# MARKET DISCIPLINE REPORT 2012

Millennium bcp

# 2012 MARKET DISCIPLINE REPORT

Millennium
bcp

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# LIST OF THE ACRONYMS AND TECHNICAL TERMS MOST USED THROUGHOUT THE DOCUMENT (in alphabetical order)

AC: Audit Committee
BoD: Board of Directors
CCF: Credit Conversion Factors
CRA: Commission for Risk Assessment
CRMSC: Credit Risk Monitoring Sub-Commission
EAD: Exposure At Default
EBA: European Banking Authority
EC: Executive Committee of the BoD
ECAI: External Credit Assessment Institutions
IAS: International Accounting Standards
ICAAP: Internal Capital Adequacy Assessment Process
IRB: Internal Ratings Based
KRI: Key Risk Indicators
LGD: Loss Given Default
PD: Probability of Default
PFRSC: Pension Fund Risk Sub-Commission
RC: Risk Commission
RSA: Risks Self-Assessment
SIC 12: (Standing Interpretations Committee – before March 2002): interpretation that defines the criteria for SPE consolidation according to IAS 27
SIP: Special Inspections Program
SPE: Special Purpose Entity
VaR: Value-at-Risk

# INTRODUCTION

This document, denominated "2012 Market Discipline Report", is comprised within the requisites for the provision of information foreseen in Pillar III of the Basel II, complementing the 2012 Annual Report of Banco Comercial Português, S.A. (hereinafter referred to as "Bank" or "Millennium bcp") concerning the information on risk management and capital adequacy on a consolidated basis, namely in what concerns the provision of detailed information on the capital, solvency, risks assumed and respective control and management processes.

This document complies with the information requisites detailed in the Banco de Portugal Notice no. 10/2007 and includes all additional information deemed relevant to evaluate the risk profile and the Bank's capital adequacy on a consolidated basis.

# REGULATORY CALCULATION METHODOLOGIES

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

Subsequently, within the scope of the gradual adoption of IRB approach in the calculation of capital requirements for credit and counterparty risks, Banco de Portugal authorized the extension of this method to the subclasses "Renewable retail positions" and "Other retail positions" in Portugal, effective as of 31 December 2011.

Recently, effective as of 31 December 2012, Banco de Portugal authorized the use of own estimates of Credit Conversion Factors (CCF) for the "Corporate" risk class in Portugal and the adoption of IRB models for "Loans secured by residential real estate" and for "Renewable positions" in the Retail portfolio of the Group's subsidiary company in Poland.

During the first six months of 2009, the Bank received the authorization from Banco de Portugal to use the Advanced approach (internal model) for the generic market risk and to use the Standard approach for operational risk.

Without damaging the provision of more detailed information in the next chapters, we show in Table I a summary of the calculation methodologies of the capital requirements used in the regulatory reporting, as well as of the respective geographical application scope.

**TABLE I – CAPITAL REQUIREMENTS: CALCULATION METHODS AND SCOPE OF APPLICATION**

| | **31-12-2012** | 31-12-2011 |
|---|---|---|
| CREDIT RISK AND COUNTERPARTY CREDIT RISK | | |
| PORTUGAL | | |
| Retail | **IRB Advanced** | IRB Advanced |
| Corporates | **IRB Foundation (2)** | IRB Foundation (1) |
| POLAND | | |
| Retail | | |
| - Loans secured by residential real estate | **IRB Advanced** | Standardised |
| - Renewable positions | **IRB Advanced** | Standardised |
| OTHER EXPOSURES (all entities of the Group) | **Standardised** | Standardised |
| MARKET RISK (3) | | |
| Generic market risk in debt and equity instruments | **Internal Models** | Internal Models |
| Foreign exchange risk | **Internal Models** | Internal Models |
| Commodities risk and market risk in debt and equity instruments | **Standardised** | Standardised |
| OPERATIONAL RISK (4) | **Standard** | Standard |

(1) Excluding exposures derived from the real estate promotion segment and simplified rating system, which are weighted by the Standardised approach.

(2) Calculated using own estimates of Credit Conversion Factors (CCF), except for exposures derived from the real estate promotion segment and simplified rating system, which are weighted by the Standardised approach.

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

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

# 1. STATEMENT OF RESPONSIBILITY OF THE BOARD OF DIRECTORS

**I.** This statement of responsibility issued by the Board of Directors of Banco Comercial Português, S.A. regards the "2012 Market Discipline Report", in compliance with the provisos of Banco de Portugal Notice no. 10/2007.

**II.** Due to the publication, on 3 April 2007, of the Decree-Laws no. 103/2007 and 104/2007 that transposed into the domestic legal framework the Directives no. 49/2006 (Capital Adequacy Directive) and no. 48/2006 (Banking Directive), respectively, the prudential regime of the credit institutions and investment companies in Portugal incorporates the requirements proposed in the Revised Capital Accord, usually named "Basel II", that established a new regulatory framework for capital adequacy applicable to financial institutions.

**III.** The "Basel II" accord is based upon three different and complementary pillars:

- Pillar I consists in rules for the determination of minimum own funds requirements for hedging credit, market and operational risks;

- Pillar II comprises the main principles of the supervision and risk management process, including the capital adequacy self-assessment process;

- Pillar III complements the previous pillars with the demand for the provision of information on the financial standing and the solvency of credit institutions, establishing public disclosure requirements for capital and risk management processes and systems, aiming at enhancing market discipline.

**IV.** Hence, the "2012 Market Discipline Report", prepared within the scope of Pillar III, is the fifth report on this issue made and published by the Bank, in compliance with the regulations in force and in line with the practices followed by the major international banks.

**V.** Since the regulatory requirements do not foresee it, this report was not audited by the Bank's External Auditor. However, the same includes information already presented in the audited consolidated Financial Statements, in the 2012 Annual Report that will be appraised and subject to the approval of the General Meeting of Shareholders that will take place on 20 May 2013.

**VI.** The report has the following chapters:

1. Statement of responsibility of the Board of Directors
2. Scope
3. Risk management in the Group
4. Capital adequacy
5. Credit risk
6. Counterparty credit risk
7. Credit risk mitigation techniques
8. Equity exposures in the banking book

9. Securitisation operations

10. Own funds requirements of the trading book

11. Own funds requirements for foreign exchange and commodities risks

12. Own funds requirements for operational risk

13. Interest rate risk in the banking book

Concerning the information presented in the "2012 Market Discipline Report", the Board of Directors:

- Certifies that all procedures deemed necessary were carried out and that, to the best of its knowledge, all the information disclosed is trustworthy and true;

- Assures the quality of all the information disclosed, including the one referring to or with origin in entities comprised within the economic group of which the institution is part; and

- Commits to timely disclose any significant alterations that may occur in the course of the financial year subsequent to the one this reports relates to.

Lisbon, 6 May 2013

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

# 2. SCOPE

## 2.1. IDENTIFICATION OF BANCO COMERCIAL PORTUGUÊS, S.A.

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

The current share capital of the Bank, on 31 December 2012, was 3,500,000,000 euros, fully paid up and represented by 19,707,167,060 shares without nominal value. The ordinary, book-entry and nominal shares are registered in the centralised system managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.

The Bank is a public company, established in Portugal by public deed on 25 June 1985, parent company of a number of companies with which it has a controlling or group relationship, under the terms of article 21 of the Securities Code (henceforth designated as "Group" or "BCP Group"), and is subject to Banco de Portugal supervision, on both an individual and consolidated basis, in accordance with the General Framework for Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras).

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

## 2.2. BASIS AND PERIMETERS OF CONSOLIDATION FOR ACCOUNTING AND PRUDENTIAL PURPOSES

The information disclosed within the present document reflects the consolidation perimeter for prudential purposes, under the terms of Banco de Portugal Notice no. 10/2007, which differs from the consolidation perimeter of the Group accounts defined in accordance with the International Financial Report Standards (IFRS) as approved by the European Union (EU), within the scope of the provisions of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as transposed into the Portuguese legislation through the Decree-Law no. 35/2005 of 17 February and the Notice of Banco de Portugal no. 1/2005.

