48. Risk management

The Bank is subject to several risks during the course of its business.

The Bank's risk-management policy is designed to permanently ensure an adequate relationship between its own funds and the business it develops, as well as the corresponding evaluation of the risk/return profile by business line. Under this scope, the monitoring and control of the main types of financial risks to which the Bank's business is subject to – credit, market, liquidity and operational – is particularly relevant.

Main types ok risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

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

Liquidity – Liquidity risk reflects the Group's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk consists in the potential losses resulting from failures or inadequacies in internal procedures, persons or systems, and also in the potential losses resulting from external events.

Real Estate market – Real Estate market risk is related to the potential loss in which the Bank may incur due to changes in the prices of real estate assets owned by the Group.

Pension fund – Pension fund risk consists in the potential losses in which the Bank may incur due to risk related to the uncertainty about required contributions for defined benefit pension plans or to market rates fluctuations that might cause direct financial losses or indirect in the pension fund’s assets.

Business and strategy – The risk related to business and strategy consists in the potential losses due to unpredictable changes in the economic and competitive framework in which the Group develops its activity, changes in the business strategy, risk of depreciation on strategic shareholdings that are out of the consolidation perimeter, and misalignment between IT’s structure and the Bank’s strategy.

Legal and compliance - Legal and compliance risk is related to losses that the Bank may incur as a result of violations or non-compliance with laws and regulations, encompassing the risk of financial crime (related to violations or non-conformities arising from obligations in matters prevention of money laundering and financing of terrorism), the risk of conduct (related to violations or non-compliance with applicable legislation and regulations in force originating, in particular, from fraud, negligent behavior or design of products and services), the risk associated with non-compliance with personal data protection and the risk of litigation.

Internal organisation

Banco Comercial Português Board of Directors is responsible for the definition of the risk policy, including the approval of the principles and rules at the very highest level to be followed in risk management, as well as the guidelines dictating the allocation of capital to the business lines.

The Board of Directors, through the Audit Committee, ensures the existence of adequate risk control and of risk-management systems at Bank level and for each entity. The Board of Directors also approves the risk-tolerance level acceptable to the Bank, proposed by its Executive Committee.

The Risk Committee is responsible for monitoring the overall levels of risk incurred, ensuring that these are compatible with the goals and strategies approved for the business.

The Chief Risk Officer is responsible for the control of risks in all Group entities, for the identification of all risks to which the Bank activity is exposed and for the proposal of measures to improve risks control. The Chief Risk Officer also ensures that risks are monitored on an overall basis and that there is alignment of concepts, practices and goals in risk management. The activity of every entity included within the Banco Comercial Português consolidation perimeter is governed by the principles and decisions established centrally by the Risk Committee and the main subsidiaries are provided with Risk Office structures which are established in accordance with the risks inherent to their particular business. A Risk Control Commission has been set up at each relevant subsidiary, responsible for the control of risks at local level, in which the Chief Risk Officer takes part.

The Group Head of Compliance is responsible for implementing systems for monitoring the compliance with legal obligations and responsibilities to which the Bank is subject, as well, the prevention, monitoring and reporting of risks in organizational processes, which include, among others, the prevention and repression of money laundering, combating financing of terrorism, prevention of conflicts of interest, issues related to abuse of market and compliance with the disclosure requirements to customers.

Risk assessment

Credit Risk

Credit granting is based on a prior classification of the customers' risk and on a thorough assessment of the level of protection provided by the underlying collateral. In order to do so, a single risk-notation system has been introduced, the Rating Master Scale, based on the expected probability of default, allowing greater discrimination in the assessment of the customers and better establishment of the hierarchies of the associated risk.

The Rating Master Scale also identifies those customers that show a worsening credit capacity and, in particular, those classified as being in default. All rating and scoring models used by the Bank have been duly calibrated for the Rating Master Scale. The protection-level concept has been introduced as a crucial element of evaluation of the effectiveness of the collateral in credit-risk mitigation, leading to a more active collateralization of loans and to a better adequacy of pricing regarding the risk incurred.

The gross Bank's exposure to credit risk (original exposure) is presented in the following table:

(Thousands of euros)

Risk items	2019	2018
Central Governments or Central Banks	8,884,919	6,545,332
Regional Governments or Local Authorities	750,240	726,228
Administrative and non-profit Organisations	174,550	105
Other Credit Institutions	2,019,120	3,973,609
Retail and Corporate customers	45,760,785	43,376,213
Other items (*)	11,803,701	12,291,640
	69,393,315	66,913,127

Note: gross exposures of impairment and amortization. Includes securitization positions.

(*) In addition to positions in equity, collective investment and securitization, the Other items contain other assets subject to credit risk in accordance with article 134 of the CRR.

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

a) Collaterals and Guarantees

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

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

- financial collaterals, real estate collaterals or other collaterals;
- receivables;
- first demand guarantees, issued by banks or other entities with Risk Grade 7 or better on the Rating Master Scale;
- personal guarantees, when the persons are classified with Risk Grade 7 or better;
- credit derivatives.

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

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

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

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

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

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

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

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

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

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

i) - depreciation of the property by direct application of the index, if the amount owed does not exceed Euros 300,000;
ii) - review of the property value by external valuators, depending on the value of the credit operation, and in accordance wit 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 (lan or country side buildings for example) there are no market indexes available for the monitoring of appraisal values, after the initial valuations. Therefore, for these cases and in accordance with the minimum periodicity established for the monitoring and reviewing of this type of real estate, valuation reviews are carried out by expert valuers.

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

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

b) Risk grades

Credit granting is based on the previous risk assessment of clients and also on a rigorous assessment of the protection level provided by the underlying collaterals. For this purpose, a single risk grading system is used - the Rating Master Scale - based on Probability of Default (PD), allowing for a greater discriminating power in clients' assessment and for a better hierarchy of the associated risk. The Rating Master Scale also allows to identify clients that show signs of degradation in their credit capacity and, in particular, those that are classified in a default situation. All rating systems and models used by the Group were calibrated for the Rating Master Scale.

Aiming at an adequate assessment of credit risk, the Group defined a set of macro segments and segments which are treated through different rating systems and models that relate the internal risk grades and the clients' PD, ensuring a risk assessment that considers the clients' specific features in terms of their respectively risk profiles.

The assessment made by these rating systems and models result in the risk grades of the Master Scale, that has fifteen grades, where the last three correspond to relevant downgrades of the clients' credit quality and are referred to by "procedural risk grades": 13, 14 and 15, that correspond, in this order, to situations of increased severity in terms default, as risk grade 15 is a Default situation.

The non-procedural risk grades are attributed by the rating systems through automatic decision models or by the Rating Division – a unit which is independent from the credit analysis and decision areas and bodies- and are reviewed/updated periodically or whenever this is justified by events.

The models within the various rating systems are regularly subject to validation, made by the Models Validation and Monitoring Office, which is independent from the units that are responsible for the development and maintenance of the rating models.

The conclusions of the validations by the Models Validation and Monitoring Office, as well the respective recommendations and proposal for changes and/or improvements, are analysed and ratified by a specific Validation Committee, composed in accordance to the type of model analysed. The proposals for models' changes originated by the Validation Committee are submitted to the approval of the Risk Committee.

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

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

c) Impairment and Write-offs

The credit impairment calculation as at 31 December 2019 and 2018 integrates the general principles defined in International Financial Reporting Standards (IFRS 9 as at 1 January 2018 and IAS 39 as at 31 December 2017) and the guidelines issued by the Bank of Portugal through a Circular Letter "CC / 2018/00000062", in order to align the calculation process used in the Group with the best international practices in this area.

As at 31 December 2019, the financial instruments subject to impairment requirements under IFRS 9 (does not include equity instruments according to accounting policy 1 B1.1.2), analysed by stage, are detailed in the following tables:

(Thousands of euros)

	2019				
	Gross exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 18)	511,671	3,006	-	-	514,677
Loans and advances to customers (note 19)	24,965,120	6,050,648	3,229,252	3,225	34,248,245
Debt instruments (note 20)	2,377,300	74,515	9,549	-	2,461,364
Debt instruments at fair value					
through other comprehensive income (note 21)(*)	8,006,771	-	-	-	8,006,771
Guarantees and other commitments (note 40)	9,097,042	1,602,505	467,882	-	11,167,429
Total	44,957,904	7,730,674	3,706,683	3,225	56,398,486

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 B1.5.1.2.

The gross exposure to guarantees and other commitments includes the balances of guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 40.

