

12. Liquidity risk

12.1. Liquidity risk management and assessment

Liquidity management

The liquidity management of the BCP Group is coordinated at the consolidated level, in accordance with the principles and methodologies defined at the Group level. The Consolidated Liquidity Plan, an integral part of the annual budget and planning process, is the main instrument used in pursuing this objective.

The Group's liquidity management policy aims to limit interdependence between the various entities that comprise it. Accordingly, each geography must maintain and guarantee autonomy with regard to the management of its financing needs, maintaining its own liquidity buffers appropriate to the size and risk profile of the respective operation, so as not to depend on other entities of the Group.

The BCP Group's business model is based on retail banking, through which it has ensured a stable liquidity position, whose resilience has been tested favorably, namely in 2011, in situations of stress in the financial market resulting from the adoption of the Financial Assistance for Portugal.

Since then, in order to reduce the risk profile of the Bank's financing structure and increase its resilience, strategic priorities have been redefined, initially involving the sale of non-strategic assets, which was followed by a deleveraging process. As a result, there was a significant decrease in the commercial gap and a strengthening of stable sources of financing, mainly from customers, reducing the Bank's dependence on market funding and the ECB.

Liquidity risk assessment

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

In structural terms, the Group's Risk Appetite Statement (RAS) defines, from a consolidated perspective, a set of structural liquidity indicators and respective limits, which are then broken down by the limits applicable to each entity. Internal limits are typically more stringent than regulatory ones, ensuring prudent liquidity risk management.

The evolution of wholesale funding, the LCR (Liquidity Coverage Ratio), the credit ratio on deposits and assets eligible for discount available on the ECB and other central banks are monitored at least weekly.

Daily, the main entities monitor short-term liquidity indicators.

Concomitantly, the Group's liquidity position is regularly analyzed, identifying the factors that justify deviations from the consolidated Liquidity Plan and by entity. This analysis is submitted to CALCO, which, when applicable, decides the appropriate measures to maintain adequate financing conditions. In addition, the Risk Committee is responsible for controlling exposure to liquidity risk.

In order to avoid the appearance of a liquidity crisis or to act immediately if it materializes, CALCO presents the results of the Early Warning Signals system of the Liquidity Contingency Plan monthly, with a score that summarizes several indicators that monitor the evolution of liquidity risk factors.

The control of liquidity risk is further reinforced by periodic stress tests, carried out to assess the Bank's risk profile and to ensure that the Group and each of its subsidiaries fulfill their short-term obligations in various crisis scenarios. These tests are also used to support the liquidity contingency plan and decision-making on the subject, including periodic measurement of capacity counterbalancing measures set out in the Recovery Plan.

12.2. Management model

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

The BCP Group's Liquidity Plan, prepared on a consolidated basis for the Group and individually for the main entities, aims to ensure the alignment of the expected evolution of incoming and outgoing liquidity flows resulting from commercial and corporate objectives with prudent treasury management and maintenance of adequate liquidity levels, respecting the regulatory risk limits and those defined internally in the Group's RAS and in the Corporate RAS, created at the end of 2019 to promote greater alignment in the monitoring of risk appetite in all entities of the BCP Group and along the main risk-taking dimensions.

Liquidity management is carried out by local units autonomously, aiming at their self-sufficiency and guaranteeing independence in relation to the other units of the Group.

The liquidity risk management and assessment methodologies described in 12.1. and the refinement of the government model dealt with succinctly in this section are continually reassessed in the Annual Liquidity Adequacy Assessment Process (ILAAP), which is materialized annually in a document prepared in accordance with the guidelines of the European Banking Authority and the European Central Bank, representing the Group's self-assessment of liquidity and risk management strategy and practices.

The ILAAP is, therefore, a key component of the Group's risk management structure and consists of a coherent set of principles, policies, procedures and structures in order to ensure that the Group adequately manages liquidity risk within the limits defined in RAS at the consolidated level and for each entity. The improvement opportunities identified at ILAAP give rise to detailed action plans, in order to guarantee a permanent adaptation of the liquidity risk management methodologies and governance to the challenges faced by the Group and the pursuit of best practices. ILAAP systematically deals with the main components of liquidity management and the respective risks according to the following structure:

Liquidity and funding risk management:

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

Funding strategy:

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

Liquidity buffer and collateral management:

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

Cost benefit allocation mechanism:

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

Intraday liquidity risk management:

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

Regulatory indicators monitoring:

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

Liquidity stress testing:

Execution of liquidity stress tests on a regular basis.