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

Companies included in the previous paragraph are excluded from consolidation for prudential purposes. Notwithstanding, and according to the Notice no. 8/94, Banco de Portugal may order the inclusion of some of these companies in the prudential consolidation perimeter, if and when it considers this the most appropriate decision in terms of supervision objectives.

In addition, shareholdings excluded from consolidation for prudential purposes that are recorded in the financial statements for the purposes of supervision on a consolidated basis under the equity method, can be deducted from consolidated own funds, totally or partially, under the terms defined by Banco de Portugal Notice no. 6/2010, as detailed in chapter "4. Capital adequacy". There are no subsidiaries not included in the consolidation perimeter for prudential purposes whose own funds are lower than the required minimum level. Under the terms of article 4 of Decree-Law no. 104/2007, of 3 April, there are also no subsidiaries included in the consolidation perimeter for prudential purposes regarding which the obligations relative to the minimum level of own funds and limits to large exposures are not applicable. Except for some restrictions due to the Portuguese State having subscribed hybrid securities eligible for Core Tier 1 in June 2012, there is no significant, current or foreseen, impediment to the prompt transfer of own funds or repayment of liabilities among the Bank and its subsidiaries, although, with reference to Angola and Mozambique, the rules in force may condition the fluidity of fund transfers, but without any potentially significant impacts at Group level.

The entities included in the consolidation perimeter of BCP Group as at 31 December 2012 are described in Table II, indicating the consolidation method to which they are subject to and giving adequate notes aiming to highlight the regulatory treatment of entities excluded from the consolidation perimeter for prudential purposes.

### TABLE II – CONSOLIDATION METHODS AND REGULATORY TREATMENT

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Accounting Consolidation method | Head office | Economic activity | % control |
| Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A. | Full | Portugal | Investment fund management | 100.0% |
| Interfundos – Gestão de Fundos de Investimento Imobiliários, S.A. | Full | Portugal | Investment fund management | 100.0% |
| BII Investimentos International, S.A. | Full | Luxembourg | Investment fund management | 100.0% |
| BCP Capital – Sociedade de Capital de Risco, S.A. | Full | Portugal | Venture capital | 100.0% |
| Banco de Investimento Imobiliário, S.A. | Full | Portugal | Banking | 100.0% |
| BII Internacional, S.G.P.S., Lda. | Full | Portugal | Holding company | 100.0% |
| Banco ActivoBank, S.A. | Full | Portugal | Banking | 100.0% |
| BIM – Banco Internacional de Moçambique, S.A. | Full | Mozambique | Banking | 66.7% |
| Banco Millennium Angola, S.A. | Full | Angola | Banking | 50.1% |
| Bank Millennium, S.A. | Full | Poland | Banking | 65.5% |
| Millennium TFI – Towarzystwo Funduszy Inwestycyjnych, S.A. | Full | Poland | Investment fund management | 100.0% |
| Millennium Dom Maklerski S.A. | Full | Poland | Brokerage | 100.0% |
| Millennium Leasing Sp. z o.o. | Full | Poland | Leasing | 100.0% |
| TBM Sp.z o.o. | Full | Poland | Advisory and services | 100.0% |
| MB Finance AB | Full | Sweden | Investment | 100.0% |
| Millennium Service Sp. z o.o | Full | Poland | Services | 100.0% |
| Millennium Telecomunication Sp. z o.o. | Full | Poland | Brokerage | 100.0% |
| BG Leasing S.A | Full | Poland | Leasing | 74.0% |
| Banque Privée BCP (Suisse) S.A. | Full | Switzerland | Banking | 100.0% |
| Millennium Bank, Societé Anonyme | Full | Greece | Banking | 100.0% |
| Millennium Fin Commerce of Vehicles, Vessels, Devices and Equipment, Societé Anonyme | Full | Greece | Investment | 100.0% |
| Millennium Mutual Funds Management Company, Societe Anonyme | Full | Greece | Investment fund management | 100.0% |
| Banca Millennium S.A. | Full | Romania | Banking | 100.0% |
| Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda. | Full | Portugal | Holding company | 100.0% |
| Bitalpart, B.V. | Full | Netherlands | Holding company | 100.0% |
| BCP Investment, B.V. | Full | Netherlands | Holding company | 100.0% |
| ALO Investment B.V. | Full | Netherlands | Holding company | 100.0% |
| BCP Holdings (USA), Inc. | Full | USA | Holding company | 100.0% |

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| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Accounting Consolidation method | Head office | Economic activity | % control |
| MBCP Reo I, LLC | Full | USA | Real estate management | 100.0% |
| MBCP Reo II, LLC | Full | USA | Real estate management | 100.0% |
| Millennium bcp Bank & Trust | Full | Cayman Islands | Banking | 100.0% |
| BCP Finance Bank, Ltd. | Full | Cayman Islands | Banking | 100.0% |
| BCP Finance Company | Full | Cayman Islands | Investment | 100.0% |
| Millennium BCP – Escritório de Representações e Serviços, Ltda. | Full | Brazil | Financial services | 100.0% |
| Millennium bcp Teleserviços – Serviços de Comércio Electrónico, S.A. | Full | Portugal | Videotex services | 100.0% |
| Caracas Financial Services, Limited | Full | Cayman Islands | Financial services | 100.0% |
| Millennium bcp Imobiliária, S.A | Full | Portugal | Real estate management | 99.9% |
| Millennium bcp – Prestação de Serviços, A.C.E. | Full | Portugal | Services | 93.8% |
| Servitrust – Trust Managment Services S.A. | Full | Portugal | Trust services | 100.0% |
| Imábida – Imobiliária da Arrábida, S A. | Full | Portugal | Real estate management | 100.0% |
| QPR Investimentos, S.A. | Full | Portugal | Advisory and services | 100.0% |
| Propaço – Sociedade Imobiliária de Paço D'Arcos, Lda. | Full | Portugal | Real estate development | 52.7% |
| Fundo de Investimento Imobiliário Imosotto Acumulação | Full (1) | Portugal | Unit trust funds | 100.0% |
| Fundo de Investimento Imobiliário Gestão Imobiliária | Full (1) | Portugal | Real estate investment funds | 100.0% |
| Fundo de Investimento Imobiliário Imorenda | Full (1) | Portugal | Real estate investment funds | 100.0% |
| Fundo Especial de Investimento Imobiliário Oceânico II | Full (1) | Portugal | Real estate investment funds | 100.0% |
| Fundo Especial de Investimento Imobiliário Fechado *Stone* Capital | Full (1) | Portugal | Real estate investment funds | 100.0% |
| Fundo Especial de Investimento Imobiliário Fechado *Sand* Capital | Full (1) | Portugal | Real estate investment funds | 100.0% |
| Fundo de Investimento Imobiliário Fechado Gestimo | Full (1) | Portugal | Real estate investment funds | 100.0% |
| M Inovação – Fundo de Capital de Risco BCP Capital | Full (1) | Portugal | Real estate investment funds | 60.7% |
| Fundo Especial de Investimento Imobiliário Fechado Intercapital | Full (1) | Portugal | Real estate investment funds | 100.0% |
| Academia Millennium Atlântico | Equity method (2) | Angola | Education | 33.0% |
| ACT-C – Indústria de Cortiças, S.A. | Equity method (2) | Portugal | Extractive industry | 20.0% |
| Baía de Luanda – Promoção, Montagem e Gestão de Negócios, S.A. | Equity method (2) | Angola | Services | 10.0% |
| Banque BCP, S.A.S. | Equity method (3) | France | Banking | 19.9% |
| Banque BCP (Luxembourg), S.A. | Equity method (3) | Luxembourg | Banking | 19.9% |
| Constellation, S.A. | Equity method (2) | Mozambique | Real estate | 20.0% |
| Beira Nave | Equity method (2) | Mozambique | Electronic equipment | 22.8% |
| Luanda Waterfront Corporation | Equity method (2) | Cayman Islands | Services | 10.0% |
| Lubuskie Fabryki Mebli S.A | Equity method (2) | Poland | Furniture manufacturer | 50.0% |
| Pomorskie Hurtowe Centrum Rolno – Spozywcze S.A | Equity method (2) | Poland | Wholesale business | 38.4% |
| Nanium, S.A | Equity method (2) | Portugal | Electronic equipments | 41.1% |