(Thousands of euros)

	2019				
	Impairment losses				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 18)	160	208	-	-	368
Loans and advances to customers (note 19)	23,898	138,780	1,699,216	-	1,861,894
Debt instruments (note 20)	3,101	382	9,480	-	12,963
Debt instruments at fair value					
through other comprehensive income (note 21)(*)	-	-	-	-	-
Guarantees and other commitments (note 35)	1,272	4,170	96,626	-	102,068
Total	28,431	143,540	1,805,322	-	1,977,293

(Thousands of euros)

	2019				
	Net exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 18)	511,511	2,798	-	-	514,309
Loans and advances to customers (note 19)	24,941,222	5,911,868	1,530,036	3,225	32,386,351
Debt instruments (note 20)	2,374,199	74,133	69	-	2,448,401
Debt instruments at fair value					
through other comprehensive income (note 21)(*)	8,006,771	-	-	-	8,006,771
Guarantees and other commitments (notes 35 and 40)	9,095,770	1,598,335	371,256	-	11,065,361
Total	44,929,473	7,587,134	1,901,361	3,225	54,421,193

As at 31 December 2018, the financial instruments subject to impairment requirements under IFRS 9 (does not include equity instruments according to accounting policy 1 B1.1.2), analysed by stage, are detailed in the following tables:

(Thousands of euros)

	2018				
	Gross exposure				
Category	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Loans and advances to credit institutions (note 18)	2,035,254	10,657	669	-	2,046,580
Loans and advances to customers (note 19)	22,915,268	5,758,902	4,607,650	4	33,281,824
Debt instruments (note 20)	2,345,182	264,307	72,007	-	2,681,496
Debt instruments at fair value					
through other comprehensive income (note 21)(*)	6,900,301	-	3,722	-	6,904,023
Guarantees and other commitments (note 40)	7,953,682	1,347,531	567,339	-	9,868,552
Total	42,149,687	7,381,397	5,251,387	4	54,782,475

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 B1.5.1.2.

The gross exposure to guarantees and other commitments includes the balances of guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 40.

(Thousands of euros)

	2018				
	Impairment losses				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 18)	407	774	669	-	1,850
Loans and advances to customers (note 19)	25,460	125,218	2,142,808	-	2,293,486
Debt instruments (note 20)	3,039	507	36,659	-	40,205
Debt instruments at fair value					
through other comprehensive income (note 21)(*)	-	-	-	-	-
Guarantees and other commitments (note 35)	1,209	3,883	158,271	-	163,363
Total	30,115	130,382	2,338,407	-	2,498,904

(Thousands of euros)

	2018				
	Net exposure				
Category	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial assets at amortised cost					
Loans and advances to credit institutions (note 18)	2,034,847	9,883	-	-	2,044,730
Loans and advances to customers (note 19)	22,889,808	5,633,684	2,464,842	4	30,988,338
Debt instruments (note 20)	2,342,143	263,800	35,348	-	2,641,291
Debt instruments at fair value					
through other comprehensive income (note 21)(*)	6,900,301	-	-	-	6,900,301
Guarantees and other commitments (notes 35 and 40)	7,952,473	1,343,648	409,068	-	9,705,189
Total	42,119,572	7,251,015	2,909,258	4	52,279,849

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 B1.5.1.2.

The maximum exposure to credit risk of financial assets not subject to impairment requirements is analysed as follows:

(Thousands of euros)

	2019	**2018**
Financial assets held for trading (note 21)		
Debt instruments	51,452	57,942
Derivatives	698,629	849,247
Hedging derivatives (note 22)	69,051	214,185
Financial assets designated at fair value through profit or loss (note 21)		
Debt instruments	31,496	33,034
Financial assets not held for trading mandatorily at fair value through profit or loss (note 21)		
Debt instruments	1,444,772	1,589,899
Total	2,295,400	2,744,307

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

During the year of 2019, the changes occurred in Loans and advances to customers - impairment losses are as follows:

(Thousands of euros)

	Financial assets at amortised cost - Loans and advances to customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment losses as at 31 December 2018	25,460	125,218	2,142,808	-	2,293,486
Balances BII (integration into BCP)	90	894	48,195	-	49,179
Impairment losses as at 1 January 2019	25,550	126,112	2,191,003	-	2,342,665
Change in impairment losses:					
Transfer to Stage 1	17,491	(15,859)	(1,632)	-	-
Transfer to Stage 2	(3,237)	38,654	(35,417)	-	-
Transfer to Stage 3	(463)	(6,482)	6,945	-	-
Changes occurred due to changes in credit risk	(17,941)	(22,957)	21,815	-	(19,083)
Write-offs	(690)	(3,280)	(558,820)	-	(562,790)
Changes due to new financial assets and derecognised financial assets and other variations	3,188	22,592	75,322	-	101,102
Impairment losses as at 31 December 2019	23,898	138,780	1,699,216	-	1,861,894

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

(Thousands of euros)

	Financial assets at amortised cost - Loans and advances to customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment losses as at 1 January 2018	30,329	114,014	2,751,818	-	2,896,161
Change in impairment losses:					
Transfer to Stage 1	12,376	(10,532)	(1,844)	-	-
Transfer to Stage 2	(3,803)	42,550	(38,747)	-	-
Transfer to Stage 3	(668)	(7,366)	8,034	-	-
Changes occurred due to changes in credit risk	(20,462)	(18,171)	297,775	-	259,142
Write-offs	(364)	(1,918)	(536,229)	-	(538,511)
Changes due to new financial assets and derecognised financial assets and other variations	8,052	6,641	(337,999)	-	(323,306)
Impairment losses as at 31 December 2018	25,460	125,218	2,142,808	-	2,293,486

During the year of 2019, the changes occurred in Loans and advances to customers are as follows:

(Thousands of euros)

	Financial assets at amortised cost - Loans and advances to customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross amount as at 31 December 2018	22,915,268	5,758,902	4,607,650	4	33,281,824
Balances BII (integration into BCP)	765,464	252,664	164,404	-	1,182,532
Gross amount as at 1 January 2019	23,680,732	6,011,566	4,772,054	4	34,464,356
Changes in gross book value:					
Transfer from Stage 1 to Stage 2	(1,183,502)	1,183,502	-	-	-
Transfer from Stage 1 to Stage 3	(61,191)	-	61,191	-	-
Transfer from Stage 2 to Stage 1	1,370,214	(1,370,214)	-	-	-
Transfer from Stage 2 to Stage 3	-	(230,310)	230,310	-	-
Transfer from Stage 3 to Stage 1	40,513	-	(40,513)	-	-
Transfer from Stage 3 to Stage 2	-	392,825	(392,825)	-	-
Write-offs	(690)	(3,280)	(558,821)	-	(562,791)
Net balance of new financial assets and derecognised financial assets and other changes	1,119,044	66,559	(842,144)	3,221	346,680
Gross amount as at 31 December 2019	24,965,120	6,050,648	3,229,252	3,225	34,248,245

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

(Thousands of euros)

	Financial assets at amortised cost - Loans and advances to customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross amount as at 1 January 2018	22,641,799	5,404,518	6,045,353	-	34,091,670
Changes in gross book value:					
Transfer from Stage 1 to Stage 2	(1,382,216)	1,382,216	-	-	-
Transfer from Stage 1 to Stage 3	(70,216)	-	70,216	-	-
Transfer from Stage 2 to Stage 1	937,473	(937,473)	-	-	-
Transfer from Stage 2 to Stage 3	-	(281,617)	281,617	-	-
Transfer from Stage 3 to Stage 1	26,654	-	(26,654)	-	-
Transfer from Stage 3 to Stage 2	-	295,637	(295,637)	-	-
Write-offs	(364)	(1,918)	(536,229)	-	(538,511)
Net balance of new financial assets and derecognised financial assets and other changes	762,138	(102,461)	(931,016)	4	(271,335)
Gross amount as at 31 December 2018	22,915,268	5,758,902	4,607,650	4	33,281,824

The modified financial assets that do not result in derecognition are analysed as follows:

(Thousands of euros)

Financial assets modified during the year (with impairment losses based on expected lifetime losses)	**2019**	**2018**
Amortised cost before changes	591,639	531,426
Impairment losses before changes	(262,730)	(167,591)
Net amortised cost before changes	328,909	363,835
Net gain / loss arising on changes	(11,600)	(12,847)
Net amortised cost after changes	317,309	350,988

(Thousands of euros)

Financial assets changed since the initial recognition at a time when the impairment loss was measured based on the expected credit losses lifetime	**2019**	**2018**
Amortised cost of financial assets for which credit losses expected to go from "lifetime" to 12 months	53,080	43,170

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by segment and stage, are as follows:

(Thousands of euros)

