/2018	780	515
23/07/2018	938	-4	24/09/2018	682	358	26/11/2018	772	-186
24/07/2018	931	146	25/09/2018	713	174	27/11/2018	833	102
25/07/2018	952	185	26/09/2018	713	222	28/11/2018	772	-591
26/07/2018	958	213	27/09/2018	710	-274	29/11/2018	753	197
27/07/2018	987	455	28/09/2018	712	11	30/11/2018	740	177
30/07/2018	938	44	01/10/2018	759	-157	03/12/2018	726	-456
31/07/2018	901	324	02/10/2018	842	484	04/12/2018	774	267
01/08/2018	795	-18	03/10/2018	690	493	05/12/2018	792	-575
02/08/2018	822	-321	04/10/2018	558	178	06/12/2018	837	398
03/08/2018	984	231	05/10/2018	559	-176	07/12/2018	846	-112
06/08/2018	952	215	08/10/2018	600	31	10/12/2018	859	73
07/08/2018	1 022	-233	09/10/2018	599	168	11/12/2018	900	484
08/08/2018	1 059	-173	10/10/2018	643	-269	12/12/2018	881	254
09/08/2018	1 015	-12	11/10/2018	727	-224	13/12/2018	864	-860
10/08/2018	1 145	-122	12/10/2018	728	82	14/12/2018	886	800
13/08/2018	1 096	340	15/10/2018	713	-4	17/12/2018	1 009	786
14/08/2018	1 033	-529	16/10/2018	684	-219	18/12/2018	1 032	1 393
15/08/2018	1 097	125	17/10/2018	798	-629	19/12/2018	1 021	46
16/08/2018	1 095	-247	18/10/2018	820	170	20/12/2018	1 013	88
17/08/2018	1 012	96	19/10/2018	820	292	21/12/2018	1 007	-17
20/08/2018	977	338	22/10/2018	766	-226	24/12/2018	1 001	103
21/08/2018	960	187	23/10/2018	853	-148	26/12/2018	1 030	-477
22/08/2018	951	-76	24/10/2018	859	87	27/12/2018	1 067	-186
23/08/2018	924	-70	25/10/2018	649	-397	28/12/2018	1 021	242
24/08/2018	903	236	26/10/2018	668	511	31/12/2018	978	1 975
27/08/2018	992	-125	29/10/2018	664	16			
28/08/2018	919	414	30/10/2018	657	271			
29/08/2018	863	-501	31/10/2018	602	74			
30/08/2018	900	-171	01/11/2018	603	238			
31/08/2018	889	84	02/11/2018	602	112			
03/09/2018	890	417	05/11/2018	603	136			
04/09/2018	858	281	06/11/2018	600	237			
05/09/2018	861	-264	07/11/2018	556	150			
06/09/2018	912	448	08/11/2018	572	-320			
07/09/2018	864	203	09/11/2018	603	0			
10/09/2018	802	216	12/11/2018	604	169			
11/09/2018	740	-9	13/11/2018	605	60			
12/09/2018	791	-107	14/11/2018	632	-398			

10-days VaR with 99% unilateral confidence level; theoretical result obtained in the ex-post VaR model validation process (daily result scaled for 10 days through the square root of time).

The following tables provide quantitative data on the market risk measurement of the Trading Book using the internal model used (Table 58, with positions at the beginning and end of the last half of 2018) and on the evolution of the respective RWA and capital requirements (Table 59, with positions at the beginning and end of the last quarter).

TABLE 58 – TEMPLATE 35 / EU MR2-A – MARKET RISK UNDER THE IMA

31/12/2018

(Thousand euros)

	RWA	Capital requirements
VaR (higher of values a) and b))	132 678	10 614
a) Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		3 228
b) Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		10 614
SVaR (higher of values a) and b))	508 036	40 643
a) Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		10 185
b) Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		40 643
IRC (higher of values a) and b))		
a) Most recent IRC value (incremental default and migration risks) calculated in accordance with Articles 370 ^a and 371 ^a of the CRR		
b) Average of the number over the preceding 12 weeks		
COMPREHENSIVE RISK MEASURE (higher of values a), b) and c))		
a) Most recent risk number for the correlation trading portfolio (Article 377 ^a of the CRR)		
b) Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		
c) 8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338 ^a , n°4 of the CRR)		
OTHER		
TOTAL	640 715	51 257

30/06/2018

(Thousand euros)

	RWA	Capital requirements
VaR (higher of values a) and b))	187 366	14 989
a) Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		4 539
b) Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		14 989
SVaR (higher of values a) and b))	760 071	60 806
a) Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		10 276
b) Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		60 806
IRC (higher of values a) and b))		
a) Most recent IRC value (incremental default and migration risks) calculated in accordance with Articles 370 ^a and 371 ^a of the CRR		
b) Average of the number over the preceding 12 weeks		
COMPREHENSIVE RISK MEASURE (higher of values a), b) and c))		
a) Most recent risk number for the correlation trading portfolio (Article 377 ^a of the CRR)		
b) Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		
c) 8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338 ^a , n°4 of the CRR)		
OTHER		
TOTAL	947 438	75 795

TABLE 59 – TEMPLATE 36 / EU MR2-B – RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

31/12/2018							
(Thousand euros)							
	VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWA	Total capital requirements
RWA AT PREVIOUS QUARTER END	170 225	535 560				705 785	56 463
Regulatory adjustment	142 168	425 733				567 901	45 432
RWA at the previous quarter-end (end of the day)	28 058	109 826				137 884	11 031
Movement in risk levels	12 296	17 484				29 780	2 382
Model updates/changes							
Methodology and policy							
Acquisitions and disposals							
Foreign exchange movements							
Other							
RWA at the previous quarter-end (end of the day)	40 354	127 310				167 664	13 413
Regulatory adjustment	92 324	380 726				473 051	37 844
RWA AT THE END OF THE REPORTING PERIOD	132 678	508 036				640 715	51 257

30/06/2018							
(Thousand euros)							
	VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWA	Total capital requirements
RWA AT PREVIOUS QUARTER END	187 366	760 071				947 438	75 795
Regulatory adjustment	130 632	631 623				762 255	60 980
RWA at the previous quarter-end (end of the day)	56 734	128 449				185 183	14 815
Movement in risk levels	-28 676	-18 623				-47 299	-3 784
Model updates/changes							
Methodology and policy							
Acquisitions and disposals							
Foreign exchange movements							
Other							
RWA at the previous quarter-end (end of the day)	28 058	109 826				137 884	11 031
Regulatory adjustment	142 168	425 733				567 901	45 432
RWA AT THE END OF THE REPORTING PERIOD	170 225	535 560				705 785	56 463

10. OPERATIONAL RISK

As at 31 December 2018 and 2017, the Group calculated the own funds requirements for operational risk in accordance with the standard approach, pursuant to the authorisation granted by Banco de Portugal, as previously mentioned.

The computation of the own funds requirements results from the application of a set of weights to the gross income that are set apart based on the activity segments into which the gross income breaks down, according to the regulatory definitions.

The framework for this calculation is provided by Title III of Regulation (EU) 575/2013 (CRR), in addition to additional clarifications received from Banco de Portugal, namely with respect to the accounting items considered in the determination of the gross income.

10.1. GROSS INCOME

The gross income results from the sum of the net interest income, dividends received, with the exception of income from financial assets with an "almost capital" nature – shareholders' advances –, net commissions, profits and losses arising on financial transactions associated to trading operations and other operating income. From these last items, the following are excluded: those that result from the sale of shareholdings and other assets, those with reference to discontinued operations and those resulting from negative consolidation differences. The interest in arrears recovered and expenses, which, on a consolidated basis, is recorded in the reversions of impairment losses item, is also added to the gross income.

Yet, neither the compensations received as a result of insurance contracts nor the revenues from the insurance activity are added to the value of the gross income. Finally, the other operating expenses cannot contribute to the reduction of the gross income value, with exception of the costs resulting from outsourcing provided by external entities to the Group or by entities that are not subject to the provisions of CRR.

The values thus obtained for the previously identified items are adjusted by the non-current amounts of the activity that are eventually still included in the gross income.