(continues)

(continuation)

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Accounting Consolidation method | Head office | Economic activity | % control |
| Quinta do Furão – Sociedade de Animação Turística e Agrícola de Santana, Lda | Equity method (2) | Portugal | Tourism | 31.3% |
| SIBS, S.G.P.S., S.A. | Equity method (3) | Portugal | Banking services | 21.9% |
| Sicit – Sociedade de Investimentos e Consultoria em Infra-estruturas de Transportes, S.A. | Equity method (2) | Portugal | Consulting | 25.0% |
| UNICRE – Instituição Financeira de Crédito, S.A. | Equity method (3) | Portugal | Credit cards | 32.0% |
| VSC – Aluguer de Veículos Sem Condutor, Lda. | Equity method (2) | Portugal | Long-term rental | 50.0% |
| S&P Reinsurance Limited | Full (3) | Ireland | Life reinsurance | 100.0% |
| SIM – Seguradora Internacional de Moçambique, S.A.R.L. | Full (3) | Mozambique | Insurance | 89.9% |
| Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. | Equity method (3) | Portugal | Holding company | 49.0% |
| Caravela SME No. 2 Limited | Full | Portugal | Special Purpose Entity (SPE) | 100.0% |
| Kion Mortgage Finance PLC 1 | Full | United Kingdom | Special Purpose Entity (SPE) | 100.0% |
| Magellan Mortgages No. 2 Limited | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| Magellan Mortgages No. 3 Limited | Full | Ireland | Special Purpose Entity (SPE) | 82.4% |
| Nova Finance No. 4 Limited | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| Orchis Sp zo.o. | Full | Poland | Special Purpose Entity (SPE) | 100.0% |
| Tagus Leasing No. 1 Limited | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| Kion Mortgage Finance No. 3 PLC | Full | United Kingdom | Special Purpose Entity (SPE) | 100.0% |
| Kion CLO Finance No. 1 PLC | Full | United Kingdom | Special Purpose Entity (SPE) | 100.0% |

(1) Entity excluded from the regulatory consolidation, whose impact on solvency indicators results from assessment of capital requirements of the participation units held in the investment fund.

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

(3) Entity excluded from the regulatory consolidation, which are subject to deduction from own funds under the terms of Bank of Portugal Regulation no. 6/2010.

On 31 December 2012, the full and the financial balance sheet, that translates the consolidation perimeter of the Group's accounts and for prudential purposes on that date, respectively, as well as the respective differences, are described in Table III:

## TABLE III – RECONCILIATION BETWEEN ACCOUNTING BALANCE SHEET AND UNDER REGULATORY SCOPE

Thousand euros

| | Accounting balance sheet as in published financial statements | Deconsolidation of insurance/other entities | Accounting balance sheet under regulatory scope of consolidation |
|---|---|---|---|
| ASSETS | | | |
| Cash and deposits at central banks | 3,580,546 | -1 | 3,580,545 |
| Repayable on demand | 829,684 | -2,707 | 826,977 |
| Other loans and advances to credit institutions | 1,887,389 | -1,466 | 1,885,923 |
| Loans and advances to customers | 62,618,235 | 2,529 | 62,620,764 |
| Financial assets held for trading | 1,690,926 | -1,168 | 1,689,758 |
| Other financial assets held for trading at fair value through profit or loss | - | - | - |
| Financial assets available for sale | 9,223,411 | 510,648 | 9,734,059 |
| Assets with repurchase agreement | 4,288 | - | 4,288 |
| Hedging derivatives | 186,032 | - | 186,032 |
| Financial assets held to maturity | 3,568,966 | - | 3,568,966 |
| Investments in associated companies | 516,980 | 25,919 | 542,899 |
| Non current assets held for sale | 1,284,126 | - | 1,284,126 |
| Investment property | 554,233 | -544,142 | 10,091 |
| Property and equipment | 626,398 | -18,424 | 607,974 |
| Goodwill and intangible assets | 259,054 | -420 | 258,635 |
| Current tax assets | 34,037 | -3,870 | 30,168 |
| Deferred tax assets | 1,755,411 | -3,010 | 1,752,401 |
| Other assets | 1,124,322 | -3,304 | 1,121,017 |
| TOTAL ASSETS | 89,744,039 | -39,417 | 89,704,623 |
| LIABILITIES | | | |
| Amounts owed to central banks | 12,400,010 | - | 12,400,010 |
| Amounts owed to credit institutions | 2,865,750 | 0 | 2,865,750 |
| Amounts owed to customers | 49,389,866 | 44,475 | 49,434,341 |
| Debt securities | 13,548,263 | 451 | 13,548,715 |
| Financial liabilities held for trading | 1,393,194 | 0 | 1,393,194 |
| Other financial liabilities at fair value through profit and loss | 329,267 | - | 329,267 |
| Hedging derivatives | 301,315 | - | 301,315 |
| Non current liabilities held for sale | - | - | - |
| Provisions for liabilities and charges | 253,328 | -75,298 | 178,029 |
| Subordinated debt | 4,298,773 | 6,656 | 4,305,429 |
| Current income tax liabilities | 15,588 | -1,744 | 13,844 |
| Deferred income tax liabilities | 2,868 | -500 | 2,368 |
| Other liabilities | 945,630 | -9,862 | 935,768 |
| | 85,743,851 | -35,822 | 85,708,029 |
| EQUITY | | | |
| Share capital | 3,500,000 | - | 3,500,000 |
| Treasury stock | -14,212 | - | -14,212 |
| Share premium | 71,722 | - | 71,722 |
| Preference shares | 171,175 | - | 171,175 |
| Other capital instruments | 9,853 | - | 9,853 |
| Reserves and retained earnings | 852,688 | 0 | 852,688 |
| Net income for the period attributable to Shareholders | -1,219,053 | 0 | -1,219,053 |
| | 3,372,174 | 0 | 3,372,174 |
| Non-controlling interests | 628,014 | -3,595 | 624,420 |
| TOTAL OF LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS | 89,744,039 | -39,417 | 89,704,623 |

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

## FULL CONSOLIDATION

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

Additionally, the Group fully consolidates Special Purpose Entities ("SPE") resulting from securitisation operations with assets from Group entities, based on the criteria presented in the chapter "9.2 Accounting policies of the Group", related to the treatment of securitisation operations. Besides these SPE resulting from securitisation operations, no additional SPE have been consolidated considering that they do not meet the criteria established on SIC 12.

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

## PROPORTIONAL CONSOLIDATION

Jointly controlled entities, consolidated under the Proportional method, are entities where the Group has joint control, established by contractual agreement. The consolidated financial statements include, in the corresponding captions, the Group's proportional share of the entities' assets, liabilities, revenue and expenses, with items of a similar nature on a line by line basis, from the date that joint control started until the date that joint control ceases. On 31 December 2012, the Group didn't consolidate any entity by the Proportional method.

## EQUITY CONSOLIDATION

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

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

- Representation on the board of directors or equivalent governing body of the investee;

- Participation in policy-making processes, including participation in decisions about dividends or other distributions;

- Material transactions between the Group and the investee;

- Interchange of the management team;

- Provision of essential technical information.

The holdings held by the Group in insurance companies consolidated under the Full Consolidation method are accounted under the Equity method, for the purposes of supervision on a consolidated basis.