	31 December 2019									
		Stage 2				Stage 3				
Segment	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Individuals-Mortgage	14,212,753	2,287,388	120,935	25,992	2,434,315	241,184	271,844	513,028	3,221	17,163,317
Individuals-Other	3,330,637	526,860	34,229	8,761	569,850	78,517	115,927	194,444	4	4,094,935
Financial Companies	2,274,746	425,519	85	9	425,613	217,568	253,927	471,495	-	3,171,854
Non-financial comp. - Corporate	5,548,424	791,966	500	437	792,903	401,462	537,404	938,866	-	7,280,193
Non-financial comp.- SME-Corporate	6,662,320	2,129,450	20,122	3,489	2,153,061	748,748	269,881	1,018,629	-	9,834,010
Non-financial comp. -SME-Retail	3,538,444	1,163,769	35,113	11,062	1,209,944	393,672	167,721	561,393	-	5,309,781
Non-financial comp.-Other	411,377	22,676	9	-	22,685	7,006	1,821	8,827	-	442,889
Other loans	972,432	122,303	-	-	122,303	-	1	1	-	1,094,736
Total	36,951,133	7,469,931	210,993	49,750	7,730,674	2,088,157	1,618,526	3,706,683	3,225	48,391,715
Impairment										
Individuals-Mortgage	590	5,639	671	194	6,504	5,434	36,218	41,652	-	48,746
Individuals-Other	2,163	6,734	1,621	782	9,137	23,768	56,064	79,832	-	91,132
Financial Companies	1,498	5,198	10	1	5,209	142,056	203,236	345,292	-	351,999
Non-financial comp. - Corporate	5,923	16,254	2	34	16,290	255,891	341,085	596,976	-	619,189
Non-financial comp.- SME-Corporate	12,988	74,365	2,103	575	77,043	245,125	208,182	453,307	-	543,338
Non-financial comp. -SME-Retail	4,687	25,442	1,851	702	27,995	189,071	96,347	285,418	-	318,100
Non-financial comp.-Other	18	228	-	-	228	1,111	1,734	2,845	-	3,091
Other loans	564	1,134	-	-	1,134	-	-	-	-	1,698
Total	28,431	134,994	6,258	2,288	143,540	862,456	942,866	1,805,322	-	1,977,293
Net exposure										
Individuals-Mortgage	14,212,163	2,281,749	120,264	25,798	2,427,811	235,750	235,626	471,376	3,221	17,114,571
Individuals-Other	3,328,474	520,126	32,608	7,979	560,713	54,749	59,863	114,612	4	4,003,803
Financial Companies	2,273,248	420,321	75	8	420,404	75,512	50,691	126,203	-	2,819,855
Non-financial comp. - Corporate	5,542,501	775,712	498	403	776,613	145,571	196,319	341,890	-	6,661,004
Non-financial comp.- SME-Corporate	6,649,332	2,055,085	18,019	2,914	2,076,018	503,623	61,699	565,322	-	9,290,672
Non-financial comp. -SME-Retail	3,533,757	1,138,327	33,262	10,360	1,181,949	204,601	71,374	275,975	-	4,991,681
Non-financial comp.-Other	411,359	22,448	9	-	22,457	5,895	87	5,982	-	439,798
Other loans	971,868	121,169	-	-	121,169	-	1	1	-	1,093,038
Total	36,922,702	7,334,937	204,735	47,462	7,587,134	1,225,701	675,660	1,901,361	3,225	46,414,422
% of impairment coverage										
Individuals-Mortgage	0.00%	0.25%	0.55%	0.75%	0.27%	2.25%	13.32%	8.12%	0.00%	0.28%
Individuals-Other	0.06%	1.28%	4.74%	8.93%	1.60%	30.27%	48.36%	41.06%	0.00%	2.23%
Financial Companies	0.07%	1.22%	11.76%	11.11%	1.22%	65.29%	80.04%	73.23%	0.00%	11.10%
Non-financial comp. - Corporate	0.11%	2.05%	0.40%	7.78%	2.05%	63.74%	63.47%	63.58%	0.00%	8.51%
Non-financial comp.- SME-Corporate	0.19%	3.49%	10.45%	16.48%	3.58%	32.74%	77.14%	44.50%	0.00%	5.53%
Non-financial comp. -SME-Retail	0.13%	2.19%	5.27%	6.35%	2.31%	48.03%	57.44%	50.84%	0.00%	5.99%
Non-financial comp.-Other	0.00%	1.01%	0.00%	0.00%	1.01%	15.86%	95.22%	32.23%	0.00%	0.70%
Other loans	0.06%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%	0.00%	0.00%	0.16%
Total	0.08%	1.81%	2.97%	4.60%	1.86%	41.30%	58.25%	48.70%	0.00%	4.09%

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by sector of activity and stage, are as follows:

(Thousands of euros)

	31 December 2019									
		Stage 2				Stage 3				
Sector of activity	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Loans to individuals	17,543,390	2,814,248	155,163	34,752	3,004,163	319,702	387,771	707,473	3,225	21,258,251
Non-financial comp.- Trade	2,925,641	492,828	13,433	2,158	508,419	144,383	56,115	200,498	-	3,634,558
Non-financial comp.- Construction	1,378,484	629,234	5,150	1,008	635,392	489,727	198,132	687,859	-	2,701,735
Non-finan. comp.- Manufacturing ind.	3,367,167	613,710	12,101	5,264	631,075	97,026	57,647	154,673	-	4,152,915
Non-financial comp.-Other activities	1,135,697	382,994	4,567	493	388,054	158,705	9,716	168,421	-	1,692,172
Non-financial comp.- Other services	7,353,576	1,989,093	20,494	6,066	2,015,653	661,048	655,214	1,316,262	-	10,685,491
Other Services /Other activities	3,247,178	547,824	85	9	547,918	217,568	253,929	471,497	-	4,266,593
Total	36,951,133	7,469,931	210,993	49,750	7,730,674	2,088,159	1,618,524	3,706,683	3,225	48,391,715
Impairment										
Loans to individuals	2,754	12,373	2,292	976	15,641	29,202	92,282	121,484	-	139,879
Non-financial comp.- Trade	4,309	10,766	807	251	11,824	68,296	31,078	99,374	-	115,507
Non-financial comp.- Construction	2,950	7,780	589	32	8,401	134,212	151,023	285,235	-	296,586
Non-finan. comp.- Manufacturing ind.	5,743	15,025	1,004	720	16,749	42,169	21,829	63,998	-	86,490
Non-financial comp.-Other activities	1,094	10,848	69	92	11,009	72,393	2,799	75,192	-	87,295
Non-financial comp.- Other services	9,520	71,871	1,486	216	73,573	374,127	440,620	814,747	-	897,840
Other Services /Other activities	2,061	6,332	10	1	6,343	142,056	203,236	345,292	-	353,696
Total	28,431	134,995	6,257	2,288	143,540	862,455	942,867	1,805,322	-	1,977,293
Net exposure										
Loans to individuals	17,540,636	2,801,875	152,871	33,776	2,988,522	290,500	295,489	585,989	3,225	21,118,372
Non-financial comp.- Trade	2,921,332	482,062	12,626	1,907	496,595	76,087	25,037	101,124	-	3,519,051
Non-financial comp.- Construction	1,375,534	621,454	4,561	976	626,991	355,515	47,109	402,624	-	2,405,149
Non-finan. comp.- Manufacturing ind.	3,361,424	598,685	11,097	4,544	614,326	54,857	35,818	90,675	-	4,066,425
Non-financial comp.-Other activities	1,134,603	372,146	4,498	401	377,045	86,312	6,917	93,229	-	1,604,877
Non-financial comp.- Other services	7,344,056	1,917,222	19,008	5,850	1,942,080	286,921	214,594	501,515	-	9,787,651
Other Services /Other activities	3,245,117	541,492	75	8	541,575	75,512	50,693	126,205	-	3,912,897
Total	36,922,702	7,334,936	204,736	47,462	7,587,134	1,225,704	675,657	1,901,361	3,225	46,414,422
% of impairment coverage										
Loans to individuals	0.02%	0.44%	1.48%	2.81%	0.52%	9.13%	23.80%	17.17%	0.00%	0.66%
Non-financial comp.- Trade	0.15%	2.18%	6.01%	11.63%	2.33%	47.30%	55.38%	49.56%	0.00%	3.18%
Non-financial comp.- Construction	0.21%	1.24%	11.44%	3.17%	1.32%	27.41%	76.22%	41.47%	0.00%	10.98%
Non-finan. comp.- Manufacturing ind.	0.17%	2.45%	8.30%	13.68%	2.65%	43.46%	37.87%	41.38%	0.00%	2.08%
Non-financial comp.-Other activities	0.10%	2.83%	1.51%	18.66%	2.84%	45.61%	28.81%	44.65%	0.00%	5.16%
Non-financial comp.- Other services	0.13%	3.61%	7.25%	3.56%	3.65%	56.60%	67.25%	61.90%	0.00%	8.40%
Other Services /Other activities	0.06%	1.16%	11.76%	11.11%	1.16%	65.29%	80.04%	73.23%	0.00%	8.29%
Total	0.08%	1.81%	2.97%	4.60%	1.86%	41.30%	58.25%	48.70%	0.00%	4.09%

As at 31 December 2018, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by segment and stage, are as follows:

(Thousands of euros)