Contingency funding plan:

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

12.3. Regulatory requirements and ilaap

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

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

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

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



During the first half of 2019, the ECB's Banking Supervision conducted the Sensivity Analysis of Liquidity Risk - Stress Test 2019 (LiST 2019) to assess banks' ability to withstand idiosyncratic hypothetical liquidity shocks.

In the case of the BCP Group, liquidity reserves were considered adequate to offset the simulated liquidity loss scenarios. In addition, the quality and timeliness of the response to questions raised by the ECB during the quality assurance phase of the exercise were positively assessed.

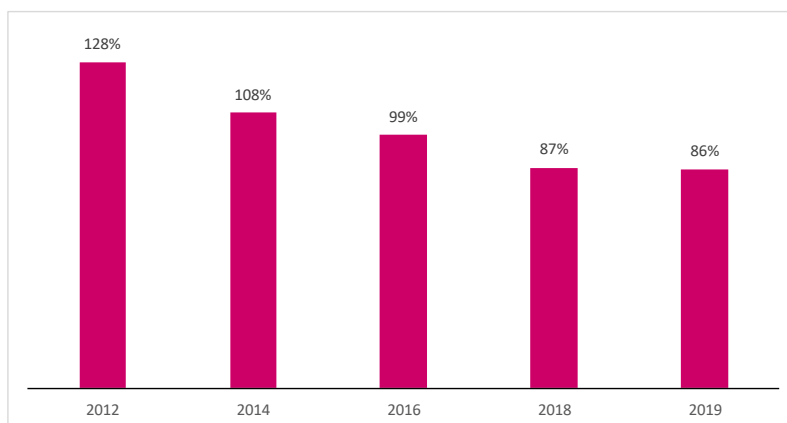
The LiST results were used by the supervisory teams in the 2019 supervision review and evaluation (SREP) processes.

12.4. Balance sheet indicators

The main evolutions regarding the Group's liquidity situation in 2019 were the following:

- Reduction of 2.3 billion euros in net wholesale financing needs, attributable to the reduction of 2.7 billion euros in the Portuguese operation and the 393 million euros increase in Bank Millennium, in this case mainly due to the acquisition of the Euro Bank SA. In Portugal, the variation was due to the impact, in decreasing order of materiality of the factors, to the reduction of the commercial gap and investments in sovereign debt, to the means released by the activity, to the sale of assets and to the reduction of the corporate securities portfolio.
- From the perspective of the financing structure, a reduction in the liquidity needs of the operation in Portugal, reflected in the decreases in net indebtedness to the ECB (2.4 billion euros, to 283 million euros), indebtedness in money market instruments (1.25 billion euros, divided between the interbank market and repos, in this case for zero balance) in return for the reinforcement by a total of 850 million euros of medium-term financing eligible for MREL, already provided for in the Group's Liquidity Plan. Thus, in January, BCP placed an Additional Tier 1 issue in the amount of 400 million euros, having returned to the market in September, with a new issue of 450 million euros of subordinated debt securities eligible as own funds. Tier 2 level, an operation placed in a very diverse group of European institutional investors. Bank Millennium, in turn, issued subordinated bonds in the amount of PLN 830 million with a view to strengthening its financial structure for the acquisition of Euro Bank. S.A, also assuming long-term liabilities originating from that entity in the amount of 878 million zlotys. The total amount of debt placed by the Group on the market at the end of 2019 amounts to 2.6 billion euros. The medium-long-term funding component was further strengthened by increasing the balance of bank loans in the amount of 131 million euros, to 1.9 billion euros, divided between Bank Millennium (89 million euros) and BCP (EUR 42 million).
- The value of collateralized borrowings with the ECB remained at 4.0 billion euros, corresponding to the balance of targeted longer-term refinancing operations, called TLTRO, which will mature in 2020. Net debt to the ECB, which deducts from liquidity the liquidity deposited with Banco de Portugal, another liquidity denominated in euros in excess of the minimum cash reserves and interest receivable associated with TLTRO, reached the lowest value since the Bank resorted to financing with of that central bank, amounting to the aforementioned amount of 283 million euros, 2.4 billion euros less than last year.
- The evolution of liquidity buffers discounted at central banks showed a favorable evolution throughout 2019 in the three main operations of the Group, assuming in any case a very comfortable dimension in relation to the total of customer deposits, a measure internally used by the Group for assess the resilience of the liquidity buffer against a scenario of financial stress.
- In Portugal, the joint evolution of investments in liquidity at Banco de Portugal and the portfolio of eligible assets with the ECB allowed to reinforce the liquidity buffer by 2.5 billion euros compared to the previous year, to 16.8 billion euros.
- Although Bank Millennium's liquidity buffer with the Polish central bank decreased by 1.1 billion euros at the end of May, to pay for the acquisition of Euro Bank SA, at the end of the year it had a balance similar to that observed a year earlier (€ 5.1 billion).
- Millennium BIM in Mozambique maintained a strong liquidity position throughout 2019, with the buffer with the central bank registering a reinforcement of 79 million euros compared to 2018, to a total of 800 million euros.
- Liquidity Coverage Ratio (LCR), on a consolidated basis, rose to 216% in December 2019, comfortably above the minimum requirement of 100%, supported by highly liquid asset portfolios in an amount compatible with prudent liquidity management Group's short-term, remaining at identical coverage levels in relation to the same date of the previous year (218%).
- At the same time, the Bank has a strong and stable financing structure, based on customer deposits and complemented by collateralized financing and medium and long-term instruments, which have enabled it to raise its stable financing indicator (Net Stable Funding Ratio or NSFR) on December 31, 2019 to 135% (133% on December 31, 2018).