## 2.3. ELIGIBILITY AND COMPOSITION OF THE FINANCIAL CONGLOMERATE

Directive 2002/87/CE, of 16 December 2002, of the European Parliament and Council, transposed to the Portuguese law by Decree-Law no. 145/2006, of 31 July, established a fully integrated prudential supervision regime for credit institutions, insurance companies and investment companies that, provided certain conditions are met, are considered financial conglomerates.

The financial conglomerates are those groups that are headed by, or part of, an authorised regulated entity in the European Union of a relevant size, as defined in accordance with its balance sheet, which, cumulatively, includes at least one entity from the insurance subsector and another from the banking or investment services subsector, and provided the activities developed by these two subgroups are significant.

An activity is considered significant if, for each subsector, the average between the weight of its balance sheet in the total Group's financial balance sheet and the weight of its solvency requirements in the total requirements of the Group's financial sector exceeds 10%, or if the balance sheet of the Group's smallest subsector exceeds 6 billion euros.

The Group was qualified as a financial conglomerate by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros) for fulfilling the condition foreseen in article 3, no. 2, subparagraph b, ii), of Decree-Law no. 145/2006, of 31 July, reflecting a balance sheet of the insurance subsector, the Group's smallest subsector, in excess of 6 billion euros.

In addition, and notwithstanding the relative weight of the insurance subsector below the previously mentioned 10% level, the National Council of Financial Supervisors also considered that the Group does not meet the requirements for exclusion from the complementary supervision regime, under the terms of no. 1 of article 5 of the same Decree-Law no. 145/2006, of 31 July.

As at 31 December 2012, total net assets of the insurance subsector stood at 6,012 million euros, with a relative weight of 6.6%. At the same date, BCP Group, as a financial conglomerate, was composed by the entities included in the financial statements for the purposes of supervision on a consolidated basis, in accordance with the information presented in Table II, and by the insurance companies, namely SIM – Seguradora Internacional de Moçambique, S.A.R.L., S&P Reinsurance Limited and the subsidiaries of Millenniumbcp Ageas Grupo Segurador, SGPS, S.A., as shown in Table IV.

### TABLE IV – COMPOSITION OF THE FINANCIAL CONGLOMERATE

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Consolidation method | Head office | Economic activity | % control |
| **BANKING ACTIVITY** | | | | |
| Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A. | Full | Portugal | Investment fund Management | 100.0% |
| Interfundos – Gestão de Fundos de nvestimento Imobiliários, S.A. | Full | Portugal | Investment fund Management | 100.0% |
| BII Investimentos International, S.A. | Full | Luxembourg | Investment fund Management | 100.0% |
| BCP Capital – Sociedade de Capital de Risco, S.A. | Full | Portugal | Venture capital | 100.0% |
| Banco de Investimento Imobiliário, S.A. | Full | Portugal | Banking | 100.0% |
| BII Internacional, S.G.P.S., Lda. | Full | Portugal | Holding company | 100.0% |
| Banco ActivoBank, S.A. | Full | Portugal | Banking | 66.7% |
| BIM – Banco Internacional de Moçambique, S.A. | Full | Mozambique | Banking | 50.1% |
| Banco Millennium Angola, S.A. | Full | Angola | Banking | 65.5% |
| Bank Millennium, S.A. | Full | Poland | Banking | 100.0% |
| Millennium TFI – Towarzystwo Funduszy Inwestycyjnych, S.A. | Full | Poland | Investment fund Management | 100.0% |
| Millennium Dom Maklerski S.A. | Full | Poland | Brokerage | 100.0% |
| Millennium Leasing Sp. z o.o. | Full | Poland | Leasing | 100.0% |
| TBM Sp.z o.o. | Full | Poland | Advisory and services | 100.0% |

(continues)

(continuation)

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Consolidation method | Head office | Economic activity | % control |
| **BANKING ACTIVITY** | | | | |
| MB Finance AB | Full | Sweden | Investment | 100.0% |
| Millennium Service Sp. z o.o | Full | Poland | Services | 100.0% |
| Millennium Telecomunication Sp. z o.o. | Full | Poland | Brokerage | 100.0% |
| BG Leasing S.A | Full | Poland | Leasing | 74.0% |
| Banque Privée BCP (Suisse) S.A. | Full | Switzerland | Banking | 100.0% |
| Millennium Bank, Societé Anonyme | Full | Greece | Banking | 100.0% |
| Millennium Fin Commerce of Vehicles, Vessels, Devices and Equipment, Societé Anonyme | Full | Greece | Investment | 100.0% |
| Millennium Mutual Funds Management Company, Societe Anonyme | Full | Greece | Investment fund management | 100.0% |
| Banca Millennium S.A. | Full | Romania | Banking | 100.0% |
| Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda. | Full | Portugal | Holding company | 100.0% |
| Bitalpart, B.V. | Full | Netherlands | Holding company | 100.0% |
| BCP Investment, B.V. | Full | Netherlands | Holding company | 100.0% |
| ALO Investment B.V. | Full | Netherlands | Holding company | 100.0% |
| BCP Holdings (USA), Inc. | Full | USA | Holding company | 100.0% |
| MBCP Reo I, LLC | Full | USA | Real estate management | 100.0% |
| MBCP Reo II, LLC | Full | USA | Real estate management | 100.0% |
| Millennium bcp Bank & Trust | Full | Cayman Islands | Banking | 100.0% |
| BCP Finance Bank, Ltd. | Full | Cayman Islands | Banking | 100.0% |
| BCP Finance Company | Full | Cayman Islands | Investment | 100.0% |
| Millennium BCP – Escritório de Representações e Serviços, Ltda. | Full | Brazil | Financial services | 100.0% |
| Millennium bcp Teleserviços – Serviços de Comércio Electrónico, S.A. | Full | Portugal | Videotex services | 100.0% |
| Caracas Financial Services, Limited | Full | Cayman Islands | Financial services | 100.0% |
| Millennium bcp Imobiliária, S.A | Full | Portugal | Real estate management | 99.9% |
| Millennium bcp – Prestação de Serviços, A.C.E. | Full | Portugal | Services | 93.8% |
| Servitrust – Trust Managment Services S.A. | Full | Portugal | Trust services | 100.0% |
| Imábida – Imobiliária da Arrábida, S A. | Full | Portugal | Real estate management | 100.0% |
| QPR Investimentos, S.A. | Full | Portugal | Advisory and services | 100.0% |
| Propaço – Sociedade Imobiliária de Paço D'Arcos, Lda. | Full | Portugal | Real estate development | 52.7% |
| Academia Millennium Atlântico | Equity method | Angola | Education | 33.0% |
| ACT-C – Indústria de Cortiças, S.A. | Equity method | Portugal | Extractive industry | 20.0% |
| Baía de Luanda – Promoção, Montagem e Gestão de Negócios, S.A. | Equity method | Angola | Services | 10.0% |
| Banque BCP, S.A.S. | Equity method | France | Banking | 19.9% |

(continues)

(continuation)