	31 December 2018									
		Stage 2				Stage 3				
Segment	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Individuals-Mortgage	12,653,990	2,207,678	102,414	21,965	2,332,057	345,863	436,981	782,844	-	15,768,891
Individuals-Other	3,000,000	517,213	33,084	9,036	559,333	123,448	179,223	302,671	4	3,862,008
Financial Companies	3,809,710	339,220	-	-	339,220	283,266	364,107	647,373	-	4,796,303
Non-financial comp. - Corporate	5,332,214	1,127,867	3,001	-	1,130,868	546,595	561,170	1,107,765	-	7,570,847
Non-financial comp.- SME-Corporate	6,221,020	1,754,475	23,453	2,162	1,780,090	1,037,058	525,546	1,562,604	-	9,563,714
Non-financial comp. -SME-Retail	2,878,645	1,077,395	62,091	4,137	1,143,623	499,262	309,197	808,459	-	4,830,727
Non-financial comp.-Other	354,587	45,326	233	9	45,568	31,572	4,376	35,948	-	436,103
Other loans	999,220	50,638	-	-	50,638	-	1	1	-	1,049,859
Total	35,249,386	7,119,812	224,276	37,309	7,381,397	2,867,064	2,380,601	5,247,665	4	47,878,452
Impairment										
Individuals-Mortgage	823	6,632	532	192	7,356	8,836	65,690	74,526	-	82,705
Individuals-Other	2,939	8,154	1,391	471	10,016	48,457	94,931	143,388	-	156,343
Financial Companies	2,242	7,317	-	-	7,317	187,600	276,782	464,382	-	473,941
Non-financial comp. - Corporate	7,312	30,859	35	-	30,894	312,545	336,605	649,150	-	687,356
Non-financial comp.- SME-Corporate	11,165	43,894	1,678	501	46,073	331,828	316,367	648,195	-	705,433
Non-financial comp. -SME-Retail	5,043	24,297	1,671	184	26,152	205,835	133,305	339,140	-	370,335
Non-financial comp.-Other	294	1,419	8	2	1,429	17,251	2,375	19,626	-	21,349
Other loans	297	1,145	-	-	1,145	-	-	-	-	1,442
Total	30,115	123,717	5,315	1,350	130,382	1,112,352	1,226,055	2,338,407	-	2,498,904
Net exposure										
Individuals-Mortgage	12,653,167	2,201,046	101,882	21,773	2,324,701	337,027	371,291	708,318	-	15,686,186
Individuals-Other	2,997,061	509,059	31,693	8,565	549,317	74,991	84,292	159,283	4	3,705,665
Financial Companies	3,807,468	331,903	-	-	331,903	95,666	87,325	182,991	-	4,322,362
Non-financial comp. - Corporate	5,324,902	1,097,008	2,966	-	1,099,974	234,050	224,565	458,615	-	6,883,491
Non-financial comp.- SME-Corporate	6,209,855	1,710,581	21,775	1,661	1,734,017	705,230	209,179	914,409	-	8,858,281
Non-financial comp. -SME-Retail	2,873,602	1,053,098	60,420	3,953	1,117,471	293,427	175,892	469,319	-	4,460,392
Non-financial comp.-Other	354,293	43,907	225	7	44,139	14,321	2,001	16,322	-	414,754
Other loans	998,923	49,493	-	-	49,493	-	1	1	-	1,048,417
Total	35,219,271	6,996,095	218,961	35,959	7,251,015	1,754,712	1,154,546	2,909,258	4	45,379,548
% of impairment coverage										
Individuals-Mortgage	0.01%	0.30%	0.52%	0.87%	0.32%	2.55%	15.03%	9.52%	0.00%	0.52%
Individuals-Other	0.10%	1.58%	4.20%	5.21%	1.79%	39.25%	52.97%	47.37%	0.00%	4.05%
Financial Companies	0.06%	2.16%	0.00%	0.00%	2.16%	66.23%	76.02%	71.73%	0.00%	9.88%
Non-financial comp. - Corporate	0.14%	2.74%	1.17%	0.00%	2.73%	57.18%	59.98%	58.60%	0.00%	9.08%
Non-financial comp.- SME-Corporate	0.18%	2.50%	7.15%	23.17%	2.59%	32.00%	60.20%	41.48%	0.00%	7.38%
Non-financial comp. -SME-Retail	0.18%	2.26%	2.69%	4.45%	2.29%	41.23%	43.11%	41.95%	0.00%	7.67%
Non-financial comp.-Other	0.08%	3.13%	3.43%	22.22%	3.14%	54.64%	54.27%	54.60%	0.00%	4.90%
Other loans	0.03%	2.26%	0.00%	0.00%	2.26%	0.00%	0.00%	0.00%	0.00%	0.14%
Total	0.09%	1.74%	2.37%	3.62%	1.77%	38.80%	51.50%	44.56%	0.00%	5.22%

As at 31 December 2018, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments, analysed by sector of activity and stage, are as follows:

(Thousands of euros)

	31 December 2018									
		Stage 2				Stage 3				
Sector of activity	Stage 1	No delays	Days past due <= 30 days	Days past due > 30 days	Total	Days past due <= 90 days	Days past due > 90 days	Total	POCI	Total
Gross Exposure										
Loans to individuals	15,653,991	2,724,891	135,498	31,002	2,891,391	469,311	616,204	1,085,515	4	19,630,901
Non-financial comp.- Trade	2,786,536	442,003	13,798	1,281	457,082	205,138	123,002	328,140	-	3,571,758
Non-financial comp.- Construction	1,188,756	495,756	7,403	1,735	504,894	650,915	401,028	1,051,943	-	2,745,593
Non finan. comp.- Manufacturing indust	3,045,313	716,165	16,080	1,133	733,378	125,823	117,449	243,272	-	4,021,963
Non-financial comp.-Other activities	1,170,779	315,876	2,206	370	318,452	208,942	15,486	224,428	-	1,713,659
Non-financial comp.- Other services	6,595,081	2,035,263	49,291	1,788	2,086,342	923,669	743,324	1,666,993	-	10,348,416
Other Services /Other activities	4,808,930	389,858	-	-	389,858	283,266	364,108	647,374	-	5,846,162
Total	35,249,386	7,119,812	224,276	37,309	7,381,397	2,867,064	2,380,601	5,247,665	4	47,878,452
Impairment										
Loans to individuals	3,761	14,785	1,923	663	17,371	57,293	160,621	217,914	-	239,046
Non-financial comp.- Trade	4,538	11,300	652	40	11,992	81,016	75,492	156,508	-	173,038
Non-financial comp.- Construction	2,330	4,924	1,044	432	6,400	249,181	224,058	473,239	-	481,969
Non finan. comp.- Manufacturing indust	5,291	12,703	992	94	13,789	45,527	66,452	111,979	-	131,059
Non-financial comp.-Other activities	1,236	9,826	67	42	9,935	87,916	6,456	94,372	-	105,543
Non-financial comp.- Other services	10,421	61,717	636	79	62,432	403,821	416,191	820,012	-	892,865
Other Services /Other activities	2,538	8,463	-	-	8,463	187,600	276,783	464,383	-	475,384
Total	30,115	123,718	5,314	1,350	130,382	1,112,354	1,226,053	2,338,407	-	2,498,904
Net exposure										
Loans to individuals	15,650,230	2,710,106	133,575	30,339	2,874,020	412,018	455,583	867,601	4	19,391,855
Non-financial comp.- Trade	2,781,998	430,703	13,146	1,241	445,090	124,122	47,510	171,632	-	3,398,720
Non-financial comp.- Construction	1,186,426	490,832	6,359	1,303	498,494	401,734	176,970	578,704	-	2,263,624
Non finan. comp.- Manufacturing indust	3,040,022	703,462	15,088	1,039	719,589	80,296	50,997	131,293	-	3,890,904
Non-financial comp.-Other activities	1,169,543	306,050	2,139	328	308,517	121,026	9,030	130,056	-	1,608,116
Non-financial comp.- Other services	6,584,660	1,973,546	48,655	1,709	2,023,910	519,848	327,133	846,981	-	9,455,551
Other Services /Other activities	4,806,392	381,395	-	-	381,395	95,666	87,325	182,991	-	5,370,778
Total	35,219,271	6,996,094	218,962	35,959	7,251,015	1,754,710	1,154,548	2,909,258	4	45,379,548
% of impairment coverage										
Loans to individuals	0.02%	0.54%	1.42%	2.14%	0.60%	12.21%	26.07%	20.07%	0.00%	1.22%
Non-financial comp.- Trade	0.16%	2.56%	4.73%	3.12%	2.62%	39.49%	61.37%	47.70%	0.00%	4.84%
Non-financial comp.- Construction	0.20%	0.99%	14.10%	24.90%	1.27%	38.28%	55.87%	44.99%	0.00%	17.55%
Non finan. comp.- Manufacturing indust	0.17%	1.77%	6.17%	8.30%	1.88%	36.18%	56.58%	46.03%	0.00%	3.26%
Non-financial comp.-Other activities	0.11%	3.11%	3.04%	11.35%	3.12%	42.08%	41.69%	42.05%	0.00%	6.16%
Non-financial comp.- Other services	0.16%	3.03%	1.29%	4.42%	2.99%	43.72%	55.99%	49.19%	0.00%	8.63%
Other Services /Other activities	0.05%	2.17%	0.00%	0.00%	2.17%	66.23%	76.02%	71.73%	0.00%	8.13%
Total	0.09%	1.74%	2.37%	3.62%	1.77%	38.80%	51.50%	44.56%	0.00%	5.22%

As at 31 December 2019, the exposure by type of financial instrument, internal rating and by stage, is analysed as follows:

(Thousands of euros)

	31 December 2019							
	Gross Exposure							
	Higher quality (GR 1-6)	Average quality (GR 7-9)	Lower quality (GR 10-12)	Procedural (GR 13/14/15)	Not classified (without risk grade)	Total	Impairment losses	Net exposure
Financial assets at amortised cost								
- stage 1	19,301,643	6,266,627	2,277,314	1	8,506	27,854,091	27,159	27,826,932
- stage 2	1,064,753	1,497,166	2,744,781	322,561	498,908	6,128,169	139,370	5,988,799
- stage 3	1,040	3,349	66,081	3,094,211	74,120	3,238,801	1,708,696	1,530,105
POCI	-	-	43	3,178	4	3,225	-	3,225
	20,367,436	7,767,142	5,088,219	3,419,951	581,538	37,224,286	1,875,225	35,349,061
Debt instruments at fair value through other comprehensive income (*)								
- stage 1	7,917,745	88,792	184	-	50	8,006,771	-	8,006,771
- stage 2	-	-	-	-	-	-	-	-
- stage 3	-	-	-	-	-	-	-	-
	7,917,745	88,792	184	-	50	8,006,771	-	8,006,771
Guarantees and other commitments								
- stage 1	6,203,291	2,112,908	650,278	-	130,565	9,097,042	1,272	9,095,770
- stage 2	150,984	316,279	621,382	63,260	450,600	1,602,505	4,170	1,598,335
- stage 3	9	9	18,415	447,853	1,596	467,882	96,626	371,256
	6,354,284	2,429,196	1,290,075	511,113	582,761	11,167,429	102,068	11,065,361
Total	34,639,465	10,285,130	6,378,478	3,931,064	1,164,349	56,398,486	1,977,293	54,421,193

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 B1.5.1.2.