10.2. OPERATIONAL RISK – STANDARD APPROACH

The own funds requirements calculated in accordance with the standard approach are determined by the average, over the last three years, of the sum of the risk weighted gross income, calculated each year, relative to the activity segments and the risk weights that are defined in article 317 of CRR, whose scope corresponds in general terms to the following:

- Corporate Finance (subject to an 18% weight): underwriting activities and related services, investment analysis and other financial consulting activities;
- Trading and Sales (subject to an 18% weight): dealing on own account and intermediation activities in monetary and financial instrument markets;
- Retail Brokerage (subject to a 12% weight): placement of financial instruments without a firm underwriting and intermediation of orders relative to financial instruments, on behalf of private Customers and small businesses;
- Commercial Banking (subject to a 15% weight): taking deposits and credit and guarantee concession and undertaking other commitments to companies;
- Retail Banking (subject to a 12% weight): taking deposits and credit and guarantee concession and undertaking other commitments to private Customers and small businesses;
- Payment and Settlement (subject to an 18% weight): payment operations and issue and management of means of payment activities;
- Agency Services (subject to a 15% weight): services associated to the safekeeping and administration of financial instruments;
- Asset Management (subject to a 12% weight): investment fund and individual portfolio management activities.

The risk weighted gross income for a given segment may, in a specific year, be negative (counterbalancing positive weighted indicators associated with other segments). However, if in that year, the sum of the relevant risk weighted indicators of all activity segments is negative, the value to consider in the numerator will be zero.

The gross income by activity segments, on a consolidated basis, resulted from the aggregation of the values obtained for the perimeters of Portugal and of each one of the Group's foreign operations, determined based on homogeneous criteria and common to all geographies.

The gross income by activity segments for Portugal and Poland was calculated based on their financial statements, complemented with information collected from their management information systems, whereas for the other foreign operations, accounting information was used. With respect to the subsidiary in Poland, the entire calculation process

was conducted locally, taking into consideration that it is an operation with a diversified activity, which requires the contribution of own management information systems. On the other hand, the remaining foreign subsidiaries, which have a standardised activity concentrated in the Retail segment, were treated centrally.

The gross income segmentation of the activity in Portugal and Poland was based on information by business segments, produced for the purposes of internal management and market disclosure. In a first phase, the business segments and operational risk segments that present the greatest perimeter similarities were identified. Subsequently, the necessary transfers between the various segments, of zero sum, were carried out, to achieve a perimeter in line with what is required for the purposes of operational risk, in each segment.

In addition, the calculation of the gross income by activity segments for the Group's foreign operations, excluding Poland, was based on the financial statements of each subsidiary, as previously mentioned. Bearing in mind that these subsidiaries develop a retail activity, they were allocated, in a first phase, to the Retail Banking segment, with exception of the values recorded in the profits and losses arising on financial transactions item, which, by its nature, are immediately placed in the Trading and Sales segment, and subsequently the transfers for achieving a segmentation in line with the defined perimeter for the gross income are carried out. On 31 December 2017, this calculation was carried out for the operations of Switzerland, Mozambique and of Millennium bcp Bank & Trust, with registered office in the Cayman Islands, in addition to ActivoBank, which, although it develops its activity in Portugal, verifies the same assumptions and, thus, follows the same methodology.

Having concluded these procedures and the consolidation of the Group's activities, the segmented gross income was obtained in conformity with the requirements defined for the purposes of operational risk, to which the calculation methodology and the previously mentioned weights were applied, and the respective capital requirements were obtained.

As at 31 December 2018, the Group reported 290 million euros of own funds requirements for operational risk, having reported 286 million euros as at 31 December 2017, computed with the data presented on Table 60.

TABLE 60 - GROSS INCOME FOR OPERATIONAL RISK

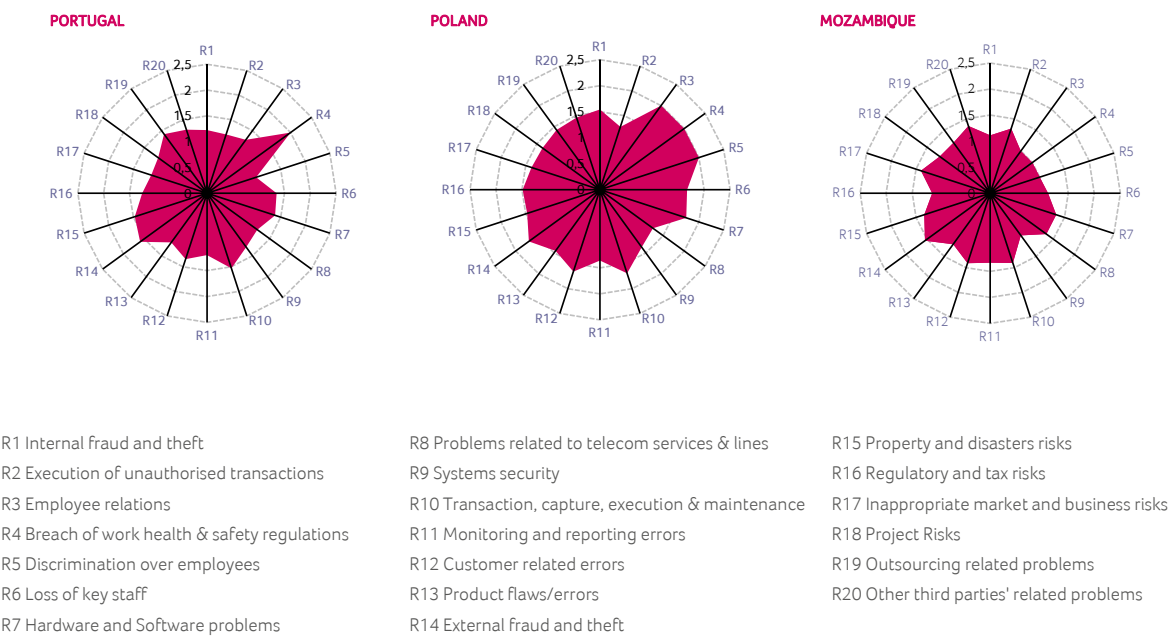
Segments	Gross Income figures for the relevant indicator		
	2018	2017	2016
1. BASIC INDICATOR APPROACH			
2. STANDARD APPROACH	2 137 927	2 287 535	2 067 059
- Corporate finance	17 941	20 267	26 571
- Trading and sales	93 915	201 032	110 694
- Retail brokerage	19 428	22 599	22 259
- Commercial banking	522 738	532 714	528 726
- Retail banking	1 374 379	1 375 941	1 242 620
- Payment and settlement	79 583	82 104	81 657
- Agency services	15 963	23 373	28 827
- Asset management	13 980	29 506	25 705
3. ADVANCED MEASUREMENT APPROACH			

10.3. OPERATIONAL RISK MANAGEMENT

Operational risk management is based on an end-to-end process structure, defined for each of the Group's subsidiaries, and the responsibility for their management was given to process owners, who must: characterise operational losses captured within their processes; carry out the Risk Self-Assessment (RSA); identify and implement the appropriate measures to mitigate exposures, contributing to reinforce internal control; and monitor key risk indicators (KRI).

The following graphs show the results of the latest RSA made in Portugal, Poland and Mozambique in terms of the average score of each of the 20 risk sub-types defined for operational risk within the set of processes assessed. The outside border represents a 2.5 score on a scale of 1 (less serious) to 5 (most serious).

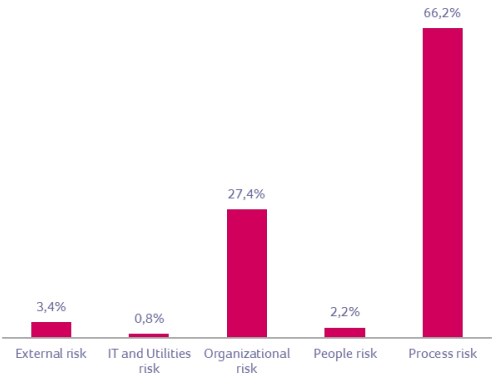
GRAPH 3 – RISKS SELF-ASSESSMENT RESULTS



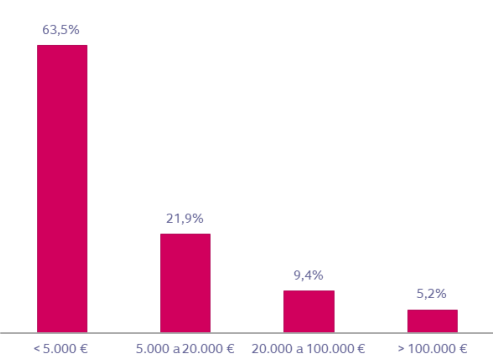
The operational losses identified are registered in the Group’s operational risk application and connected with the respective process, being assessed and characterised in accordance to their nature. When applicable, a mitigation action is associated with each loss event.