GRAPH 7 – LTD RATIO EVOLUTION (*)



At the end of December 2019, customer deposits stood at 60,847 million euros, registering an increase of 10.1% compared to 31 December 2018, with the balance sheet resources of Customers reaching 62.607 million euros, gross loans amounted to 54,352 million euros, which represents an increase of 7.2% compared to the end of 2018.

Consequently, the transformation ratio thus evolved from 87% at the end of 2018 to 86% at the end of 2019.

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

TABLE 69 - LIQUID ASSETS INTEGRATED IN COLLATERAL POOLS

	(Thousand euros)	
	31 Dec. 19	31 Dec. 18
European Central Bank ^(*)	7,328,153	7,248,348
Other Central Banks	5,888,324	5,608,093
TOTAL	13,216,477	12,856,441

(*) According to Intruction 16/2004 of Banco de Portugal

With reference to December 2019:

- the gross amount deducted from the European Central Bank amounted to 4,000 million euros (the same amount as at 31/12/2018);
- the amount deducted from the Bank of Mozambique was 2,426,000 euros (1,275,000 euros on 31/12/2018);
- there were no discounted amounts with other central banks.

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

The ECB's Monetary Policy Pool, the net borrowing at the ECB and the liquidity buffer were the following at 31/12/2019 and 31/12/2018:

TABLE 70 – LIQUIDITY BUFFER OF THE ECB

	(Thousand euros)	
	31 Dec. 19	31 Dec. 18
Collateral eligible for ECB, after haircuts:		
The pool of ECB monetary policy ⁽ⁱ⁾	7,328,153	7,248,348
Outside the pool of ECB monetary policy	9,731,980	9,664,184
	17,060,132	16,912,532
Net borrowing at the ECB ⁽ⁱⁱ⁾	283,385	2,651,998
LIQUIDITY BUFFER ⁽ⁱⁱⁱ⁾	16,776,747	14,260,534

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

⁽ⁱⁱ⁾ Includes, as at December 2018, the value of funding with the ECB net of the interest associated with the negative financing rate applied to the TLTRO (17,954,000 euros), of deposits at the Banco de Portugal and of other liquidity of the Eurosystem (1,227,481,000 euros), plus the minimum cash reserve and the accrued interest (344,053,000 euros).

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

Thus, on December 2019, the liquidity available through the collateral available, plus deposits with Banco de Portugal less the minimum cash reserves and accrued interest, amounted to 16,777 million euros, compared to 14,261 million euros in 31 December 2018.

12.5.regulatory indicators

12.5.1. Liquidity coverage ratio

Basel Committee published in 2014 the definition of the liquidity coverage ratio (LCR - Liquidity Coverage Ratio), having been adopted in early October 2015 the Delegated Act of the European Commission that introduced, in relation to CRD IV / CRR, new metrics and calculation criteria implemented in the European Union. The adoption of the new framework sets a minimum requirement of 100% for this ratio from 1 January 2018.