As at 31 December 2018, the exposure by type of financial instrument, internal rating and by stage, is analysed as follows:

(Thousands of euros)

	31 December 2018							
	Gross Exposure							
	Higher quality (GR 1-6)	Average quality (GR 7-9)	Lower quality (GR 10-12)	Procedural (GR 13/14/15)	Not classified (without risk grade)	Total	Impairment losses	Net exposure
Financial assets at amortised cost								
- stage 1	19,042,210	6,186,746	2,028,356	-	38,392	27,295,704	28,906	27,266,798
- stage 2	1,063,658	1,362,969	2,648,657	282,774	675,808	6,033,866	126,499	5,907,367
- stage 3	2,418	10,106	89,009	4,507,587	71,206	4,680,326	2,180,136	2,500,190
POCI	-	-	-	-	4	4	-	4
	20,108,286	7,559,821	4,766,022	4,790,361	785,410	38,009,900	2,335,541	35,674,359
Debt instruments at fair value through other comprehensive income (*)								
- stage 1	6,810,518	83,940	-	-	5,843	6,900,301	-	6,900,301
- stage 2	-	-	-	-	-	-	-	-
- stage 3	-	-	-	-	3,722	3,722	-	3,722
	6,810,518	83,940	-	-	9,565	6,904,023	-	6,904,023
Guarantees and other commitments								
- stage 1	5,325,858	1,906,677	568,012	-	153,135	7,953,682	1,209	7,952,473
- stage 2	161,389	265,287	580,507	47,460	292,888	1,347,531	3,883	1,343,648
- stage 3	60	5	25,144	538,513	3,617	567,339	158,271	409,068
	5,487,307	2,171,969	1,173,663	585,973	449,640	9,868,552	163,363	9,705,189
Total	32,406,111	9,815,730	5,939,685	5,376,334	1,244,615	54,782,475	2,498,904	52,283,571

(*) For financial assets at fair value through other comprehensive income, impairment is recorded in accordance with the requirements indicated in the accounting policy 1 B1.5.1.2.

The gross exposure includes the guarantees granted, irrevocable credit lines and revocable commitments, as detailed in note 40.

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, are presented in the following tables:

(Thousands of euros)

	31 December 2019					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	4,135	17,159,182	17,163,317	1,295	47,451	48,746
Individuals-Other	76,805	4,018,130	4,094,935	15,850	75,282	91,132
Financial Companies	458,198	2,713,656	3,171,854	344,870	7,129	351,999
Non-financial comp. - Corporate	933,779	6,346,414	7,280,193	593,163	26,026	619,189
Non-financial comp.- SME-Corporate	821,781	9,012,229	9,834,010	416,835	126,503	543,338
Non-financial comp. -SME-Retail	426,069	4,883,712	5,309,781	249,787	68,313	318,100
Non-financial comp.-Other	5,835	437,054	442,889	2,721	370	3,091
Other loans	-	1,094,736	1,094,736	-	1,698	1,698
Total	2,726,602	45,665,113	48,391,715	1,624,521	352,772	1,977,293

As at 31 December 2019, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by sector of activity, are presented in the following tables:

(Thousands of euros)

	31 December 2019					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	80,941	21,177,310	21,258,251	17,145	122,734	139,879
Non-financial comp.- Trade	134,920	3,499,638	3,634,558	79,983	35,524	115,507
Non-financial comp.- Construction	580,045	2,121,690	2,701,735	266,584	30,002	296,586
Non finan. comp.- Manufacturing indust.	84,095	4,068,820	4,152,915	46,576	39,914	86,490
Non-financial comp.-Other activities	148,954	1,543,218	1,692,172	72,422	14,873	87,295
Non-financial comp.- Other services	1,239,449	9,446,042	10,685,491	796,941	100,899	897,840
Other Services/Other activities	458,198	3,808,395	4,266,593	344,870	8,826	353,696
Total	2,726,602	45,665,113	48,391,715	1,624,521	352,772	1,977,293

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

As at 31 December 2018, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by segment, are presented in the following tables:

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Segment	Individual	Collective	Total	Individual	Collective	Total
Individuals-Mortgage	9,448	15,759,443	15,768,891	3,990	78,715	82,705
Individuals-Other	113,632	3,748,376	3,862,008	48,602	107,741	156,343
Financial Companies	631,404	4,164,899	4,796,303	461,754	12,187	473,941
Non-financial comp. - Corporate	1,102,804	6,468,043	7,570,847	646,018	41,338	687,356
Non-financial comp.- SME-Corporate	1,224,691	8,339,023	9,563,714	547,507	157,926	705,433
Non-financial comp. -SME-Retail	607,693	4,223,034	4,830,727	282,722	87,613	370,335
Non-financial comp.-Other	31,108	404,995	436,103	17,410	3,939	21,349
Other loans	-	1,049,859	1,049,859	-	1,442	1,442
Total	3,720,780	44,157,672	47,878,452	2,008,003	490,901	2,498,904

As at 31 December 2018, financial assets at amortised cost, guarantees granted, irrevocable credit lines and revocable commitments subject to individual and collective impairment, by sector of activity, are presented in the following tables:

(Thousands of euros)

	31 December 2018					
	Gross Exposure			Impairment losses		
Sector of activity	Individual	Collective	Total	Individual	Collective	Total
Loans to individuals	123,080	19,507,821	19,630,901	52,591	186,455	239,046
Non-financial comp.- Trade	219,612	3,352,146	3,571,758	120,705	52,333	173,038
Non-financial comp.- Construction	888,381	1,857,212	2,745,593	423,706	58,263	481,969
Non finan. comp.- Manufacturing indust.	137,176	3,884,787	4,021,963	80,746	50,313	131,059
Non-financial comp.-Other activities	196,050	1,517,609	1,713,659	87,637	17,906	105,543
Non-financial comp.- Other services	1,525,077	8,823,339	10,348,416	780,863	112,002	892,865
Other Services/Other activities	631,404	5,214,758	5,846,162	461,755	13,629	475,384
Total	3,720,780	44,157,672	47,878,452	2,008,003	490,901	2,498,904

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

As at 31 December 2019, the following table includes the loans portfolio by segment and by year of production (date of the beginning of the operations, in the portfolio at the date of balance sheet - it does not include restructured loans):

	2019					
Year of production	Construction and CRE	Companies - Oth. Activities	Mortgage loans	Individuals - Other	Other loans	Total
2009 and previous						
Number of operations	15,965	22,875	237,261	338,670	73	614,844
Value (Euros '000)	1,000,320	3,054,608	9,155,121	711,714	1,948	13,923,711
Impairment constituted (Euros '000)	102,077	115,483	32,867	9,578	-	260,005
2010						
Number of operations	1,417	2,008	13,102	49,884	16	66,427
Value (Euros '000)	146,692	300,328	724,651	105,693	43	1,277,407
Impairment constituted (Euros '000)	9,862	10,882	1,812	797	-	23,353
2011						
Number of operations	1,352	2,153	5,040	48,301	2	56,848
Value (Euros '000)	57,793	293,017	270,225	94,644	35	715,714
Impairment constituted (Euros '000)	5,817	10,572	392	746	-	17,527
2012						
Number of operations	1,174	2,006	3,015	52,606	185	58,986
Value (Euros '000)	83,859	182,871	129,888	71,437	8,783	476,838
Impairment constituted (Euros '000)	3,742	12,473	414	509	3	17,141
2013						
Number of operations	1,794	3,029	6,014	77,558	13	88,408
Value (Euros '000)	74,456	563,433	267,049	108,564	1,512	1,015,014
Impairment constituted (Euros '000)	5,280	38,573	622	759	-	45,234
2014						
Number of operations	1,746	4,762	4,102	74,785	69	85,464
Value (Euros '000)	96,824	661,606	227,704	118,573	181,956	1,286,663
Impairment constituted (Euros '000)	6,982	34,277	132	860	41	42,292
2015						
Number of operations	2,721	7,656	6,193	90,669	97	107,336
Value (Euros '000)	163,496	918,573	401,536	201,207	10,036	1,694,848
Impairment constituted (Euros '000)	20,926	53,101	239	2,041	4	76,311
2016						
Number of operations	3,201	10,465	8,364	101,011	43	123,084
Value (Euros '000)	235,284	1,716,183	587,504	254,860	31,627	2,825,458
Impairment constituted (Euros '000)	14,077	87,145	201	3,256	6	104,685
2017						
Number of operations	3,825	12,560	13,191	106,245	104	135,925
Value (Euros '000)	476,222	1,800,594	1,098,957	325,899	94,790	3,796,462
Impairment constituted (Euros '000)	40,385	69,068	337	4,082	27	113,899
2018						
Number of operations	6,975	20,842	18,540	191,120	187	237,664
Value (Euros '000)	1,208,373	3,059,734	1,793,911	617,921	402,646	7,082,585
Impairment constituted (Euros '000)	7,309	43,284	229	5,158	29	56,009
2019						
Number of operations	14,329	45,792	19,786	536,971	91	616,969
Value (Euros '000)	1,482,718	5,453,698	1,996,586	1,295,203	164,133	10,392,338
Impairment constituted (Euros '000)	10,482	100,326	1,389	4,461	23	116,681
Total						
Number of operations	54,499	134,148	334,608	1,667,820	880	2,191,955
Value (Euros '000)	5,026,037	18,004,645	16,653,132	3,905,715	897,509	44,487,038
Impairment constituted (Euros '000)	226,939	575,184	38,634	32,247	133	873,137