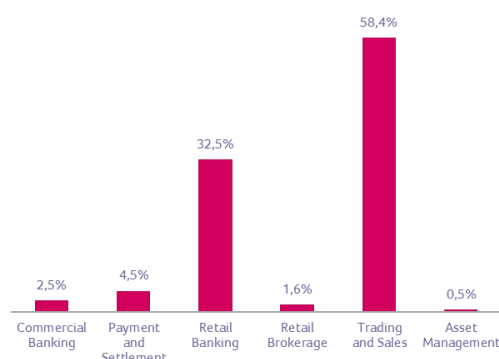
The following graphs feature the profile of accumulated operational losses in 2018.

GRAPH 4 – LOSS AMOUNT DISTRIBUTION, BY CAUSE



GRAPH 5 – LOSS AMOUNT DISTRIBUTION, BY AMOUNT RANGE



GRAPH 6 – LOSS AMOUNT DISTRIBUTION, BY BUSINESS SEGMENT

A set of KRI is used by the Group's various operations to monitor the processes risks. These KRI are management instruments represented by metrics that aim at the identification of changes in risk profiles and in controls effectiveness, so as to act preventively and avoid turning potential risk situations into actual losses. Within the processes management, a set of performance and control indicators is also used (Key Performance Indicators and Key Control Indicators) contributing to the detection of risks, even though it is more oriented towards the assessment of operating efficiency.

The Scenario Analysis is an exercise in which all of the macro process owners participate, as well as the heads of selected Divisions, aiming at the impact assessment of extreme and relevant events – potential risks of high severity (low frequency/high impact) – even if this type of events has never occurred at the Bank. The results of this exercise are integrated in the model that was developed for the ICAAP and this data is also used for risk management and mitigation, thus contributing to the reinforcement of the internal control environment.

In 2018, the usual activities of operational risk management continued to be carried out by the various intervenient, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as the reporting duties' tasks, both to the Group management bodies and within the regulatory scope.

In addition, the Bank's mobilization to reinvent the banking experience, based on new technologies, presents significant challenges in operational risk management, with highlights on: strengthening the security of digital banking channels, strengthening the mechanisms for prevention and detection of potential fraud, the responsible management of personal data and the fulfillment of the legally prescribed information duties in selling through digital banking channels. In order to reinforce the mechanisms for a more efficient risks' control and to enable the Bank to tackle these challenges with confidence, a set of initiatives has been launched, including:

- The enforcement of internal regulations and performance and risk indicators to monitor the provision of outsourcing services, within the framework of the processes in which they intervene;
- The entry into force of internal regulations that determine principles, lines of action, responsibilities and methodologies for managing IT (Information Technologies) risk (IT risk);
- Definition and inclusion in the RAS of new metrics, in order to monitor the evolution of exposure to IT risk.

In parallel, the Group continued to strengthen and improve its business continuity management throughout 2018, with a focus on the updating of existing strategies, procedures and documentation, conducting regular business recovery, technological recovery and crisis management exercises in order to improve its emergency response capacity, in articulation with all the teams involved in its different phases.

This area aims at ensuring the continuity of the business activities (or business support activities) in case of catastrophe or major contingency and is addressed by the Group through two distinct but complementary aspects:

- The Disaster Recovery Plan, for communication systems and infrastructures; and
- The Business Continuity Plan, for people, premises and equipment required for the minimum support of selected processes, deemed critical.

It should be noted that the management of this specific operational risk area is designed, promoted and coordinated across the Group by a specific structure unit.

In addition, the Group maintains an insurance contracting policy as an instrument to mitigate potential financial impacts associated with the occurrence of operational risks, by transferring, partially or in full, the risks pertaining to assets, people or liabilities before third parties.

The proposals for new insurances are submitted by the process owners, within the scope of the operational risk management powers regarding their processes, or presented by the heads of areas or structure units, being analysed by the Compliance and Operational Risks Commission and subject to a decision by the EC. Within the scope of insurance contracts in Portugal, the specialised technical and commercial functions involved are attributed to the Insurances Management Unit (IMU), a unit that encompasses all the Group's entities operating in Portugal. The IMU shares information with the Risk Office, aiming to strengthen insurance coverage and the quality of the operational losses database.

11. INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk derived from the Banking Book operations is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated balance sheet, reflecting the potential economic value loss that may occur as a result of adverse changes to interest rates.

The Banking Book includes all the positions not included in the Trading Book, namely, the positions resulting from institutional funding operations and from money markets, commercial and structural operations and the securities of the Investment Portfolio.

The changes in market interest rates have an impact over the Group's net interest income, both in a short-term and in a medium/long-term perspective. The main risk factors are the repricing mismatch of the portfolio positions (repricing risk) and the changes in the level of the market interest rates (yield curve risk). In addition – although with less relevant impacts – there is the risk of having unequal variations in different indexes 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 the contracts available in the systems' databases and the respective expected cash flows are projected in accordance with their repricing dates. Hence, this provides an assessment of the impact on the Group's economic value that would result from several alternative scenarios involving changes in market interest rate curves.

The Commercial and Structural areas' risk positions that are not specifically hedged against the market are transferred, through internal operations, to the market areas and/or CALCO and, from then on, they are considered to be incorporated in the respective portfolios. As such, they are daily evaluated through the VaR methodology.

The fundamental assumptions used in this analysis are documented in internal regulations and consist, essentially, on one hand, in definitions about interest rate repricing maturities (for items for which there is no defined repricing date) and, on the other hand, in certain expected behaviours concerning early repayments.

In 2018, for items for which there are no defined repricing dates, the following assumptions of repricing terms were applied:

- *Nostro* and *Vostro* Accounts: assumption of repricing in 1 month;
- Demand deposits at central banks: assumption of repricing in 1 month;
- Roll-over credit/Current accounts and overdrafts: assumption of 40% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 15% in 60 months;
- Roll-over credit/Credit cards: assumption of 50% repricing in 12 months, 15% in 24 months, 15% in 36 months, 10% in 48 months and 10% in 60 months;
- Roll-over credit/Factoring: assumption of 45% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 10% in 60 months;
- Non-interest bearing demand deposits and other deposits (in Euros): assumption of 15% repricing in 12 months, 10% in 24 months, 10% in 36 months, 10% in 48 months and 55% in 60 months;
- Non-interest bearing demand deposits and other deposits (in other currencies): assumption of 20% repricing in 12 months, 20% in 24 months, 10% in 36 months, 10% in 48 months and 40% in 60 months.
- Interest earning demand deposits: assumption of 50% repricing in 1 month, 40% in 3 months and 10% in 6 months.

Stress tests are carried out for the Banking Book by applying standard shocks of parallel shifts of the yield curve. Also, stress tests are carried out for all Group positions for which interest rate risk is a relevant component, by considering different macroeconomic scenarios that contemplate several variables of analysis.

Stress tests are carried out every six months, with the aim of assessing the impact of extreme situations that cannot be measured through VaR and BPV analyses (Basis Point Value - analysis of positive and negative impacts as a result of interest rate variations).

The macroeconomic scenarios are designed based on the economic situation and on the impact that may result from changes in the main risk analysis variables - namely, on traded assets prices, interest rates, exchange rates, default probabilities and the recovery rates of non-performing loans.

Table 61 illustrates the impacts on the shareholders' equity of the Group, as at 31 December 2018 and 2017, in amount and percentage, as a result of +200 and -200 basis points shocks in interest rates.

TABLE 61 - SENSITIVITY ANALYSIS TO THE INTEREST RATE RISK IN THE BANKING BOOK

		(Thousand euros)	
		31 Dec 18	31 Dec 17
Value	+200 bp	269 590	469.267
	-200 bp	-29 473	-113.655
% Shareholders' equity ⁽¹⁾	+200 bp	3,9%	6,6%
	-200 bp	-0,4%	-1,6%

⁽¹⁾ Shareholders' equity exclude hybrid products accounted in Equity but not eligible for CET1 capital.

On both end-of-years, the range of shocks considered in this analysis (parallel variations of interest rate curves of +/- 200 bps) reflects, as in previous years, a relevant asymmetry of impacts over the economic value of the Group. This is due to the assumption of a minimum of 0 (zero) interest rate and due to the different impacts verified over the portfolio for the several repricing terms (resulting in different effective impacts occurring under the two scenarios).

12. LIQUIDITY RISK

12.1. LIQUIDITY RISK MANAGEMENT AND ASSESSMENT

LIQUIDITY MANAGEMENT

The BCP Group liquidity management is globally accompanied and the supervision is coordinated at a consolidated level. Liquidity management at the consolidated level is monitored and coordinated in accordance with the principles and methodologies defined at the Group level. The Consolidated Liquidity Plan, which is an integral part of the annual budgeting and planning process, is the main instrument used in pursuit of those purposes.