The BCP Group's LCR ratio was comfortably above the regulatory limit, pointing to 216% at the end of December 2019 (31 December 2018: 218%), supported by highly liquid asset portfolios of a value compatible with prudent management Group's short-term liquidity, as shown in the following table.

TABLE 71 – LCR DISCLOSURE*

(Million Euros)

	Total unweighted value (average)				Total weighted value (average)			
	31/03/2019	30/06/2019	30/09/2019	31/12/2019	31/03/2019	30/06/2019	30/09/2019	31/12/2019
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets								
1 Total high-quality liquid assets (HQLA)	-	-	-	-	12,340	13,145	14,039	14,722
Cash outflows								
2 Retail deposits and deposits from small business customers, of which:	26,163	27,536	29,090	30,592	2,254	2,218	2,192	2,206
3 Stable deposits	12,290	15,825	19,528	22,351	615	791	976	1,118
4 Less stable deposits	13,872	11,711	9,562	8,242	1,640	1,426	1,216	1,089
5 Unsecured wholesale funding	12,592	12,839	12,960	12,981	5,214	5,284	5,331	5,386
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,874	2,049	2,106	2,170	468	511	525	541
7 Non-operational deposits (all counterparties)	10,705	10,784	10,845	10,794	4,734	4,766	4,797	4,828
8 Unsecured debt	13	6	9	17	13	6	9	17
9 Secured wholesale funding	-	-	-	-	66	73	78	78
10 Additional requirements	8,502	8,759	9,246	10,068	1,114	1,236	1,597	2,105
11 Outflows related to derivative exposures and other collateral requirements	286	398	758	1,245	286	398	758	1,245
12 Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13 Credit and liquidity facilities	8,217	8,360	8,488	8,822	828	838	838	859
14 Other contractual funding obligations	776	781	804	826	774	781	804	826
15 Other contingent funding obligations	5,404	5,648	5,700	5,678	564	817	896	907
16 Total cash outflows	-	-	-	-	9,987	10,408	10,898	11,508
Cash inflows								
17 Secured lending (eg reverse repos)	69	81	85	141	-20	7	7	37
18 Inflows from fully performing exposures	2,770	2,839	2,921	2,960	1,814	1,879	1,951	1,986
19 Other cash inflows	7,069	7,429	7,760	8,165	2,212	2,543	2,858	3,249
EU-19a (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-	-	-	-	-
EU-19b (Excess inflows from a related specialised credit institution)	-	-	-	-	-	-	-	-
20 Total cash inflows	9,908	10,349	10,766	11,266	4,006	4,429	4,816	5,272
EU-20a Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c Inflows Subject to 75% Cap	9,877	10,349	10,766	11,266	4,006	4,429	4,816	5,272
21 Liquidity buffer	-	-	-	-	12,340	13,145	14,039	14,722
22 Total net cash outflows	-	-	-	-	5,981	5,979	6,082	6,236
23 Liquidity coverage ratio (%)	-	-	-	-	206%	220%	231%	237%

(*) Ratio calculated as a simple average of the consolidated LCR, using the end-of-month observations over the last twelve months at each Quarter (EBA/GL/2017/01). The LCR value as at 31 December 2019 stood at 216%.

Concentration of funding and liquidity sources:

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

Derivative exposures and potential collateral calls:

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

Currency mismatch in the LCR:

The BCP Group has a significant amount of funding obtained in zlotys (PLN), mostly obtained by the subsidiary in Poland and representing about 27% of the total funding. The liquidity coverage ratio in PLN is significantly above the required 100%.

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

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

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

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

12.5.2. Net stable funding ratio

The definition of the stable financing ratio (NSFR - Net Stable Funding Ratio) was approved by the Basel Committee in October 2014. The Group presents a stable financing base obtained by the high weight of customer deposits in the funding structure, collateralized financing, medium and long term instruments and a strengthened regulatory capital structure, which adequately supports the stable financing requirements of the medium and long term business model, including tangible and intangible fixed assets, credit to customers and the portfolio of securities that in part it serves the purpose of maintaining a reserve of highly liquid assets to cover liquidity outflows in adverse situations. The NSFR calculated in December 2019 reached 135% (compared to 133% on December 31, 2018).