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

As at 31 December 2018, the following table includes the loans portfolio by segment and by year of production (date of the beginning of the operations, in the portfolio at the date of balance sheet - it does not include restructured loans):

	2018					
Year of production	Construction and CRE	Companies - Oth. Activities	Mortgage loans	Individuals - Other	Other loans	Total
2008 and previous						
Number of operations	16,261	23,065	205,011	376,119	64	620,520
Value (Euros '000)	910,473	2,983,089	8,375,302	743,696	3,309	13,015,869
Impairment constituted (Euros '000)	137,122	130,579	51,610	16,131	8	335,450
2009						
Number of operations	1,871	2,278	15,806	40,883	22	60,860
Value (Euros '000)	227,396	402,067	824,669	65,916	358	1,520,406
Impairment constituted (Euros '000)	21,269	10,474	5,990	2,280	-	40,013
2010						
Number of operations	1,676	2,202	13,914	57,368	17	75,177
Value (Euros '000)	174,679	391,149	797,419	122,451	45	1,485,743
Impairment constituted (Euros '000)	18,688	11,804	2,926	1,264	-	34,682
2011						
Number of operations	1,526	2,256	5,289	55,764	2	64,837
Value (Euros '000)	77,433	287,209	294,521	107,004	20	766,187
Impairment constituted (Euros '000)	7,866	9,267	538	1,442	-	19,113
2012						
Number of operations	1,356	2,033	3,082	65,901	195	72,567
Value (Euros '000)	95,714	366,904	140,978	93,178	6,212	702,986
Impairment constituted (Euros '000)	8,349	84,072	550	756	3	93,730
2013						
Number of operations	2,196	3,652	6,296	99,922	24	112,090
Value (Euros '000)	88,567	643,343	296,108	149,934	2,068	1,180,020
Impairment constituted (Euros '000)	13,797	39,175	706	1,480	1	55,159
2014						
Number of operations	2,324	6,409	4,316	108,079	69	121,197
Value (Euros '000)	123,218	709,248	254,074	183,594	185,964	1,456,098
Impairment constituted (Euros '000)	7,328	27,811	195	1,833	50	37,217
2015						
Number of operations	3,726	10,966	6,572	142,542	98	163,904
Value (Euros '000)	218,918	1,235,253	447,412	265,900	33,083	2,200,566
Impairment constituted (Euros '000)	29,679	131,099	332	3,960	12	165,082
2016						
Number of operations	3,921	12,744	8,920	138,183	42	163,810
Value (Euros '000)	319,901	1,892,727	656,189	376,904	85,417	3,331,138
Impairment constituted (Euros '000)	27,263	103,342	236	6,533	15	137,389
2017						
Number of operations	4,451	15,703	13,966	138,674	103	172,897
Value (Euros '000)	580,798	2,190,466	1,215,453	468,864	99,619	4,555,200
Impairment constituted (Euros '000)	42,531	79,119	656	5,615	20	127,941
2018						
Number of operations	11,154	41,914	19,300	260,955	226	333,549
Value (Euros '000)	1,650,758	6,410,985	1,929,193	1,014,050	441,912	11,446,898
Impairment constituted (Euros '000)	15,758	122,471	796	9,424	92	148,541
Total						
Number of operations	50,462	123,222	302,472	1,484,390	862	1,961,408
Value (Euros '000)	4,467,855	17,512,440	15,231,318	3,591,491	858,007	41,661,111
Impairment constituted (Euros '000)	329,650	749,213	64,535	50,718	201	1,194,317

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

As at 31 December 2019, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	2019					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)
< 0.5 M€						
Number	6,185	1,891	9,004	7,100	260,207	402
Value (Euros '000)	798,829	91,703	1,255,316	290,238	35,043,380	22,170
>= 0.5 M€ and < 1 M€						
Number	647	35	1,037	87	3,869	6
Value (Euros '000)	450,180	21,839	721,631	56,740	2,517,184	3,487
>= 1 M€ and < 5 M€						
Number	446	43	770	81	539	2
Value (Euros '000)	932,308	69,063	1,518,322	151,602	798,827	3,105
>= 5 M€ and < 10 M€						
Number	67	3	97	17	6	-
Value (Euros '000)	465,997	23,184	661,996	114,119	39,768	-
>= 10 M€ and < 20 M€						
Number	35	1	55	14	-	-
Value (Euros '000)	485,611	13,009	740,103	207,088	-	-
>= 20 M€ and < 50 M€						
Number	25	-	24	2	-	-
Value (Euros '000)	718,625	-	709,533	57,393	-	-
>= 50 M€						
Number	3	-	9	4	-	-
Value (Euros '000)	171,131	-	745,204	863,177	-	-
Total						
Number	7,408	1,973	10,996	7,305	264,621	410
Value (Euros '000)	4,022,681	218,798	6,352,105	1,740,357	38,399,159	28,762

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

As at 31 December 2018, the following table includes the fair value of the collaterals (not limited by the value of the collateral) associated to the loans portfolio by segments Construction and CRE, Companies - Other Activities and Mortgage loans:

	2018					
	Construction and CRE		Companies - Other Activities		Mortgage loans	
Fair Value	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)	Real Estate	Other real Collateral (*)
< 0.5 M€						
Number	6,822	2,057	8,728	8,474	226,978	447
Value (Euros '000)	854,914	93,528	1,264,438	313,327	28,536,472	23,771
>= 0.5 M€ and < 1 M€						
Number	582	45	990	90	2,147	5
Value (Euros '000)	393,818	28,238	687,766	61,321	1,393,748	2,876
>= 1 M€ and < 5 M€						
Number	370	35	764	78	348	2
Value (Euros '000)	748,083	55,639	1,504,817	151,753	527,942	2,916
>= 5 M€ and < 10 M€						
Number	61	3	93	16	4	-
Value (Euros '000)	424,210	19,280	646,698	113,519	24,124	-
>= 10 M€ and < 20 M€						
Number	28	1	51	11	-	-
Value (Euros '000)	379,121	12,834	690,498	158,151	-	-
>= 20 M€ and < 50 M€						
Number	22	-	27	3	-	-
Value (Euros '000)	630,522	-	802,373	86,423	-	-
>= 50 M€						
Number	3	-	8	2	-	-
Value (Euros '000)	176,677	-	669,380	688,193	-	-
Total						
Number	7,888	2,141	10,661	8,674	229,477	454
Value (Euros '000)	3,607,345	209,519	6,265,970	1,572,687	30,482,286	29,563

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

As at 31 December 2019, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	31 December 2019				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	1,736,673	741,390	430,199	187,864
<60%	12,453	408,312	224,914	41,225	8,374
>=60% and <80%	1,636	560,850	92,652	21,159	6,354
>=80% and <100%	707	92,821	80,467	101,810	21,191
>=100%	7,926	365,801	176,194	365,017	192,944
Companies - Other Activities					
Without associated collateral	n.a.	12,596,627	2,190,765	1,211,272	909,888
<60%	13,875	628,986	388,577	153,469	80,291
>=60% and <80%	2,601	440,499	199,038	58,009	15,274
>=80% and <100%	1,885	356,633	138,580	95,536	49,365
>=100%	5,545	561,738	315,401	531,144	356,633
Mortgage loans					
Without associated collateral	n.a.	279,390	25,499	4,751	4,639
<60%	212,091	6,837,908	1,005,158	123,681	3,782
>=60% and <80%	96,711	4,955,299	842,531	133,323	3,615
>=80% and <100%	36,709	1,775,415	439,968	119,234	4,104
>=100%	9,925	343,167	118,577	135,264	32,989

As at 31 December 2018, the following table includes the LTV ratio by segments Construction and Commercial Real Estate (CRE), Companies - Other Activities and Mortgage loans:

(Thousands of euros)

	31 December 2018				
Segment/Ratio	Number of properties	Stage 1	Stage 2	Stage 3	Impairment
Construction and CRE					
Without associated collateral	n.a.	1,646,104	683,188	467,158	200,729
<60%	5,168	227,896	199,585	63,305	14,270
>=60% and <80%	2,655	414,992	72,633	97,792	15,591
>=80% and <100%	1,138	89,103	48,765	90,372	25,733
>=100%	14,986	172,060	144,066	794,268	412,533
Companies - Other Activities					
Without associated collateral	n.a.	11,788,615	1,973,445	1,543,516	991,146
<60%	14,352	582,543	354,653	188,168	53,500
>=60% and <80%	3,277	394,605	185,614	127,616	32,203
>=80% and <100%	1,705	199,698	163,570	115,983	50,982
>=100%	8,064	677,799	336,092	684,357	458,118
Mortgage loans					
Without associated collateral	n.a.	193,786	4,697	2,105	1,870
<60%	165,269	5,174,838	763,161	142,291	3,742
>=60% and <80%	101,766	5,093,550	874,775	180,221	5,471
>=80% and <100%	43,015	1,827,831	524,200	193,505	6,244
>=100%	14,555	393,231	165,185	264,818	65,406