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | Consolidation method | Head office | Economic activity | % control |
| **BANKING ACTIVITY** | | | | |
| Banque BCP (Luxembourg), S.A. | Equity method | Luxembourg | Banking | 19.9% |
| Constellation | Equity method | Mozambique | Real estate | 20.0% |
| Beira Nave | Equity method | Mozambique | Electronic equipment | 22.8% |
| Luanda Waterfront Corporation | Equity method | Cayman Islands | Services | 10.0% |
| Lubuskie Fabryki Mebli S.A | Equity method | Poland | Furniture manufacturer | 50.0% |
| Pomorskie Hurtowe Centrum Rolno – Spozywcze S.A | Equity method | Poland | Wholesale business | 38.4% |
| Nanium, S.A | Equity method | Portugal | Electronic equipments | 41.1% |
| Quinta do Furão – Sociedade de Animação Turística e Agrícola de Santana, Lda | Equity method | Portugal | Tourism | 31.3% |
| SIBS, S.G.P.S., S.A. | Equity method | Portugal | Banking services | 21.9% |
| Sicit – Sociedade de Investimentos e Consultoria em Infra-estruturas de Transportes, S.A. | Equity method | Portugal | Consulting | 25.0% |
| UNICRE – Instituição Financeira de Crédito, S.A. | Equity method | Portugal | Credit cards | 32.0% |
| VSC – Aluguer de Veículos Sem Condutor, Lda. | Equity method | Portugal | Long-term rental | 50.0% |
| Caravela SME No. 2 Limited | Full | Portugal | Special Purpose Entity (SPE) | 100.0% |
| Kion Mortgage Finance PLC 1 | Full | United Kingdom | Special Purpose Entity (SPE) | 100.0% |
| Magellan Mortgages No. 2 Limited | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| Magellan Mortgages No. 3 Limited | Full | Ireland | Special Purpose Entity (SPE) | 82.4% |
| Nova Finance no. 4 | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| Orchis Sp zo.o. | Full | Poland | Special Purpose Entity (SPE) | 100.0% |
| Tagus Leasing No. 1 Limited | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| Kion Mortgage Finance No. 3 PLC | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| Kion CLO Finance No. 1 PLC | Full | Ireland | Special Purpose Entity (SPE) | 100.0% |
| **INSURANCE ACTIVITY** | | | | |
| S&P Reinsurance Limited | | Ireland | Life reinsurance | 100.0% |
| SIM – Seguradora Internacional de Moçambique, S.A.R.L. | | Mozambique | Insurance | 89.9% |
| Millenniumbcp Ageas Grupo Segurador S.G.P.S., S.A. | | Portugal | Holding company | 49.0% |
| Ocidental – Companhia Portuguesa de Seguros, S.A. | | Portugal | Insurance | 49.0% |
| Ocidental – Companhia Portuguesa de Seguros de Vida, S.A. | | Portugal | Insurance | 49.0% |
| Médis – Companhia Portuguesa de Seguros de Saúde, S.A. | | Portugal | Insurance | 49.0% |
| Pensõesgere, Sociedade Gestora Fundos de Pensões, S.A. | | Portugal | Pension funds Management | 49.0% |

# 3. RISK MANAGEMENT IN THE GROUP

## 3.1. RISK MANAGEMENT PRINCIPLES

The Group is subject to several different risks related with the development of its activities.

The management of the risk faced by the several companies of the Group complies with the control and report principles, methodologies and procedures defined in a centralized manner, in coordination with the respective local departments and taking into consideration the specific risks of each business.

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

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

- Credit risk – credit risk reflects the potential losses and the degree of uncertainty regarding the future returns to be generated by the loan portfolio, due to the inability of borrowers (and of their guarantors, if any), issuers of securities or counterparties to agreements, to fulfil their obligations.

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

- Operational risk – operational risk consists in the occurrence of losses as a result of failures and/or inadequacies of internal processes, people or systems or due to external events.

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

- Defined benefit pension fund risk – pension fund risk stems from the potential devaluation of the Bank's defined benefit pension fund or from the decrease of its expected returns, implying the undertaking of unplanned contributions.

- Business and strategic risk – business and strategic risk is materialized when there are negative impacts on net income and/or capital, as a result of: (i) decisions with adverse effects, (ii) the implementation of inadequate management strategies or (iii) the inability to respond effectively to market changes and variations.

The credit risks and the market and operational risks are object of calculation of own funds requirements within the scope of the regulatory information on capital adequacy of Pillar I of Basel II, deserving a detailed approach in the following chapters of this document, while the liquidity risks, the pension fund risks and the business and strategic risks are exclusively dealt with in Pillar II, being detailed in subchapter "4.5 Internal Capital Adequacy Assessment Process (ICAAP)".

## 3.2. RISK MANAGEMENT GOVERNANCE IN 2012

On 28 February 2012, the Bank's General Meeting approved an amendment to the corporate bodies, resulting in, besides the General Meeting of Shareholders, a Board of Directors (BoD), composed of non-executive and executive directors, the latter composing an Executive Committee, an Audit Committee, composed of non-executive directors, and a Statutory Auditor, in addition it also has a Remuneration and Welfare Board and a Board for International Strategy.

In terms of risk management, Millennium bcp's Board of Directors is ultimately responsible for the risk policy comprising, in this scope, the approval of high level principles and rules of risk management, as well as the guidelines that frame capital allocation to the business segments, being the Executive Committee responsible for carrying out that policy and for the executive decision regarding measures and actions related to risk management.

The Audit Committee is entrusted with matters concerning the supervision of management, namely the correct functioning of the risk management and control systems, as well as the existence and abidance by adequate compliance and audit policies at the level of the Group and each entity.

The Board of Directors also created the Commission for Risk Assessment, which is responsible for advising the BoD on issues related with the definition of the risk strategy, capital and liquidity management and management of market risks.

The Executive Committee appointed a Risk Commission that is responsible for monitoring global credit, market, liquidity and operational risk levels (ensuring that these are compatible with the goals, financial resources available and strategies approved for the development of the Group's activity), from a standpoint of support to the decision-making regarding management and promotion of a better connection between the day-to-day management decisions in the organisation.

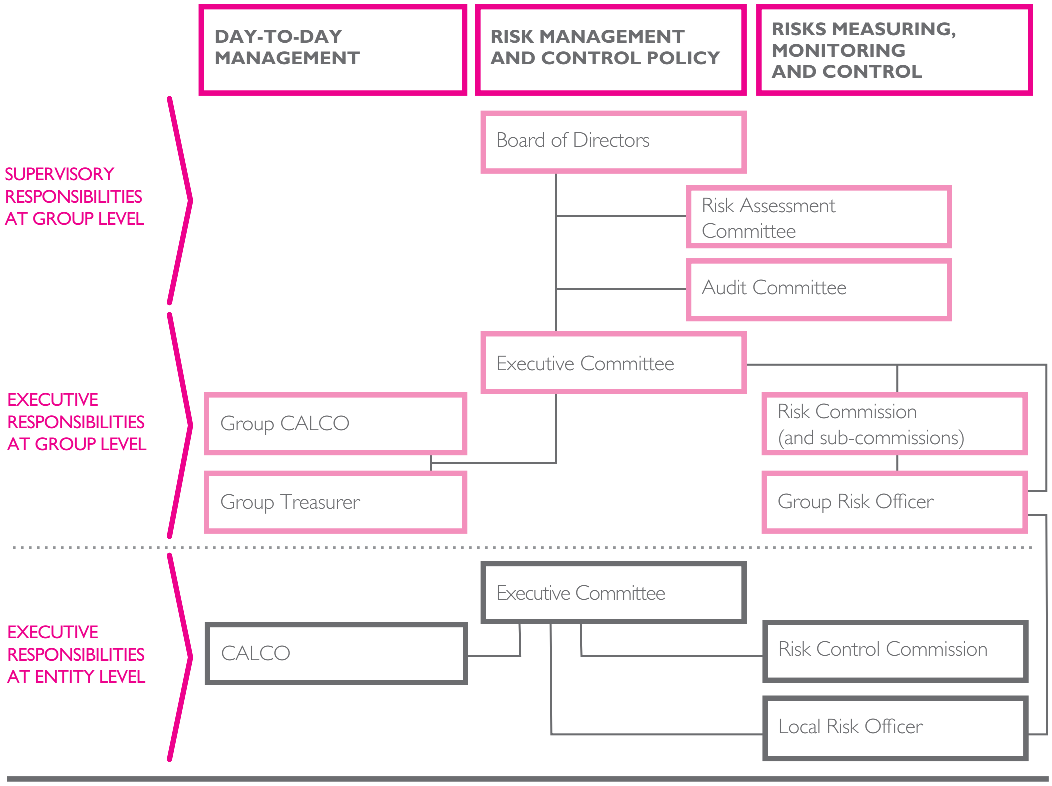
In 2012, there were also two specialised sub-commissions appointed from within the Risk Commission: the Credit Risk Monitoring Sub-Commission (CRMSC) and the Pension Fund Risk Sub-Commission (PFRSC).