12.5.3. Encumbered and unencumbered assets

Within the scope of the guidance of the European Banking Authority on the disclosure of encumbered assets and unencumbered assets, taking into account the recommendation made by the European Systemic Risk Committee, the following information is presented in accordance with DELEGATED REGULATION (EU) 2017/2295 FROM THE COMMISSION of 4 September 2017 that complements Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to technical regulatory standards for the disclosure of encumbered and unencumbered assets.:

TABLE 72 – ENCUMBERED ASSETS

(Thousand euros)

Assets		2019 ⁽¹⁾						
Encumbered and unencumbered assets	Carrying amount of encumbered asset		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	of which notionally eligible EHQLA and HQLA ⁽²⁾		of which notionally eligible EHQLA and HQLA ⁽²⁾		of which EHQLA and HQLA ⁽²⁾		of which EHQLA and HQLA ⁽²⁾	
Assets of the reporting institution, of which:	10 459 171	1 043 266			70 539 049	16 449 753		
Equity instruments	-	-			86 033	-		
Debt securities	1 137 566	1 043 266	1 136 379	1 042 273	17 762 092	12 773 551	17 764 516	12 774 818
of which: covered bonds	-	-	-	-	-	-	-	-
of which: asset-backed securities	-	-	-	-	-	-	-	-
of which: issued by general governments	765 468	666 166	765 468	666 166	12 312 751	11 902 959	12 319 695	11 905 154
of which: issued by financial corporations	32 938	32 938	32 938	32 938	1 975 150	23 492	1 970 819	23 492
of which: issued by non-financial corporations	336 757	336 757	336 064	336 064	2 726 570	496 101	2 726 817	495 520
Other assets	9 321 605	-			52 690 924	3 676 202		
of which: Loans on demand	-	-			3 430 440	3 130 931		
of which: Loans and advances other than loans on demand	9 061 854	-			41 740 048	-		
of which: Other	259 751	-			7 520 436	545 271		

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.

(2) Disclosure of encumbered and unencumbered assets EHQLA and HQLA is presented in accordance with the liquidity criterion defined in Commission Delegated Regulation (EU) 2015/61, which differs from

Collateral received	2019 ⁽¹⁾			
	Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
	of which notionally eligible EHQLA and HQLA ⁽²⁾		of which EHQLA and HQLA ⁽²⁾	
Collateral received by the reporting institution	-	-	32 476	32 476
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	-	-	32 476	32 476
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	-	-	32 476	32 476
of which: issued by financial corporations	-	-	-	-
of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABSs	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			3 616 373	3 616 373
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	10 459 171	1 043 266		

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.

(2) Disclosure of encumbered and unencumbered assets EHQLA and HQLA is presented in accordance with the liquidity

Sources of encumbrance	2019 ⁽¹⁾	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	6 768 487	10 056 710

(1) Table's figures are calculated by the median of the values disclosed in the regulatory information for the 4 quarters of the year.

At the end of 2019, and according to the EBA methodology, the total encumbered assets represents 12% of the Group's total balance sheet assets. The encumbered Loans to customers represents 81%, while Debt securities represents 12%.

The encumbered assets are mostly related with the Group's funding operations - namely with the ECB and via REPO operations - through the issuance of mortgage bonds and securitisation programs. The type of assets used as collateral for these financing transactions are different Loans to Customers' portfolios, supporting securitisation programs and mortgage bonds issues, either placed outside of the Group or intended to reinforce the collateral pool with the ECB and to

collateralise REPO operations from the money markets. Another part of the collateralisation of operations of the latter type, as well as financing from the European Investment Bank, is obtained through sovereign debt eligible for central banks, together with bonds issued by public sector companies.

On 31 December 2019, the Other assets: Other, in the amount of Euros 7,520,436,000, although not encumbered, are mostly related to the Group's activity, namely, to: investments in associated companies and subsidiaries, tangible assets and investment properties, intangible assets, assets associated with derivatives and current and deferred taxes.

On 31 December 2019, the Group has Euros 12.5 billion BCP Covered Bond Programme ("BCP Programme") with Euros 8.2 billion of covered bonds outstanding. The BCP Programme is backed by a Euros 11.7 billion portfolio of residential mortgages, providing an overcollateralization ("OC") of 42.3% that is above the minimum of 14% currently required by rating agencies. The former BII covered bond programme has been terminated on 28 March 2019.

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