As at 31 December 2019 and 2018, the following table includes the fair value and the net book value of the properties classified as Non-current assets held for sale (note 24), by type of asset:

(Thousands of euros)

	Assets arising from recovered loans results (note 24)			
	2019		2018	
Asset	Appraised value	Book value	Appraised value	Book value
Land				
Urban	458,679	363,704	566,569	433,406
Rural	20,104	15,065	33,013	26,402
Buildings in development				
Commercials	1,468	767	27,075	22,921
Mortgage loans	4,000	3,043	45,260	35,428
Constructed buildings				
Commercials	259,226	203,351	358,781	275,965
Mortgage loans	307,220	246,208	420,138	349,063
Others	1,478	1,153	173	100
Other assets	-	-	210	179
	1,052,175	833,291	1,451,219	1,143,464

Market risk

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

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

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

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

In order to ensure that the risk levels incurred in the different portfolios of the Bank comply with the predefined levels of tolerance to risk, various market risks limits are established, at least yearly, being applicable to all portfolios of the risk management areas over which the risks are incident. These limits are monitored on a daily basis (or intra-daily, in the case of financial markets) by the Risk Office.

Stop Loss limits are also defined for the financial markets areas, based on multiples of the risk limits defined for those areas, aimed at limiting the maximum losses that might occur. When these limits are reached, a review of the strategy and of the assumptions relative to the management of the positions in question is mandatory.

Trading book market risks (Positions allocated to the Trading Management Area and not, specifically, to the accounting Trading Book)

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

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

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

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

The table below presents the amounts at risk for the Trading Book, as at 31 December 2019 and 2018, and measured by the methodologies referred to above:

(Thousands of euros)

	2019	Max of global risk in the period	Min of global risk in the period	2018
Generic Risk (VaR)	1,543	5,350	713	3,110
Interest Rate Risk	1,507	5,532	689	3,173
FX Risk	711	1,219	212	1,802
Equity Risk	81	35	49	34
Diversification effects	(757)	(1,436)	(236)	(1,899)
Specific Risk	2	32	2	46
Non-Linear Risk	-	-	-	-
Commodities Risk	5	2	4	5
Global Risk	1,550	5,384	720	3,161

In order to check the appropriateness of the internal VaR model to the assessment of the risks involved in the positions held, several validations are conducted over time, of different scopes and frequency, which include back testing, the estimation of the effects of diversification and the analysis of the comprehensiveness of the risk factors.

As a complement to the VaR assessment, the Group continuously tests a broad range of stress scenarios analysing the respective results with a view to identifying risk concentrations that have not been captured by the VaR model and, also, to test for other possible dimensions of loss.

Interest rate risk

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

Variations of market interest rates influence the Bank's net interest income, both in the short term and medium/long term, affecting its economic value in a long term perspective. The main risk factors arise from the repricing mismatch of portfolio positions (repricing risk) and from the risk of variation in market interest rates (yield curve risk). Besides this, although with less impact, there is the risk of unequal variations in different reference rates with the same repricing period (basis risk).

In order to identify the exposure of the Bank's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of each of the relevant contracts, with the respective expected cash-flows (principal and interest, without the spread component but including costs for liquidity, capital, operational and other) being projected according to the repricing dates, thus calculating the impact on economic value resulting from alternative scenarios of change of market interest rate curves.

The interest rate sensitivity of the balance sheet, by currency, is calculated as the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows simulating parallel shifts of the market interest rates.

The following tables show the expected impact on the banking book economic value of parallel shifts of the yield curve by +/- 100 and +/- 200 basis points, for each of the main currencies in which the Bank holds material positions:

(Thousands of euros)

	31 December 2019			
Currency	- 200 pb (*)	- 100 pb (*)	+ 100 pb	+ 200 pb
CHF	340	340	684	1,335
EUR	53,904	53,904	(4,092)	(510)
PLN	(1,736)	(1,100)	1,086	2,159
USD	(14,592)	(8,388)	8,085	15,878
	37,916	44,755	5,763	18,863

(*) Decrease in rates scenario, limited to non-negative rates (which implies effective variations of lesser amplitude than 100 bp, especially in shorter periods).

(Thousands of euros)

	31 December 2018			
Currency	- 200 pb (*)	- 100 pb (*)	+ 100 pb	+ 200 pb
CHF	215	215	503	985
EUR	(47,804)	(52,516)	145,700	281,223
PLN	(1,947)	(1,183)	1,164	2,311
USD	(19,518)	(9,566)	9,190	18,010
	(69,054)	(63,050)	156,557	302,529

(*) Decrease in rates scenario, limited to non-negative rates (which implies effective variations of lesser amplitude than 100 bp, especially in shorter periods).

Foreign exchange and equity risk in the banking book

The exchange rate risk of the banking book is transferred internally to the Trading area (Treasury), in accordance with the risk specialization model followed by the Group for the management of the exchange rate risk of the Balance Sheet. The exposures to exchange rate risk that are not included in this transfer – the financial holdings in subsidiaries, in foreign currency - are hedged on a case-by-case basis through market operations, taking into consideration the defined policy and the conditions and availability of instruments. On an individual basis hedge accounting is made for hedge investments on investments os subsisiries, by applying Fair Value Hedge.

The Bank applies, to hedge the foreign exchange risk of the partial investment made in foreign currency in Bank Millennium (Poland) and Banque Privée BCP (Suisse) S.A., the fair value hedge accounting model.

The amount of the investment in Bank Millennium (Poland) subject to hedging is PLN 2,570,017,000 (31 December 2018: PLN 2,570,017,000), with the equivalent amount of Euros 604,454,000 (31 December 2018: Euros 598,151,000), with the hedging instrument in the same amount.

The amount of the investment Banque Privée BCP (Suisse) S.A subject to hedging is CHF 100,000,000 (31 December 2018: CHF 100,000,000), with the equivalent amount of Euros 91,976,000 (31 December 2018: Euros 88,756,000), with the hedging instrument in the amount of CHF 76,493,000 (31 December 2018: CHF 79,922,000) with the equivalent amount of Euros 70,355,000 (31 December 2018: Euros 70,936,000).

These hedging relationships were considered effective during the entire period of 2019, as described in the accounting policy in note 1 B.4.

Regarding equity risk, the Bank maintains a series of small size and low risk equity positions, essentially in the investment portfolio, which are not held for trading purposes. The management of these positions is carried out by a specific area of the Group, with the respective risk being controlled on a daily basis, through the indicators and limits defined for market risks' control.

Liquidity risk

The assessment of the Bank's liquidity risk is carried out on a regular basis using indicators defined by the supervisory authorities and other internal metrics for which exposure limits are also defined.

The monitoring of the liquidity position of the Group's operations in short-term time horizons (up to 3 months) is based on two internally defined indicators (immediate liquidity and quarterly liquidity). These indicators are calculated on a daily basis, taking into account the impact in the liquidity buffers available to discount with the respective central banks at the reference date of future estimated cash flows for each of the respective time horizon (3 days or 3 months) considering the set of transactions intermediated by the market areas, including in this context transactions with clients of the Corporate and Private networks, which, due to their size, must be quoted by the Trading Room. The remaining buffer in each time bucket is then compared to the amount of customer deposits, being the indicators assessed against exposure limits defined in the Bank's regulations.

In parallel, the evolution of the Group's liquidity position is calculated on a regular basis identifying all the factors that justify the variations that occur. This analysis is submitted to the Capital and Assets and Liabilities Committee (CALCO) for appraisal, in order to enable the decision making that leads to the maintenance of financing conditions adequate to the continuation of the business.

In addition, the Risk Commission is responsible for controlling the liquidity risk. This control is reinforced through the monthly execution of stress tests, to characterize the Bank's risk profile and to ensure that the Group and each of its subsidiaries fulfil its obligations in the event of a liquidity crisis. These tests are also used to support the liquidity contingency plan and management decisions.

Considering the prudential criteria adopted by the Group for liquidity management, the control of market financing needs and the strenghtening of the liquidity buffer provided by the portfolio available for discount at the ECB continued to receive particular attention. In this line, the portfolio of ECB assets available for discount reached Euros 17,060,132,000 as at 31 December 2019, (31 December 2018: Euros 16,912,532,000), of which Euros 7,328,153,000 mobilized in the ECB's monetary policy pool.

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

(Thousands of euros)

	2019	2018
European Central Bank	7,328,153	6,817,511

As at 31 December 2019, the amount discounted in the European Central Bank amounts to Euros 4,000,000,000 (31 December 2018: Euros 4,000,000,000).

Liquidity coverage ratio

The Bank structurally improved its liquidity profile by recording as at 31 December 2019 a credit transformation ratio on deposits calculated in accordance with Bank of Portugal Instruction No. 16/2004 (current version) of 88% and as at 31 December 2018 this ratio was set at 92% (according to the current version of the Instruction as at 31 December 2018).