The Group Risk Officer was responsible for the risk control function for all entities of the Group in order to ensure the monitoring and transversal alignment of concepts, practices and objectives. The Group Risk Officer gives support to the Risk Commission, informing the commission on the general level of risk and proposing measures to improve the internal control environment and to implement the approved limits. The Group Risk Officer also has the power to veto any decision that is not subject to the approval of the Board of Directors or of the Executive Committee and that may have an impact on the Group's risk level (for example: the launch of new products or alterations to processes).

All entities included in the Bank's consolidation perimeter guide their activities by the principles and guidelines established centrally by the Risk Commission and the main subsidiaries abroad all have local Risk Office structures established in accordance with the risks inherent to their respective activities. Those subsidiary companies also have a Risk Control Commission responsible for controlling risk locally. The Group Risk Officer is a member of each Commission.

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

TABLE V – RISK MANAGEMENT MODEL




## 3.3. RISK ASSESSMENT

### 3.3.1. CREDIT RISK

The granting of credit is based on the prior classification of the Customer's risk and on the strict assessment of the protection level given by underlying collaterals. For that purpose, a single system of risk classification is used, the Rating MasterScale, based on the expected Probability of Default (PD), enabling a greater capacity to evaluate and classify the Customers and grade the associated risk. The Rating MasterScale also enables the Bank to identify Customers that show signs of degradation in their capacity to service their debts and, in particular, those who are classified, within the scope of Basel II, as being in default. All the rating models and systems used in the Group have been duly weighted for the Rating MasterScale. The Group also uses an internal scale of "protection levels" as a crucial element in the assessment of the efficiency of the collateral in the mitigation of the credit risk, promoting a more active credit collateralization and a better adequacy of the pricing to the incurred risk.

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

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

The internal estimates of Loss Given Default (LGD) and Credit Conversion Factors (CCF) are supported by internal approaches validated by Banco de Portugal in the scope of the approval of the IRB based approaches. The LGD estimations are produced by resorting to a model that collects and analyses the history of losses due to credit risk and discounts all the cash-flows inherent to the respective recovery processes while the ones of the CCF result from the analysis made to data on the use of credit lines and limits during one year before the occurrence of the defaults.

The stage of development of the processes and systems allocated by the Group to credit risk management and control enabled Banco de Portugal to approve the Group's application for the use of IRB approach for the calculation of the regulatory capital requirements for this type of risk and for the main risk classes, with effect as of 31 December 2010, for the Group's activities in Portugal, which was followed by the joint authorization given by the Polish and Portuguese supervision authorities for the sequential adoption of that approach for Bank Millennium (Poland), effective as at 31 December 2012.

The Group follows a policy of permanent monitoring of its credit risk management processes, promoting their fine-tuning and every appropriate change aiming to reinforce the quality and effectiveness of those processes. In 2012 the following actions should be highlighted:

- Increase in the monitoring of the credit quality through the systematic monitoring carried out by the CRMSC of past due loans/impairment indicators and of the main risk situations;

- Introduction of improvements in the credit process of the operations outside Portugal to ensure an integrated and global perspective of credit for economic groups with loans in the various countries where the Group operates;

- Active participation in the process to approve new products, suggesting adjustments when necessary to effectively control the underlying risks;

- Update of the LGD estimates for the positions of the risk class "Retail Portfolio" and calculation of estimates for the risk class "Corporate", based on the credit recovery information gathered automatically through a process developed with the collaboration of an external consultant;

- Development of a Expected Loss Best Estimate (ELBE) model for the default positions of the risk class "Corporate";

- Update of the CCF estimates for the positions of the risk classes "Corporate" and "Retail Portfolio", separated per type of credit product;

- Launching the internal development of new models for the risk assessment of the real estate promotion portfolio.

### 3.3.2. MARKET RISK

For the purpose of profitability analysis and of the quantification and control of market risks, the trading book portfolio comprises the positions held with the aim of obtaining short-term gains, through sale or revaluation. These positions are managed actively, traded without restrictions and can be precisely and frequently evaluated. The positions in question include securities and derivatives related to sales activities. The banking book portfolio includes all the other positions, namely the wholesale financing, the securities held for investment, the commercial activity and the structural activity.

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

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

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

The Group uses an integrated market risks measure that allows the monitoring of all the relevant subtypes of risk considered. This measure covers the evaluation of the following types of risk: generic risk, specific risk, non-linear risk and commodities' risk. The measurement used on the assessment of the generic market risk – relative to interest rate risk, exchange rate risk, equity risk and price risk of Credit Default Swaps uses a VaR (Value-at-Risk) model based on the analitical approximation defined in the methodology developed by RiskMetrics, where the calculation considers a time horizon of ten business days and a significance level of 99%. As defined in the RiskMetrics methodology, the volatility of each market risk factor (and respective correlations) considered in the VaR model is estimated by an EWMA (Exponentially-Weighted Moving Average) estimation econometric model, with an observation period of one year and a time weight (lambda) of 0.94, which assumes a higher weight to the market conditions recorded in the more recent days, ensuring, thus, a better adequacy to the market conditions.

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

Are also applied other complementary methods to the remaining risk types, namely a non-linear risk measure that incorporates the option risk not covered by the VaR model, with a confidence interval of 99%, and the standardised approach for the commodities risk. These measures are integrated in the market risk indicator based on the conservative assumption of perfect correlation between the several risk types (worst-case scenario).

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

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

The interest rate risk derived from the operations of the banking book is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated balance sheet.

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

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

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

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

Within the scope of market risk management, we underline the following accomplishments in 2012:

- Full execution of the Basel 2.5 requirements for the Stressed VaR measures in terms of market risk day-to-day management;

- Preliminary work to put in place the new capital requirements for market risks resulting from Basel III, as well as the measures to mitigate the impacts of such requirements from a capital optimisation standpoint;

- Execution of preliminary work to prepare the forthcoming accession to the derivatives trading and reporting infrastructure under the terms of the European Market Infrastructure Regulation (EMIR).

## 3.3.3. OPERATIONAL RISK

For the management and control of this type of risk, the Group has increasingly adopted a set of clearly defined principles, practices and control mechanisms that are documented and implemented, of which the following are examples: the segregation of functions; the definition of lines of responsibility and corresponding authorizations; the definition of limits of tolerance and of exposure to risk; the codes of ethics and codes of conduct; the implementation of KRI (Key Risk Indicators)[1] ; the access controls, physical and logical; the reconciliation activities; the exception reports; the contingency plans; the insurance policies; and the internal training on processes, products and systems.

Hence, aiming at an increasingly higher efficiency in the identification, assessment, control and mitigation of risk exposures, the Group has been strengthening its operational risk management framework since 2006 and expanding it to the main operations abroad, benefiting from the adoption of a common supporting IT application in all the subsidiaries and the monitoring performed by the Group Risk Office.

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

The group of processes defined for each entity is dynamic, adjusted and differentiated according to the operational practices and business of each entity, so as to cover all the relevant activities developed.

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

In Portugal, process owners are appointed by the Process and Banking Services Monitoring Committee, recognising their knowledge and experience concerning the activities of the processes for which they are responsible. This body is also responsible for:

- Approving the definition of the process dossiers;
- Approving the institution of new processes, defining, on a case-by-case basis, the need for the respective ISO 9001 certification and identifying the processes which, outside of the certification, should be assessed in terms of performance (through key performance indicators);
- Aligning the process-based management practices with the reality of the business units intervening in the processes;
- Ensuring the issuance, maintenance and internal disclosure of documentation and information on process-based management;
- Approving any alterations to processes which have already been instituted, as well as designing new processes.

In other geographical areas, the respective management board is responsible for appointing the process owners.

