

## 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							
<b>TOTAL</b>							<b>433 632</b>

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							
<b>TOTAL</b>							<b>456 432</b>

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				
<b>TOTAL SUBJECT TO THE CVA CAPITAL CHARGE</b>	<b>415 898</b>	<b>151 302</b>	<b>410 129</b>	<b>156 587</b>

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

31/12/2018	(Thousand euros)	
	EAD post CRM	RWA
<b>EXPOSURES TO QCCP (TOTAL)</b>		
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		
<b>EXPOSURES TO NON-QCCP (TOTAL)</b>		
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
<b>EXPOSURES TO QCCP (TOTAL)</b>		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		
<b>EXPOSURES TO NON-QCCP (TOTAL)</b>		
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													
<b>TOTAL</b>	<b>25 999</b>				<b>136 457</b>	<b>198 516</b>		<b>0</b>	<b>134 815</b>		<b>200 203</b>	<b>695 991</b>	<b>265 004</b>

**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													
<b>TOTAL</b>	<b>12 049</b>				<b>124 439</b>	<b>226 330</b>		<b>63</b>	<b>121 661</b>		<b>172 797</b>	<b>657 339</b>	<b>261 576</b>

**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)							
	<b>SUBTOTAL</b>	<b>12 141</b>	<b>4,21%</b>	<b>30</b>	<b>42,26%</b>	<b>938</b>	<b>15 745</b>	<b>129,7%</b>
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%
	<b>SUBTOTAL</b>	<b>564</b>	<b>19,34%</b>	<b>44</b>	<b>43,87%</b>	<b>621</b>	<b>521</b>	<b>92,4%</b>
<b>TOTAL</b>		<b>12 705</b>	<b>-</b>	<b>74</b>	<b>-</b>	<b>-</b>	<b>16 266</b>	<b>128,0%</b>

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)							
	<b>SUBTOTAL</b>	<b>8 325</b>	<b>1,95%</b>	<b>30</b>	<b>42,20%</b>	<b>1 081</b>	<b>9 595</b>	<b>115,3%</b>

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%
	<b>SUBTOTAL</b>	<b>1 170</b>	<b>17,10%</b>	<b>51</b>	<b>43,55%</b>	<b>547</b>	<b>869</b>	<b>74,3%</b>
<b>TOTAL</b>		<b>9 495</b>		<b>81</b>			<b>10 464</b>	<b>110,2%</b>

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%
	<b>SUBTOTAL</b>	<b>335</b>	<b>12,11%</b>	<b>13</b>	<b>59,63%</b>		<b>287</b>	<b>85,8%</b>
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)							
	<b>SUBTOTAL</b>							
<b>TOTAL</b>		<b>335</b>	<b>-</b>	<b>13</b>	<b>-</b>		<b>287</b>	<b>85,8%</b>

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)							
	<b>SUBTOTAL</b>	<b>404</b>	<b>9,24%</b>	<b>20</b>	<b>55,63%</b>		<b>295</b>	<b>72,9%</b>
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)							
	<b>SUBTOTAL</b>							
<b>TOTAL</b>		<b>404</b>		<b>20</b>			<b>295</b>	<b>72,9%</b>

**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					
<b>TOTAL</b>	<b>485 061</b>	<b>44 815</b>	<b>440 246</b>	<b>103 224</b>	<b>351 212</b>

(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					
<b>TOTAL</b>	<b>937 842</b>	<b>59 363</b>	<b>878 480</b>	<b>54 587</b>	<b>827 668</b>

**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			
<b>TOTAL</b>	<b>2 327</b>	<b>41 616</b>	<b>142 747</b>	<b>255 948</b>	<b>0</b>	<b>21 420</b>

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
<b>TOTAL</b>	<b>2 589</b>	<b>40 361</b>	<b>144 120</b>	<b>271 915</b>	<b>7 201</b>	<b>55 362</b>

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

31/12/2018

(Thousand euros)

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

30/06/2018

(Thousand euros)

(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