Liquidity management at the entity level is managed in a stand-alone, each of which must manage and independently guarantee its funding needs, either through its deposit base or, where applicable, through the use of available market mechanisms in each geography. In order to prudently manage liquidity risk, the Group's entities maintain conservative loan to deposits ratios and also have liquidity buffers that are comfortable and appropriate to the size and risk profile of the respective operation.

BCP Group business model is based on retail banking, which has ensured a stable liquidity position, whose resilience has been tested favorably even in situations of financial market distress, as demonstrated in 2011, following the adoption of the Financial Assistance Programme for Portugal.

Since then, in order to reduce the risk profile of the Bank's financing structure and increase its resiliency, strategic priorities have been redefined, both through the alienation of non-strategic assets at first, and through the management of the deleveraging process.

As a result, there was a significant decrease in the commercial gap and a strengthening of stable sources of funding, particularly customer funds, while reducing the bank's dependence on ECB and wholesale funding markets.

The BCP Group ensures compliance with the prudential liquidity requirements required under the current regulatory framework at the consolidated and individual levels.

LIQUIDITY RISK ASSESSMENT

The Group's liquidity risk assessment is based on the calculation and analysis of the regulatory indicators defined by the supervisory authorities as well as other internal, short-term and structural metrics for which consistent exposure limits are defined, monitored and regularly reviewed.

In structural terms, the Group's Risk Appetite Statement (RAS) defines, on a consolidated basis, a set of structural liquidity indicators and respective limits, which are then cascaded through limits applicable to each entity.

The wholesale funding evolution, the LCR (Liquidity Coverage Ratio), the *Loans-to-deposits* ratio and the stock of available collateral for discount at the ECB are monitored weekly.

Concurrently, the liquidity position of the Group is regularly analysed, identifying the factors that justify the changes and deviations from the Liquidity Plan, consolidated and per entity. This analysis is submitted to the CALCO, which decides on appropriate measures to maintain adequate financing conditions. Complementarily, the responsibility for controlling the exposure to liquidity risk lies with the Risk Commission.

In order to prevent the emergence of a liquidity crisis or to prompt immediate action if it materializes, CALCO is also presented on a monthly basis to the results of the Early Warning Signals system of the Liquidity Contingency Plan, with a summarised score of a series of indicators that monitor the evolution of liquidity risk drivers.

Control of liquidity risk is further strengthened by periodically stress tests, carried out to assess the Bank's risk profile and to ensure that the Group and each of its subsidiaries meet their immediate obligations in crisis scenarios. These tests are also used to support the liquidity contingency plan and management decision-making on this matter, including the periodic quantification of the counterbalancing capacity measures defined in the Recovery Plan.

12.2. MANAGEMENT MODEL

The Group's liquidity management is coordinated at the level of the BCP Group, under the responsibility of CALCO, consolidating a comprehensive view of the Group's liquidity position, both short-term management and structural management and promoting conditions for efficient access to financial markets.

BCP Group's Liquidity Plans, prepared on a consolidated basis for the Group and individually for the main entities, are intended to ensure that the expected evolution of inflows and outflows of assets and liabilities resulting from commercial and corporate objectives is in line with prudent treasury management and adequate liquidity ratios, respecting the regulatory risk levels and those internally defined in the RAS.

Liquidity management is carried out by the local units on an autonomous basis, aiming at the self-sufficiency of the

various entities in terms of financing, maintaining their funding independence from the parent company.

The liquidity risk management and evaluation methodologies described in 12.1. and the refinement of the governance model succinctly addressed in this section are continuously re-evaluated in the annual Internal Liquidity Adequacy Assessment Process (ILAAP), that annually materialises in a document drawn according to the EBA guidelines, representing the self-assessment of the Group on liquidity strategy, its management and planning.

Taking as reference the level and the nature of the risks that the Board of Directors intends to limit and control, materialised in the Risk Appetite Statement (RAS), the ILAAP is a key component of the Group's risk management structure and consists of a coherent body of principles, policies, procedures and structures. The improvement opportunities identified in ILAAP lead to detailed action plans, ensuring a permanent adapting of the methodologies and Governance for liquidity risk management (and of liquidity management) to the challenges that the Group faces and the pursuit of best practices. The ILAAP systematically addresses the main components of liquidity management and their respective risk, in accordance with the following structure:

Liquidity and funding risk management:

Definition of the procedures, responsibilities, methodologies and rules employed by the Group to address liquidity and funding risk management.

Funding strategy:

Assessment of the Group's policies and procedures regarding its ability to fund its liquidity needs.

Liquidity buffer and collateral management:

Documentation of the Bank's practices concerning the management of assets and of liquid assets that are eligible as collateral in refinancing operations with central banks.

Cost benefit allocation mechanism:

Assessment of the Bank's approach for liquidity transfer pricing.

Intraday liquidity risk management:

Presentation of the Bank's methodology for managing intraday liquidity risk, as well as of the mechanism that allow to obtain supporting and root-cause information for registered incidents related to obligations that were not met in a timely manner.

Regulatory indicators monitoring:

Alignment of the regulatory requirements defined by the supervision with the Group's current liquidity management requirements and monitoring of its adequacy, through internal limits developed from common and transversal concepts to the Group.

Liquidity stress testing:

Execution of liquidity stress tests on a regular basis.

Contingency funding plan:

Presentation of the lines of responsibility for designing, monitoring and executing the Contingency Funding Plan along with the methodologies for the early detection of tension situations and an assessment of the adjustment measures feasibility.

12.3.REGULATORY REQUIREMENTS

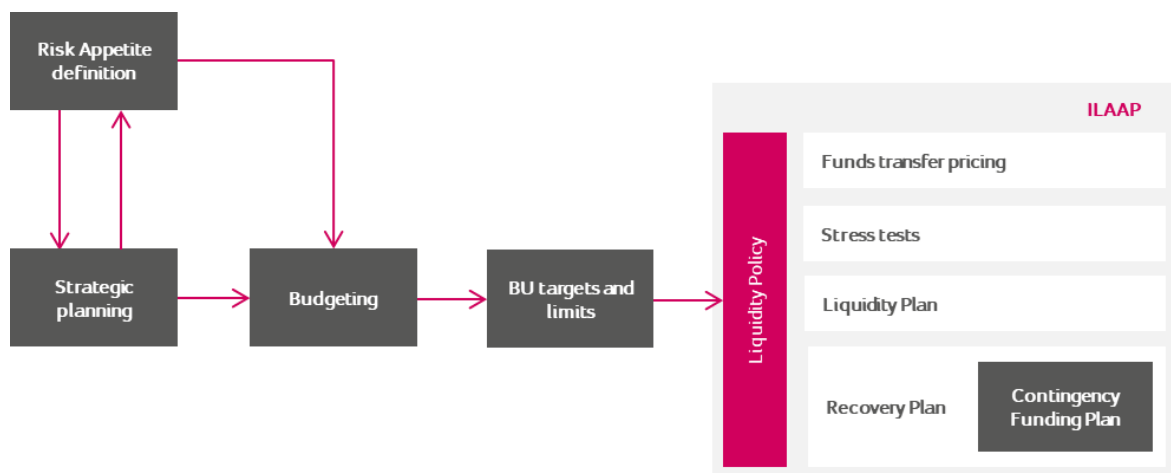
In the scope of the new prudential information requirements that is subject, the BCP Group has been monitoring the application and compliance with the new regulatory framework requirements, not only through the participation on study exercises promoted by the Basel Committee (QIS – Quantitative Impact Study) and reporting exercises performed within the European supervision, through the SSM – Single Supervisory Mechanism (STE – short-term exercise), but also through the regular reports on liquidity (via COREP – the Common reporting Framework).

Within liquidity risk management, it should be noted, the application of the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, from 2016 onwards in what concerns the liquidity coverage requirement.

The Supervisory Review and Evaluation Process (SREP), regarding the Internal Liquidity Adequacy Assessment Process

(ILAAP), together with the Internal Capital Adequacy Assessment Process (ICAAP), are key evaluation instruments for risk management, and for determining internal liquidity and capital needs, respectively.

Within the scope of the ILAAP, the bank analyses a vast set of qualitative and quantitative information, aiming at defining a liquidity risk management framework for the Group, in accordance with the respective profile and aligned with the European Banking Authority guidelines and with the Single Supervisory Mechanism expectations. The ILAAP methodology already mentioned (at section 12.2) is shared, to a large extent, with the liquidity risk management that the Group has been developing over the last years. In this context, the ILAAP exercise considers specific features of the Group, such as business model, governance, implemented controls and its monitoring, dimension, complexity, market constraints, and local regulatory duties of each geography.