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

The RSA exercises are based on workshops, attended by the Risk Office and with the participation of the process owners and process managers, or on questionnaires sent to the process owners for the updating of previous results, according to defined updating criteria.

The process owners play a major role in promoting the collection of data on actual losses occurring within the context of their processes. The Risk Office also identifies and records operational losses, based on the analysis of data provided by central areas.

[1] The KRI are metrics, the monitoring of which enables to identify alterations in the risk profile or in the efficiency of the controls, enabling to detect the best opportunity to launch correction actions to prevent effective losses. This management tool is already used in the most relevant processes of the most important geographical areas where the Group operates.

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

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

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

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

The main accomplishments in terms of operational risk management of 2012 were:

- New self-assessment exercises for operational risks in Portugal, Poland, Greece, Romania and Mozambique, of which we underline the participation of the macro-process owners in Portugal to add a more encompassing view of risks (top-down);

- The preparation of the launch of the operational risk management system for the Angola and Cayman operations;

- Making gap analysis to identify the developments required to adopt the Advanced Measurement Approach (AMA), driven by the goal of using this approach to measure capital regulatory requirements for operational risk.

### 3.3.4. LIQUIDITY RISK

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

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

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

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

### 3.3.5. DEFINED BENEFIT PENSION FUND RISK

The defined benefit pension fund risk stems from the potential devaluation of the Bank's defined benefit pension fund or from the decrease of its expected returns, implying the undertaking of unplanned contributions. The Pension Fund Risk Sub-Commission is responsible for the regular monitoring of this risk and for the supervision of its management, being its assessment quantified in the scope of the economic capital.

At the end of 2012, the Group decided to extinguish ("cut") the retirement benefit of the Supplemental Plan. On 14 December 2012, Instituto de Seguros de Portugal (ISP), the Portuguese insurance regulator, formally approved the amendment of the Group's benefit plan effective as of 1 January 2012. The plan was cut and the acquired rights were individually attributed to the Employees and the Bank proceeded with the settlement of that liability on that date.

### 3.3.6. BUSINESS AND STRATEGIC RISK

The business and strategic risk is materialized when there are negative impacts on net income and/or capital, as a result of decisions with adverse effects, the implementation of inadequate management strategies, or the inability to respond effectively to market changes and variations. Therefore, the variation in the listed price of the bank's shares is a relevant indicator for the measurement of this type of risk, with its quantification being made by the internal model used to assess/quantify the internal capital needs (economic capital).

# 4. CAPITAL ADEQUACY

## 4.1. COMPONENTS AND MAIN CHARACTERISTICS OF THE REGULATORY CAPITAL AND CAPITAL REQUIREMENTS

Following the request presented by the Bank, as previously mentioned, Banco de Portugal formally authorized the use of own estimates of CCF for the positions of the risk class "Corporate" in Portugal and the adoptions of the IRB approach for "Loans secured by residential real estate properties" and for "Renewable positions" of the Retail portfolio in Poland as from 31 December 2012. This authorization led to several changes to the calculation of regulatory capital and capital requirements assessed in comparison with 2011 figures.

The own funds of the Group Banco Comercial Português are determined according to the applicable regulatory rules, namely the Banco de Portugal Notice no. 6/2010. Total own funds result from adding Tier 1 with Tier 2 and subtracting the accrued component of Deductions. For the estimation of base own funds are taken into consideration elements that are part of Core Tier 1, as defined in the Banco de Portugal Notice no. 3/2011, and other additional data relevant for the estimation of the base own funds. The base own funds and, in particular, the Core Tier 1, include the elements with a more permanent nature.

As positive elements of Core Tier 1 we may consider the paid-up capital and the share premium, the hybrid instruments subscribed by the Portuguese State pursuant to the Bank's capitalisation process, the reserves and the positive retained earnings, the non-controlling interests related to the share capital not held on fully consolidated companies and the deferred impacts related to the transition adjustments to the International Financial Reporting Standards (IFRS). Correspond to negative elements of Core Tier 1 the losses, the own ordinary shares, the positive differential estimated on an individual basis between the regulatory provisions set forth by Banco de Portugal Notice no. 3/95 and the impairments estimated in accordance with the IFRS for the exposures handled using the Standardised approach, the goodwill accounted as assets and other intangible assets.

By the end of the 2011 financial year, the Bank decided to alter the accounting policy related with the recognition of actuarial deviations of the Pension Fund. Thus, and following the assessment of the alternatives allowed by the International Accounting Standard (IAS) 19 – Employee benefits, the Group decided to start recognizing the actuarial deviations of the financial year against reserves. Previously, the Group deferred the actuarial deviations in accordance with the corridor method, wherein the actuarial gains and losses not recognized that exceeded 10% of the highest value between the current value of the liabilities and the fair value of the assets of the Fund were recorded against results in accordance with the estimated remaining years of work of the employees.

Notwithstanding this alteration in the accounting policy, Banco de Portugal, for prudential purposes, allowed the Bank to continue to use a corridor, corresponding to the highest value between i) 10% of the liabilities with retirement and survival pensions, and ii) 10% of the value of the Pension Fund, as defined in the Banco de Portugal Notice no. 2/2012. The value of this corridor was broadened by Banco de Portugal to accommodate the impacts of the changes to the mortality tables in 2005 and the actuarial losses in 2008, excluding the income expected from the fund's assets in the same year of 2008. This broadened corridor was subject to a monthly amortisation, which ended in December 2012.

The Core Tier 1 is also influenced by the reposition of gains and unpaid losses that do not represent impairment in debt securities, credits and other values to receive, accounted as available for sale in cash-flow hedging operations, and in financial liabilities evaluated at fair value through results, after taxes, in the portion corresponding to own credit risk and also by the reversion of unpaid gains into capital securities classified as available for sale and in credits and other values to receive from the trading book or assessed at fair value through profit and loss account.

After the second half of 2011, Banco de Portugal established new rules that have influenced the Group's Core Tier 1, namely:

- In November 2011, Banco de Portugal defined an understanding regarding the Banco de Portugal Notice no. 6/2010, determining a deduction to Core Tier 1 related with client deposits with interest rates above a certain value versus the market rates (Banco de Portugal Instruction no. 15/2012).

- Banco de Portugal, as of December 2011, authorized the prudential neutralization until June 2012, of the impacts related with the transfer of part of the liabilities with retirement and survival pensions into the Social Security General Regime and with the Special Inspections Programme, carried out in the wake of the Economic and Financial Aid Programme (Banco de Portugal Notice no. 1/2012).

- In June 2012, the Bank issued 3,000 million euros of Core Tier 1 capital instruments subscribed by the State, within the scope of the Group's capitalisation process and in the conditions established by Banco de Portugal Notice no. 3/2011, and these securities may be computed up to 50% of the Tier 1.

The other additional data that are part of base own funds are the preferential shares, other hybrid instruments and some deductions, accounted at 50%,: (i) of interests held in financial institutions (above 10%) and in insurance entities (above 20%); (ii) of the amount of the expected losses in the portion that exceeds the addition of the value corrections and of the provisions relating to the risk weighted positions computed in accordance with the IRB approach.

The supplementary own funds (Tier 2) comprise subordinated debt and 45% of the unrealized gains excluded from Core Tier 1 in assets available for sale. These elements include the Upper Tier 2, except for subordinated debt, divided between Upper Tier 2 (debt with an undetermined maturity) and Lower Tier 2 (the remaining portion). The subordinated debt issued can only be included in own funds pursuant to the approval granted by Banco de Portugal and provided that the following limits are observed: a) Tier 2 cannot be superior to Tier 1, and b) Lower Tier 2 cannot represent more than 50% of Tier 1. Additionally, the loans with a determined maturity date must be paid 20% per year during their last five years to maturity. The Tier 2 is also subject to the deduction of the remaining 50% not deducted to Tier 1: (i) of the interests held in financial companies and in insurance entities; and (ii) of the amount of expected losses in the portion that exceeds the addition of the value corrections and of the provisions relating to risk weighted positions estimated in accordance with the IRB approach and the value that cannot be eventually recorded in Tier 2 must be removed from base own funds.