Hedging accounting

As at 31 December 2019, the table below includes the detail of the hedging instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(Thousands of euros)

	Hedging instruments			
		Book value		
Type of hedging	Nocional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
- Interest rate swaps	3,430,030	17,859	46,122	(105,957)
	3,430,030	17,859	46,122	(105,957)
Cash flows hedging				
Interest rate risk				
- Interest rate swaps	11,450,000	17,131	75,352	(123,734)
	11,450,000	17,131	75,352	(123,734)
Total	14,880,030	34,990	121,474	(229,691)

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

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

(Thousands of euros)

	Hedging instruments			
		Book value		
Type of hedging	Nocional	Assets	Liabilities	Change in fair value (A)
Fair value hedge				
Interest rate risk				
- Interest rate swaps	2,763,274	12,372	60,882	(13,608)
	2,763,274	12,372	60,882	(13,608)
Cash flows hedging				
Interest rate risk				
- Interest rate swaps	11,880,000	80,519	7,604	107,294
	11,880,000	80,519	7,604	107,294
Total	14,643,274	92,891	68,486	93,686

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

As at 31 December 2019, the table below includes the detail of the hedged items:

(Thousands of euros)

	Hedged items							
						Cash flow hedge reserve / Currency translation reserve		
		Book value		Cumulative value of the adjustments				
Type of hedging	Balance sheet item	Assets	Liabilities	Assets	Liabilities	Change in fair value (A)	Hedging relationships in effect	Hedging relationships discontinued
Fair value hedge								
Interest rate risk								
- Interest rate swaps	(B)	449,137	-	5,102	-	623	n.a.	n.a.
	(H)	89,953	-	856	-	856	n.a.	n.a.
	(C)	2,075,608	-	(26,689)	-	104,716	n.a.	n.a.
	(D)	-	260,000	-	9,950	1,470	n.a.	n.a.
	(E)	-	180,650	-	5,149	(6,407)	n.a.	n.a.
	(F)	-	2,554	-	54	(43)	n.a.	n.a.
	(G)	-	441,389	-	(6,974)	6,974	n.a.	n.a.
		2,614,698	884,593	(20,731)	8,179	108,189	n.a.	n.a.
Cash flows hedging								
Interest rate risk								
- Interest rate swaps	(B)	11,450,000	-	-	-	123,734	(60,682)	217,311
		11,450,000	-	-	-	123,734	(60,682)	217,311
Total		14,064,698	884,593	(20,731)	8,179	231,923	(60,682)	217,311

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

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

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

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

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

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

(G) Financial liabilities at amortised cost - Subordinated debt

(H) Debt securities held not associated with credit operations

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

(Thousands of euros)

Type of hedging	Balance sheet item	Hedged items: Book value - Assets	Book value - Liabilities	Cumulative value of the adjustments - Assets	Cumulative value of the adjustments - Liabilities	Change in fair value (A)	Cash flow hedge reserve / Currency translation reserve: Hedging relationships in effect	Hedging relationships discontinued
Fair value hedge								
Interest rate risk								
- Interest rate swaps	(B)	462,400	-	5,306	-	444	n.a.	n.a.
	(C)	2,183,957	-	(47,870)	-	17,935	n.a.	n.a.
	(D)	-	260,000	-	2,797	(3,796)	n.a.	n.a.
	(E)	-	180,650	-	7,417	1,679	n.a.	n.a.
	(F)	-	2,517	-	11	20	n.a.	n.a.
	(G)	-	7,685	-	137	196	n.a.	n.a.
		2,646,357	450,852	(42,564)	10,362	16,478	n.a.	n.a.
Cash flows hedging								
Interest rate risk								
- Interest rate swaps	(B)	11,880,000	-	-	-	(107,294)	63,052	50,648
		11,880,000	-	-	-	(107,294)	63,052	50,648
Total		14,526,357	450,852	(42,564)	10,362	(90,816)	63,052	50,648

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

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

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

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

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

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

(G) Financial liabilities at amortised cost - Subordinated debt

As at 31 December 2019, the table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income:

(Thousands of euros)

Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Amounts reclassified from reserves to results for the following reasons: Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
- Interest rate swaps	(D)	n.a.	2,232		n.a.	n.a.
		n.a.	2,232		n.a.	n.a.
Cash flows hedging						
Interest rate risk						
- Interest rate swaps		-	-	(E)	44,882	-
		-	-		44,882	-
Total		-	2,232		44,882	-

(A) Income Statement item in which the ineffectiveness of the hedge was recognised

(B) Income Statement item in which the reclassified amount was recognised

(C) but which are no longer expected to occur

(D) Net gains / (losses) from hedge accounting operations

(E) Interest and similar income

As at 31 December 2018, the table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income:

(Thousands of euros)

Type of hedging	Income statement item (A)	Gains / (losses) recognised in Other comprehensive income	Hedging ineffectiveness recognised in Income statement (A)	Amounts reclassified from reserves to results for the following reasons: Income statement item (B)	Cash flows that were being hedged (C)	Hedged item with an impact on results
Fair value hedge						
Interest rate risk						
- Interest rate swaps	(D)	n.a.	2,870		n.a.	n.a.
		n.a.	2,870		n.a.	n.a.
Cash flows hedging						
Interest rate risk						
- Interest rate swaps		-	-	(E)	23,004	-
		-	-		23,004	-
Total		-	2,870		23,004	-

(A) Income Statement item in which the ineffectiveness of the hedge was recognised

(B) Income Statement item in which the reclassified amount was recognised

(C) but which are no longer expected to occur

(D) Net gains / (losses) from hedge accounting operations

(E) Interest and similar income

As at 31 December 2019, the table below shows the detail of hedging instruments by maturity:

(Thousands of euros)

Type of hedging	Remaining period: Up to 3 months	3 months to 1 year	Over 1 year	Total	Fair value: Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps						
Notional	-	1,367,350	2,062,680	3,430,030	17,859	46,122
Fixed interest rate (average)		-0.13%	0.74%	0.39%		
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	-	-	11,450,000	11,450,000	17,131	75,352
Total derivatives traded by:						
OTC Market	-	1,367,350	13,512,680	14,880,030	34,990	121,474

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

(Thousands of euros)

Type of hedging	Remaining period: Up to 3 months	Remaining period: 3 months to 1 year	Remaining period: Over 1 year	Total	Fair value: Assets	Fair value: Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps						
Notional	-	24,500	2,738,774	2,763,274	12,372	60,882
Fixed interest rate (average)		3.44%	1.31%	1.34%		
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	-	-	11,880,000	11,880,000	80,519	7,604
Total derivatives traded by:						
OTC Market	-	24,500	14,618,774	14,643,274	92,891	68,486

Operational Risk

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

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

The risk management system (SGR) – role of Risk Management (Risk Ofice) and Compliance (Compliance Office) – represents the 2nd Line of Defence and is responsible for implementing the risk policy defined for the Group, proposing and developing approaches for managing this risk, supervising their implementation and challenging the 1st Line of Defence regarding the risk levels incurred.

In 2019, the usual operational risk management activities continued to be carried out by the various players involved in the management of this risk, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as at the appropriate reporting tasks, either to the Group’s management bodies or within regulatory duties. The results of the RSA exercises evidence a robust control environment, demonstrating the Group's commitment to operational risk management through the continuous development of improvement actions that help mitigate exposures to this risk. Regarding the operational losses registered, it should be highlighted that their pattern was not different from what is usual and expected, with a higher frequency of losses of low amounts, without concentration in significant amounts. It should also be noted that the average ratio between gross losses and the relevant indicator for TSA (gross income) has consistently presented values below 1%, which compares very favourably with international benchmarking and attests the robustness of the operational control environment of the Group. The monitoring of KRI has allowed to identify opportunities for improvement that, together with the RSA exercises and the process of identification and registration of losses, provide for an effective management of this risk.

The Bank's mobilization to reinvent the banking experience, based on the digitization and use of new technologies, entails relevant challenges in the management of operational risk, which include the reinforcement of the security of digital banking channels, the reinforcement of mechanisms for the prevention and detection of potential fraud, proper management of personal data and compliance with the information duties legally provided for in sales through digital banking channels. In order to strengthen mechanisms for more efficient control of operational risk, several initiatives were launched, of which we highlight:

- Integrated assessment of operational risks and conduct risks in the analysis and approval of new products and services;
- The strengthening of the monitoring of the risk of conflicts of interest and the evaluation and monitoring of service provision contracts under an outsourcing regime considered critical;
- Conducting a new IT Risk self-assessment exercise;
- Redesign of the operational risk self-assessment methodology, to include aspects and quantitative indicators monitored by internal controls on compliance and conduct risks;
- Reinforcement of the weight of operational risk indicators in the RAS metrics, namely in the monitoring of digital channels;
- Improvement of the rules for validating the quality of regulatory reports related to Operational Risk.

Covenants

The contractual terms of instruments of wholesale funding encompass obligations assumed by entities belonging to the Group as debtors or issuers, concerning general duties of societary conduct, maintenance of banking activity and the inexistence of special guarantees constituted for the benefit of other creditors (“negative pledge”). These terms reflect essentially the standards internationally adopted for each type of instrument.

The terms of the Group’s participation in securitization operations involving its own assets are subject to mandatory changes in case the Group stops respecting certain rating criteria. The criteria established in each transaction results mainly from the existing risk analysis at the moment that the transaction was set, being these methodologies usually applied by each rating agency in a standardised way to all the securitization transactions involving the same type of assets.

Regarding the Covered Bond Programs of Banco Comercial Português, there are no relevant covenants related to a possible downgrade