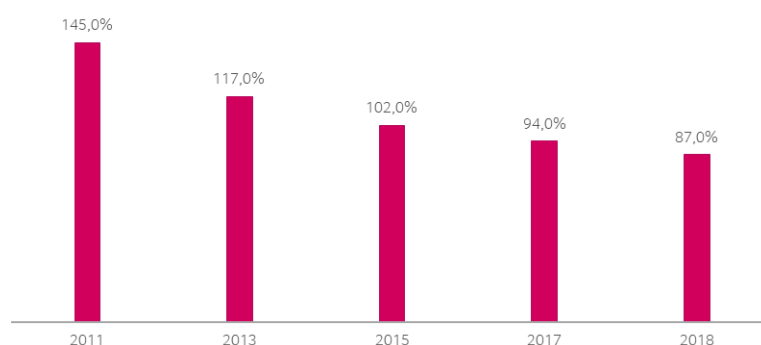


12.4. BALANCE SHEET INDICATORS

The main evolutions regarding the Group's liquidity situation in 2018 were the following:

- Increase of 313 million euros in wholesale funding requirements, mainly attributable to the opposite impacts of the increase in sovereign debt portfolios in Portugal and Poland, on the one hand, and a new reduction of the commercial gap in Portugal and cash flow from operations, on the other hand. The increase in liquidity needs was almost entirely supplied through the money market, with a net increase 357 million euros, to a balance of 1,168 million euros as a result of the increase in the interbank market of 755 million euros (to a balance of 738 million euros) and a reduction of 398 million euros in REPOs, to a balance of 430 million euros at the end of the year.
- The value of collateralised borrowings with the ECB remained at 4,000 million euros, corresponding to the balance of the TLTRO (Targeted Longer Term Refinancing Operations), which will reach maturity in 2020. Net funding with the ECB - which deducts the liquidity deposited with the Bank of Portugal above minimum cash reserves requirements and other liquidity denominated in euros, as well as the interest associated with the negative financing rate applied to TLTRO - continued its progressive reduction path in 2018, by 396 million euros, to a balance of 2,652 million euros.
- The growth of the ECB's eligible assets portfolios allowed for a significant strengthening of the liquidity buffer with the Eurosystem which, at the end of 2018, reached 14,261 million euros (vs. Eur 9,728 million euros in December 2017).
- The Group structurally improved its liquidity profile, recording a Loans-to-deposit ratio of 87%^(*) at the end of 2018 (85% if all balance sheet resources were included) - while at 31 December 2017 it attained 94% and 90%, respectively - keeping a comfortable liquidity reserve of EUR 14.261 million of available eligible assets to guarantee Eurosystem operations.

^(*) As per Instruction no. 16/2004 of Banco de Portugal.

GRAPH 8 – LTD RATIO EVOLUTION

At the end of December 2018, customer deposits stood at 55,248 million euros, recording a 7.9% increase *vis-à-vis* 31 December 2017, with the Clients' balance sheet resources amounting to 56,585 million euros, with gross credit reaching 50,724 million euros, which represents a 0.5% decrease from the end of 2017.

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

TABLE 62 – LIQUID ASSETS INTEGRATED IN COLLATERAL POOLS

	(Thousand euros)	
	31 Dec 18	31 Dec 17
European Central Bank ⁽ⁱ⁾	7 248 348	7 431 756
Other Central Banks	5 608 093	3 216 224
TOTAL	12 856 441	10 647 980

As at 31 December 2018:

- The amount discounted at the European Central Bank amounted to 4,000 million euros (same amount as at 31/12/2017);
- The amount discounted at Banco de Moçambique was of 1,275,000 euros (null amount as at 31/12/2017);
- No amounts were discounted in other central banks.

The ECB's Monetary Policy Pool, the net borrowing at the ECB and the liquidity buffer were the following at 31/12/2018 and 2017:

TABLE 63 – LIQUIDITY BUFFER OF THE ECB

	(Thousand euros)	
	31 Dec. 18	31 Dec. 17
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy ⁽ⁱ⁾	7,431,756	8,592,234
Outside the pool of ECB monetary policy	5,344,503	3,457,859
	12,776,259	12,050,093
Net borrowing at the ECB ⁽ⁱⁱ⁾	3,048,618	4,436,292
LIQUIDITY BUFFER⁽ⁱⁱⁱ⁾	9,727,641	7,613,801

⁽ⁱ⁾ Corresponds to the amount reported in COLMS (Banco de Portugal application).

⁽ⁱⁱ⁾ Includes, as at December 2017, the value of funding with the ECB net of the interest associated with the negative financing rate applied to the TLTRO (17,954,000 euros), of deposits at the Banco de Portugal and of other liquidity of the Eurosystem (1,227,481,000 euros), plus the minimum cash reserve and the accrued interest (344,053,000 euros).

⁽ⁱⁱⁱ⁾ Collateral eligible for the ECB, after haircuts, less net borrowing at the ECB.

^(iv) Includes securities issued by SPE concerning securitization operations in which the assets were not derecognised at a consolidated level. Therefore, the respective securities are not recognised in the securities portfolio.

Thus, as at 31 December 2018, the liquidity obtainable through available collateral, plus deposits with Banco de Portugal deducted from the minimum cash reserves and accrued interest, amounted to 14,261 million euros, comparing to 9,728 million euros in 31 December 2017.

12.5.REGULATORY INDICATORS

12.5.1. LIQUIDITY COVERAGE RATIO

The regulatory requirement for the minimum Liquidity Coverage Ratio (LCR) is of 100% and the Group's LCR was comfortably above that path by 31 December 2018, supported by portfolios of highlyliquid assets whose amount is compatible with the Group's prudent short-term liquidity management, as illustrated by the following table:

TABLE 64 – LCR DISCLOSURE*

(Thousand euros)

	Total unweighted value (average)				Total weighted value (average)			
	31/12/2018	30/09/2018	30/06/2018	31/03/2018	31/12/2018	30/09/2018	30/06/2018	31/03/2018
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets								
1 Total high-quality liquid assets (HQLA)	-	-	-	-	11 256 085	10 520 773	10 214 956	9 729 478
Cash outflows								
2 Retail deposits and deposits from small business customers, of which:	25 115 859	24 153 912	23 387 175	22 703 050	2 309 184	2 268 807	2 193 139	2 120 460
3 Stable deposits	9 087 544	7 947 083	7 790 759	7 725 977	454 377	397 354	389 538	386 299
4 Less stable deposits	16 028 315	16 206 829	15 596 416	14 977 073	1 854 807	1 871 453	1 803 601	1 734 161
5 Unsecured wholesale funding	12 388 457	12 259 049	12 391 358	12 560 039	5 217 267	5 263 432	5 438 253	5 569 220
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	1 693 469	1 668 494	1 667 794	1 762 515	422 685	416 432	416 278	439 968
7 Non-operational deposits (all counterparties)	10 681 003	10 560 835	10 697 336	10 701 326	4 780 596	4 817 281	4 995 747	5 033 055
8 Unsecured debt	13 986	29 720	26 228	96 197	13 986	29 720	26 560	96 197
9 Secured wholesale funding	-	-	-	-	46 126	146 390	205 454	299 463
10 Additional requirements	8 471 856	8 491 693	8 321 353	8 229 113	1 153 322	1 203 681	1 195 963	1 165 142
11 Outflows related to derivative exposures and other collateral requirements	335 257	383 985	392 888	375 443	335 257	383 985	392 888	375 443
12 Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13 Credit and liquidity facilities	8 136 599	8 107 708	7 928 465	7 853 670	818 065	819 696	803 075	789 699
14 Other contractual funding obligations	754 188	734 947	739 857	728 915	754 188	734 947	739 857	728 915
15 Other contingent funding obligations	5 089 142	4 968 278	4 947 364	4 976 275	261 355	199 452	176 404	165 518
16 Total cash outflows	-	-	-	-	9 741 442	9 816 710	9 949 402	10 048 717
Cash inflows								
17 Secured lending (eg reverse repos)	40 516	35 072	45 026	28 820	-25 485	-25 536	-26 520	1 082
18 Inflows from fully performing exposures	2 748 371	2 926 043	3 163 023	3 283 470	1 769 963	1 832 512	1 941 927	1 925 954
19 Other cash inflows	6 910 727	6 796 280	6 741 811	6 660 643	2 073 405	2 020 608	2 017 296	1 965 512
EU-19a (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-	-	-	-	-
EU-19b (Excess inflows from a related specialised credit institution)	-	-	-	-	-	-	-	-
20 Total cash inflows	9 699 613	9 757 395	9 949 860	9 972 932	3 817 884	3 827 584	3 932 703	3 892 548
EU-20a Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c Inflows Subject to 75% Cap	9 669 185	9 726 966	9 919 432	9 972 932	3 817 884	3 827 584	3 932 703	3 892 548
21 Liquidity buffer	-	-	-	-	11 256 085	10 520 773	10 214 956	9 729 478
22 Total net cash outflows	-	-	-	-	5 923 559	5 989 126	6 016 699	6 156 169
23 Liquidity coverage ratio (%)	-	-	-	-	190%	176%	170%	159%

(*) Ratio calculated as a simple average of the consolidated LCR, using the end-of-month observations over the last twelve months at each Quarter (EBA/GL/2017/01). The LCR value as at 31 December 2018 stood at 218%

Concentration of funding and liquidity sources:

Considering that the core business of the BCP Group is based on commercial banking, deposits of retail clients contribute significantly to the funding structure and to the increase of stability. Other deposits made by financial entities and large corporations further contribute to the diversification of the funding structure, increasing the relationship with some counterparties at the operational level. Collateralized resources contribute to the stable funding base, both for longer maturities and collateral quality, namely: TLTRO with the European Central Bank, repurchase agreements, mortgage bond issues and securitizations. Senior debt securities and subordinated debt securities that concur, in part, for regulatory capital, increase the funding sources' level of diversification and a significant risk of financing concentration is not recognised.

Derivative exposures and potential collateral calls:

Derivative transactions carried out by the BCP Group are mainly defined under guarantee agreements that ensure the market risk hedging of these transactions. Group entities include liquidity risk, considering the impacts of an adverse market scenario that leads to changes in the market values of the derivatives, creating additional liquidity needs due to collateral coverage / replacement needs. In the LCR approach, this additional liquidity requirement is determined by the historical observation of the most significant net change in the last 24 months.

Currency mismatch in the LCR:

The BCP Group has a significant amount of funding obtained in zlotys (PLN), mostly obtained by the subsidiary in Poland and representing about 21% of the total funding. The liquidity coverage ratio in PLN is significantly above the required 100%.

Description of the centralization degree of both liquidity management and interaction between Group's units:

The management of the Group's liquidity needs is decentralized by geography, since each subsidiary is self-sufficient and responsible for ensuring the coverage of its liquidity needs, either through its deposit base or through the market mechanisms available in each geography. The BCP Group consolidates the individual liquidity plans for the Group's main entities, ensuring that the expected evolution of inflows and outflows of assets and liabilities resulting from commercial and corporate objectives is aligned with prudent liquidity risk management and adequate liquidity ratios. The liquidity of each of the Group's entities is supervised at a global level, with autonomy to manage liquidity needs, but ensuring internal mechanisms that maximize the efficiency of its management on a consolidated basis, particularly in times of higher stress.

Other items in the LCR calculation that are not captured in the LCR disclosure template but are considered relevant for the Group's liquidity profile:

The BCP Group's financing structure is based on retail deposits considered to be stable in nature, generating a low level of outflows. On the other hand, although wholesale funding presents a lower stability, potentially generating higher outflows, an adequate management of maturity mismatches is carried out. The liquidity buffer is essentially composed of Level 1 assets, based on sovereign public debt.

12.5.2. NET STABLE FUNDING RATIO

The definition of the Net Stable Funding Ratio (NSFR) was approved by the Basel Committee in October 2014. The Group has a stable financing base, obtained by the high weight of customer deposits in the funding structure, by collateralised financing and by medium and long-term instruments, which allowed the NSFR to stand at 133% as at 31 December 2018 (which compares to 124% by 31 December 2017).

12.5.3. ENCUMBERED AND UNENCUMBERED ASSETS

According to the notice no. 28/2014 of Banco de Portugal, which focuses on the guidance of the EBA on disclosure of encumbered and unencumbered assets (EBA/GL/2014/3), and taking into account the recommendation made by the European Systemic Risk Board, the following information regarding the assets and collaterals is presented:

TABLE 65 – ENCUMBERED ASSETS

(Thousand euros)				
31/12/2018	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution, of which:	10 981 675		62 475 453	
Equity instruments	-	-	71 853	71 853
Debt securities	1 739 649	1 740 137	15 520 632	15 522 488
Other assets	-		7 697 410	

(Thousand euros)				
31/12/2017	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution, of which:	12 542 681		60 204 359	
Equity instruments	-	-	1 946 587	1 946 587
Debt securities	2 222 056	2 222 056	11 029 696	11 019 693
Other assets	-		8 744 647	

(Thousand euros)				
RECEIVED COLLATERAL	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Equity instruments	-	-	-	-
Debt securities	-	-	164 835	50 471
Other assets	-	-	-	-
Own debt securities issued other than own Covered Bonds or ABS encumbered	-	-	-	-

(Thousand euros)		
ENCUMBERED ASSETS, RECEIVED COLLATERAL AND ASSOCIATED LIABILITIES	Carrying amount of selected financial liabilities	
	31 Dec 18	31 Dec 17
Matching liabilities, contingent liabilities and securities lent	6 845 902	8 957 873
Assets, collateral received and own debt securities issued other than Covered Bonds and ABS encumbered	10 088 945	11 885 777

At the end of 2018, total encumbered assets in funding operations represented 14% of the Group's balance sheet total assets, comparing with the value of 17% registered at the end of 2017. This evolution was due to the improvement of the commercial gap, resulting in a decrease of the funding needs and a corresponding collateral unencumbrance.

The encumbered assets are mostly related with the Group's funding operations (namely, at the ECB and via REPO) through the issuance of mortgage bonds and securitisation programs. The type of assets used as collateral for these financing transactions are different loans to Clients' portfolios, supporting mortgage bonds issues and securitisation programs – either placed outside of the Group or aimed at reinforcing the collateral pool at the ECB and to collateralise REPO operations from the money markets. Another part of the REPO financing collateralisation, as well as of the funding from the European Investment Bank, is obtained through public sovereign debt eligible for central banks, together with bonds issued by public sector companies.

On 31/12/2018, other assets in the amount of 7.697.410.000 euros (8,744,647,000 euros at 31 December 2017), although not encumbered, were mostly related to the Group's activity, namely, to: investments in associated companies and subsidiaries, tangible assets and investment properties, intangible assets, assets associated with derivatives and current and deferred taxes.

On 31/12/2018 the Group had in place two covered bond programmes: the "€12.500.000.000 BCP Covered Bond Programme" (BCP Programme) and the "€ 2.000.000.000 BII Covered Bond Programme" (BII Programme), with 8.2 thousand million euros and 895 million euros of covered bonds outstanding, respectively. The BCP Programme is backed by a 11.4 thousand million euros portfolio of residential mortgages, providing an overcollateralisation ("OC") of 38.5% which is above the minimum of 14% currently required by rating agencies. The BII Programme is backed by its own 1,020 million euros cover pool of essentially residential mortgages, corresponding to an OC of 14% which is above the minimum of 12.5% currently required by rating agencies.

The Portuguese covered bond legislation ensures covered bond holders the benefit of dual-recourse over the issuer, together with a special preferential claim over the respectively assigned residential mortgage portfolios, with precedence over any other creditors, covered bond law superseding the general bankruptcy regulation. Residential

mortgages in a cover pool are subject to certain eligibility criteria inscribed in the Portuguese covered bond legislation, which include a maximum LTV of 80%, delinquency of no more than 90 days and first lien mortgages (or, if otherwise, all preceding liens being included in the cover pool) over properties located in the EU. Both the BCP Programme and the BII Programme documentation limit property location to Portugal.

Annexes



ANNEX 1 – UNIFORM DISCLOSURE OF IFRS9 TRANSITIONAL ARRANGEMENTS

	31 Dec 18	30 Sep 18	30 Jun 18	31 Mar 18
AVAILABLE CAPITAL (AMOUNTS)				
1 Common Equity Tier 1 (CET1) capital	4 974 060	4 889 332	4 895 392	4 810 254
2 Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4 924 118	5 533 289	4 843 682	4 734 475
3 Tier 1 capital	5 047 969	4 963 916	4 967 878	4 879 374
4 Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4 997 668	5 534 458	4 915 789	4 803 475
5 Total capital	5 618 621	5 560 735	5 581 084	5 510 068
6 Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5 568 457	6 142 352	5 529 133	5 434 574
RISK-WEIGHTED ASSETS (AMOUNTS)				
7 Total risk-weighted assets	41 855 305	42 141 892	41 792 825	41 077 391
8 Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	41 769 128	42 073 447	41 722 534	41 023 440
CAPITAL RATIOS				
9 Common Equity Tier 1 (as a percentage of risk exposure amount)	11,9%	11,6%	11,7%	11,7%
10 Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,8%	13,2%	11,6%	11,5%
11 Tier 1 (as a percentage of risk exposure amount)	12,1%	11,8%	11,9%	11,9%
12 Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12,0%	13,2%	11,8%	11,7%
13 Total capital (as a percentage of risk exposure amount)	13,4%	13,2%	13,4%	13,4%
14 Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,3%	14,6%	13,3%	13,3%
LEVERAGE RATIO				
15 Leverage ratio total exposure measure	80 554 958	68 056 100	67 264 013	67 013 868
16 Leverage ratio	6,3%	7,3%	7,4%	7,3%
17 Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,2%	7,2%	7,3%	7,2%

ANNEX 2 –OWN FUNDS AT 31 DECEMBER 2018 (Own Funds disclosure Template)

(Thousand euros)

Reference to the articles of Regulation (EU) 575/2013 (CRR)		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
1 Capital instruments and the related share premium accounts	4 737 481	26 (1), 27, 28, 29
of which: instrument type 1	4 724 926	26 (3) from EBA list
of which: instrument type 1		26 (3) from EBA list
of which: instrument type 1		26 (3) from EBA list
2 Retained earnings	693 896	26 (1) (c)
3 Accumulated other comprehensive income (and other reserves)	191 836	26 (1)
3a Funds for general banking risk		26 (1) (f)
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1		486 (2)
5 Minority interests (amount allowed in consolidated CET1)	599 169	84
5a Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)
6 COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	6 222 382	Sum of lines 1 to 5a
COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS		
7 Additional value adjustments (negative amount)	-119 760	34, 105
8 Intangible assets (net of related tax liability) (negative amount)	-245 913	36 (1) (b), 37
9 Empty set in the EU		
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-328 229	36 (1) (c), 38
11 Fair value reserves related to gains or losses on cash flow hedges	-33 829	33 (1) (a)
12 Negative amounts resulting from the calculation of expected loss amounts	-124 730	36 (1) (d), 40, 159
13 Any increase in equity that results from securitised assets (negative amount)		32 (1)
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-3 355	33 (b)
15 Defined-benefit pension fund assets (negative amount)	-12 707	36 (1) (e), 41
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-14	36 (1) (f), 42
17 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44
18 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) e (3), 79
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) a (3), 79
20 Empty set in the EU		
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 a 91
20c of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-256 678	36 (1) (c), 38, 48 (1) (a)
22 Amount exceeding the 15% threshold (negative amount)	-147 483	48 (1)
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-58 768	36 (1) (i), 48 (1) (b)
24 Empty set in the EU		
25 of which: deferred tax assets arising from temporary differences	-88 715	36 (1) (c), 38, 48 (1) (a)
25a Losses for the current financial year (negative amount)		36 (1) (a)
25b Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)
28 TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1 (CET1)	-1 272 698	Sum of lines 7 to 20a, 21, 22 and 25a to 27
29 COMMON EQUITY TIER 1 (CET1) CAPITAL	4 949 684	Line 6 - line 28
ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS		
30 Capital instruments and the related share premium accounts		51, 52
31 of which: classified as equity under applicable accounting standards		
32 of which: classified as liabilities under applicable accounting standards		
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1		486 (3)
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	78 890	85, 86
35 of which: instruments issued by subsidiaries subject to phase-out		486 (3)
36 ADDITIONAL TIER 1 (AT1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	78 890	Sum of lines 30, 33 and 34
ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS		
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57
38 Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58
39 Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79
40 Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79
41 Empty set in the EU		
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43 TOTAL REGULATORY ADJUSTMENTS TO ADDITIONAL TIER 1 (AT1) CAPITAL		Sum of lines 37 to 42
44 ADDITIONAL TIER 1 (AT1) CAPITAL	78 890	Line 36 - line 43
45 TIER 1 CAPITAL (T1 = CET1 + AT1)	5 028 574	Sum of lines 29 and 44

TIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS		
46	Capital instruments and the related share premium accounts	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	87, 88
49	of which: instruments issued by subsidiaries subject to phasing-out	486 (4)
50	Credit risk adjustments	62 (c) & (d)
51	TIER 2 (T2) CAPITAL BEFORE REGULATORY ADJUSTMENTS	622 683
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	66 (c), 69, 70 e 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	66 (d), 69, 79
56	Empty set in the EU	
57	TOTAL REGULATORY ADJUSTMENTS TO TIER 2 (T2) CAPITAL	-58 800 Sum of lines 52 to 56
58	TIER 2 (T2) CAPITAL	563 883 Line 51 - line 57
59	TOTAL CAPITAL (TC = T1 + T2)	5 592 457 Sum of lines 45 and 58
60	TOTAL RISK WEIGHTED ASSETS	41 791 217
CAPITAL RATIOS AND BUFFERS		
61	COMMON EQUITY TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	11,8% 92 (2) (a)
62	TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	12,0% 92 (2) (b)
63	TOTAL CAPITAL (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	13,4% 92 (2) (c)
64	INSTITUTION-SPECIFIC BUFFER REQUIREMENT (CET1 REQUIREMENT IN ACCORDANCE WITH ARTICLE 92 (1) (A), PLUS CAPITAL CONSERVATION AND COUNTERCYCLICAL BUFFER REQUIREMENTS, PLUS SYSTEMIC RISK BUFFER, PLUS SYSTEMICALLY IMPORTANT INSTITUTION BUFFER EXPRESSED AS A PERCENTAGE OF RISK EXPOSURE AMOUNT)	CRD 128, 129, 130, 131, 133
65	OF WHICH: CAPITAL CONSERVATION BUFFER REQUIREMENT	
66	OF WHICH: COUNTERCYCLICAL CAPITAL BUFFER REQUIREMENT	
67	OF WHICH: SYSTEMIC RISK BUFFER REQUIREMENT	
67a	OF WHICH: GLOBAL SYSTEMICALLY IMPORTANT INSTITUTION (G-SII) OR OTHER SYSTEMICALLY IMPORTANT INSTITUTION (O-SII) BUFFER	
68	COMMON EQUITY TIER 1 AVAILABLE TO MEET BUFFERS (AS A PERCENTAGE OF RISK EXPOSURE AMOUNT)	7,40% CRD 128
69	[NOT RELEVANT ON EU REGULATIONS]	
70	[NOT RELEVANT ON EU REGULATIONS]	
71	[NOT RELEVANT ON EU REGULATIONS]	
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	22 938 36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	354 657 36 (1) (i), 45, 48
74	Empty set in the EU	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	535 385 36 (1) (c), 38, 48
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	62
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JANUARY 2013 AND 1 JANUARY 2022)		
80	Current cap on CET1 instruments subject to phase-out arrangements	484 (3), 486(2) e (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	484 (3), 486(2) e (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	1 753 484 (4), 486(3) e (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	484 (4), 486(3) e (5)
84	Current cap on T2 instruments subject to phase-out arrangements	10 808 484 (5), 486(4) e (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	16 213 484 (5), 486(4) e (5)

ANNEX 3 – MAIN FEATURES OF OWN FUNDS' INSTRUMENTS**INSTRUMENTS (1) TO (5)**

		(1)	(2)	(3)	(4)	(5)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier	PTBIVXOM0013	PTBIU6OM0028	PTBCL2OM0016	PTBCUWOM0011	PTBCTZOM0037
3	Governing law(s) of the Instrument	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law
REGULATORY TREATMENT						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (1)	51 173 333 €	7 444 444 €	6 844 444 €	979 167 €	5 009 667 €
9	Nominal amount of instrument (2)	114 000 000 €	50 000 000 €	40 000 000 €	7 500 000 €	26 600 000 €
9a	Issue price	100%	84,45%	80,40%	100%	73,19%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	28 March 2011	14 October 2011	8 November 2011	25 August 2011	30 December 2011
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	28 March 2021	28 September 2019	8 November 2019	25 August 2019	9 December 2019
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
COUPONS/DIVIDENDS						
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	Euribor 3m + 3.75%	9,31%	8,519%	6,383%	7,150%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A

		(1)	(2)	(3)	(4)	(5)
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Senior Debt	Senior Debt
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

INSTRUMENTS (6) TO (10)

		(6)	(7)	(8)	(9)	(10)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier	PTBCU9OM0028	PTBIVSOM0077	PTBIUGOM0072	PTBIZUOM0053	PTBCQJOM0030
3	Governing law(s) of the Instrument	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law	Portuguese law

REGULATORY TREATMENT

4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (1)	2 901 111 €	28 880 611 €	16 158 333 €	7 904 167 €	5 341 111 €
9	Nominal amount of instrument (2)	14 000 000 €	64 100 000 €	35 000 000 €	26 250 000 €	23 000 000 €
9a	Issue price	72,31%	100%	100%	82,55%	81,52%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	27 January 2012	1 April 2011	21 April 2011	18 July 2012	4 April 2012
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	13 January 2020	1 April 2021	21 April 2021	2 July 2020	28 February 2020
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A

COUPONS/DIVIDENDS

17	Fixed or floating dividend/coupon	Fixed	Floating	Floating	Fixed	Fixed
18	Coupon rate and any related index	7,010%	Euribor 3m + 3.75%	Euribor 3m + 3.75%	9,00%	9,00%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A

	(6)	(7)	(8)	(9)	(10)
25 If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26 If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27 If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28 If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29 If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30 Write-down features	No	No	No	No	No
31 If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32 If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Senior Debt	Senior Debt
36 Non-compliant transitioned features	No	No	No	No	No
37 If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

INSTRUMENTS (11) TO (15)

	(11)	(12)	(13)	(14)	(15)
1 Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	BCP Finance Bank, Ltd.	Banco Comercial Português, S.A.	Bank Millennium, S.A.
2 Unique identifier	PTBIUMOM0082	PTBIZKOM0063	XS0686774752	PTBCPWOM0034	PLBIG0000453
3 Governing law(s) of the Instrument	Portuguese law	Portuguese law	English law	English and Portuguese law	Polish law

REGULATORY TREATMENT

4 Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5 Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6 Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7 Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8 Amount recognised in regulatory capital (1)	12 835 000 €	6 416 667 €	14 978 256 €	300 000 000 €	46 077 919 €
9 Nominal amount of instrument (2)	51 000 000 €	25 000 000 €	98 850 000 €	300 000 000 €	PLN 700.000.000 [162.919.517,76 €]
9a Issue price	83,20%	82,82%	100%	100%	100%
9b Redemption price	100%	100%	100%	100%	100%
10 Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11 Original date of issuance	12 April 2012	12 April 2012	13 October 2011	7 December 2017	7 December 2017
12 Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13 Original maturity date	3 April 2020	12 April 2020	13 October 2021	7 December 2027	7 December 2027
14 Issuer call subject to prior supervisory approval	Yes	Yes	No	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	N/A.	07 December 2022. Existence of call option, at any moment, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.	08 December 2022. Existence of call option, on each interest payment date, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.

	(11)	(12)	(13)	(14)	(15)
16 Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
COUPONS/DIVIDENDS					
17 Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed (reset)	Floating
18 Coupon rate and any related index	9,15%	9,00%	13,00%	First 5 years. 4.5%. Refixing at the end of the 5th year: MS 5y rate + Initial Margin (4,267%)	Wibor 6M + 2,30%
19 Existence of a dividend stopper	No	No	No	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No	No	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24 If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25 If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26 If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27 If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28 If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29 If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30 Write-down features	No	No	No	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32 If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Senior Debt	Senior Debt
36 Non-compliant transitioned features	No	No	No	No	No
37 If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

INSTRUMENTS (16) TO (19)

	(16)	(17)	(18)	(19)
1 Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2 Unique identifier	PTBSMFOE0006	PTBCLAOE0000	PTBCPMOM0002	PTBCPOAM0015
3 Governing law(s) of the Instrument	Portuguese law	Portuguese law	Portuguese law	Portuguese law

REGULATORY TREATMENT

4 Transitional CRR rules	Tier 2	Tier 2	Additional Tier 1	Common Equity Tier 1
5 Post-transitional CRR rules	Ineligible	Ineligible	Ineligible	Common Equity Tier 1
6 Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7 Instrument type	Subordinated Debt	Subordinated Debt	Other Capital Instruments	Ordinary Shares
8 Amount recognised in regulatory capital (1)	8 814 031 €	1 994 400 €	1 168 800 €	4 721 010 339 €
9 Nominal amount of instrument (2)	PTE 18.000.000.000; [89.783.621,47] €	35 000 000 €	300 000 000 €	N/A

		(16)	(17)	(18)	(19)
9a	Issue price	100%	100%	100%	N/A
9b	Redemption price	100%	100%	100%	N/A
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Shareholders' equity	Shareholders' equity
11	Original date of issuance	4 December 1997	28 December 2001	29 June 2009	N/A
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	No maturity
13	Original maturity date	No maturity	No maturity	No maturity	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	First call date: 4 December 2007	First call date: 28 December 2011	First date: 29 June 2014	N/A
16	Subsequent call dates, if applicable	First call date and on each interest payment date thereafter.	First call date and on each interest payment date thereafter.	First call date and on each interest payment date thereafter	N/A
COUPONS/DIVIDENDS					
17	Fixed or floating dividend/coupon	Floating	Floating	Fixed to floating	Floating
18	Coupon rate and any related index	Until 4-Dec-2007: Euribor 6m + 0,4%; 4-Jun-2008 to 4-Dec-2017 (inclusive): Euribor 6m + 0,9%; From 4-Jun-2018: Euribor 6m + 1,4%	28-Mar-02 to 28-Dec-11 (inclusive): Euribor 3m + 1,75%; From 28-Mar-12: Euribor 3m + 2,25%	Until 29-Jun-2011: 7%; From 29-Dec-2011: Euribor 6m + 2,5% (minimum rate: 5%)	N/A
19	Existence of a dividend stopper	No	No	No	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Fully discretionary	N/A
21	Existence of step up or other incentive to redeem	Yes	Yes	No	N/A
22	Noncumulative or cumulative	Cumulative	Cumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	Yes	Yes	Yes	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	Full or Partial	Full or Partial	Always partial	N/A
33	If write-down, permanent or temporary	Permanent	Permanent	Temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	(3)	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Tier 2	Additional Tier 1
36	Non-compliant transitioned features	Yes	Yes	Yes	No
37	If yes, specify non-compliant features	Existence of Step-up clause	Existence of Step-up clause	Existence of Step-up clause	N/A

(1) Amount included in the calculation of Bank's Own Funds (phased-in) as of 31 December 2018

(2) On the Issue date.

(3) In the following situations: (i) to the extent of the positive variation of the Issuer's equity from profits or positive reserves (according to the rules applicable to the preparation of individual financial statements of the Issuer) on proportion of the nominal value of the Notes and the Share capital of the Issuer; (ii) in the case of dissolution, liquidation or insolvency of the Issuer; (iii) in case of payment of dividends to the shareholders; (iv) in the event of early redemption (Issuer call). In each case subject to prior authorisation from Banco de Portugal.

ANNEX 4 – GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

		(Thousand euros)											
		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights	Countercyclical capital buffer
Country code	Country	Exposure value for Standardised Approach	Exposure value IRB Approach	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for Standardised Approach	Exposure value IRB Approach	Of which: Trading book exposures	Of which: Securitisation exposures	Of which: Trading book exposures	Total		
DE	Germany	5 198	97 313					7 525			7 525	0,3389%	0,0000%
AO	Angola	64 679	256 886					23 257			23 257	1,0474%	0,0000%
BR	Brazil	6 374	94 637					1 619			1 619	0,0729%	0,0000%
ES	Spain	51 968	138 408					15 324			15 324	0,6901%	0,0000%
US	United States	23 107	99 509					10 235			10 235	0,4610%	0,0000%
FR	France	7 120	337 455					13 411			13 411	0,6040%	0,0000%
KW	Kuwait	0	107 304					4 072			4 072	0,1834%	0,0000%
LU	Luxembourg	27 807	106 046					5 547			5 547	0,2498%	0,0000%
MO	Macao	46 632	3 990					209			209	0,0094%	0,0000%
MZ	Mozambique	445 604	137 441					23 372			23 372	1,0526%	0,0000%
NL	Netherlands	18 547	425 346					9 670			9 670	0,4355%	0,0000%
PL	Poland	6 842 844	6 585 574					491 463			491 463	22,1334%	0,0000%
PT	Portugal	4 442 639	41 591 056	720 277			2 161 722	1 582 320	90	22 726	1 605 136	72,2885%	0,0000%
GB	United Kingdom	35 320	238 715					4 561			4 561	0,2054%	1,0000%
CH	Switzerland	1 870	378 571					5 055			5 055	0,2276%	0,0000%
TOTAL		12 019 709	50 598 250	720 277	0	0	2 161 722	2 197 640	90	22 726	2 220 456	100,0%	-

ANNEX 5 – CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

Total amount of exposures	41 855 305
Countercyclical capital buffer rate (institution-specific)	0,002053936%
Countercyclical capital buffer (institution-specific)	860

Market Discipline Report 2018

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Banco Comercial Português, S.A.,
Company open to public investment

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