In order to conclude the calculation of the regulatory capital, there are still some deductions to the own funds that need to be performed, namely the amount of real-estate assets resulting from recovered loans that have exceeded the regulatory period of permanence in the Bank's accounts, the impairment concerning securitisation transactions that have not reached the regulatory definition of effective risk transfer, to the extent of the amounts not recognized in the Bank's accounts, and the potential excess of exposure to risk limits in the scope of Banco de Portugal Notice no. 7/2010.

As of the beginning of 2008, own funds requirements are assessed in accordance with Basel II regulations. The own funds requirements for hedging credit risk, in accordance with the Banco de Portugal Notice no. 5/2007, are estimated in accordance with the IRB approach, in the perimeter managed centrally from Portugal, concerning a substantial portion of the retail and corporate exposures and a significant part of the retail portfolios in Poland, as of 31 December 2012, continuing to use the standardised approach for the remaining portfolios and countries.

The own funds requirements for the hedging of operational risk, mentioned in the Notice of Banco de Portugal no. 9/2007, are determined by using the standard approach and the own funds requirements for the hedging of market risk, as defined in Notice no. 8/2007 of Banco de Portugal, are computed in accordance with the IRB approach on the trading portfolio in what concerns the estimation of own funds requirements for generic market risk, comprising the sub-portfolios included in the perimeter centrally managed from Portugal, in what concerns debt instruments, capital instruments and foreign exchange risk and in accordance with the standard approach in what concerns the estimations of capital requirements for specific risk.

Additionally, in the wake of the Economic and Financial Aid Program, Banco de Portugal established, through Notice no. 3/2011, that the financial groups should strengthen their Core Tier 1 ratios, on a consolidated basis, to at least 9% until 31 December 2011 and to 10% until 31 December 2012. In accordance with the EBA criteria that include, namely, a capital buffer amounting to 848 million euros related with the exposure to sovereign risks, the Group should attain a minimum Core Tier 1 ratio of 9% as of June 2012.

## 4.2. METHOD OF ASSESSMENT OF THE ADEQUACY OF OWN FUNDS AT THE LEVEL OF THE FINANCIAL CONGLOMERATE

The Bank uses the accounting consolidation method established in Decree-Law no. 145/2006, of 31 July, for the purposes of calculating the adequacy of own funds at the level of the financial conglomerate.

According to this method, the adequacy of own funds corresponds to the difference between the own funds of the financial conglomerate, calculated based on its consolidated position, and the sum of the solvency requirements of the banking and insurance subsectors that compose the conglomerate, which must not be negative.

The adequacy of own funds is calculated based on the consolidated accounts, as mentioned previously, taking into account the applicable sectorial rules with reference to the form and scope of consolidation.

Within the scope of determining the adequacy of own funds, the proportional part held by the Bank in associated companies, in accordance with the percentages used to prepare its consolidated accounts, is considered. On the other hand, the eligible elements for calculation that would result in them being used twice are eliminated, so as to avoid the inadequate creation of own funds at the level of the financial conglomerate.

## 4.3. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER 2012 AND 2011

The main aggregated own funds and consolidated own funds requirements, as of 31 December 2012 and 2011, as well as the respective capital ratios, including Core Tier1 ratio, according to both the EBA's and Banco de Portugal's requirements are shown in Table VI:

### TABLE VI – SUMMARY OF THE MAIN CAPITAL AGGREGATES AND RATIOS

Thousand euros

| | 31-12-2012 | 31-12-2011 |
|---|---|---|
| OWN FUNDS | | |
| Tier I | **6,222,647** | 4,787,573 |
| of which: Core Tier I | **6,579,071** | 5,135,495 |
| Tier II | **696,588** | 612,970 |
| Deductions to Total Capital | **-146,040** | -137,366 |
| Total capital | **6,773,195** | 5,263,178 |
| CAPITAL REQUIREMENTS | | |
| Credit risk and counterparty credit risk | **3,920,546** | 4,072,590 |
| Market risk | **45,051** | 45,309 |
| Operational risk | **296,058** | 318,519 |
| TOTAL | **4,261,656** | 4,436,418 |
| CAPITAL RATIOS | | |
| Core Tier I | **12.4%** | 9.3% |
| Tier I | **11.7%** | 8.6% |
| Total capital | **12.7%** | 9.5% |
| EBA ratio (1) | **9.8%** | - |

(1) Regarding the Core Tier 1 ratio of Banco de Portugal, the EBA's Core Tier 1 is decreased by 50% of the significant investments held in the financial stakes and of the shortfall of impairment considering the expected losses of the exposures handled with the IRB approach, on one hand, and with the capital buffer set by the EBA as of 30 September 2011 to cover sovereign risks, adjusted by the provisions made afterwards pursuant to the restructuring of the Greek public debt, on the other.

The consolidated Core Tier I ratio computed according to the rules set forth by Banco de Portugal reached 12.4% on 31 December 2012, an increase of 309 basis points against the 9.3% recorded at the end of 2011 and clearly above the minimum limit defined by Banco de Portugal (10%).

This performance fundamentally translates, on one hand, the impact of the Core Tier I operations carried out in 2012 and, on the other, the decrease shown by weighted risks, as a result of both the extension of the IRB approach to the computation of capital requirements for credit risk and the deleveraging undertaken in 2012.

Core Tier I increased 1,443,576 thousand euros in 2012, regarding which we highlight:

- The issue, in June, of hybrid subordinated debt securities qualified for Core Tier I, completely refundable by the Bank over a five-year period and that only in some cases, namely non-compliance or default, would they be converted into shares of the Bank, totalling 3,000,000 thousand euros and with full subscription by the State (+541 basis points in the Core Tier I ratio);
- The additional reinforcement of the Core Tier I ratio through an increase of the share capital in cash completed in October, with a preferential reserve for shareholders, totalling 500,000 thousand euros (+90 basis points in the Core Tier I ratio);
- The net earnings for the year which amounted to -1,219,053 thousand euros (-220 basis points in the Core Tier I ratio);
- The decrease of the Core Tier I resulting from the extinction of the prudential offsetting granted by Banco de Portugal at the end of 2011 for impacts of the transfer of liabilities with pensions to the Social Security General Regime and the increase of impairment provisions made within the scope of the SIP, amounting to 705,679 thousand euros (-126 basis points in the Core Tier I ratio);
- The regulatory amortisation of the impacts of the transition to the IAS/IFRS, of the changes to the mortality table carried out in 2005 and of the actuarial losses of 2008, totalling 165,011 thousand euros (-30 basis points in the Core Tier I ratio);
- The negative impact of the pension fund and the variation of the prudential corridor verified in 2012, amounting to 136,011 thousand euros, after taxes (-25 basis points in the Core Tier I ratio);
- The additions due to the increase of the fair value reserves of Millenniumbcp Ageas worth 151,753 thousand euros, the non-controlling interests amounting to 81,773 thousand euros, the reversal of the impact of own credit risk on liabilities at fair value amounting to 32,477 thousand euros and to the foreign exchange differences worth 25,083 thousand euros, which were partly offset by the increase in deductions associated to high rates deposits amounting to 81,861 thousand euros and the differential in regulatory provisions for credit exposures accounted using the standardised approach totalling 26,384 thousand euros and by the costs incurred with the capital increase, which amounted to 12,595 thousand euros after taxes.

The Table VII presents the consolidated own funds detailed in accordance with their main components:

**TABLE VII – OWN FUNDS**

Euro thousand

| | 31-12-2012 | 31-12-2011 | |
|---|---|---|---|
| **1. TOTAL OWN FUNDS FOR SOLVENCY PURPOSES (1.1.+ 1.2. + 1.4.)** | **6,773,195** | **5,263,178** | |
| **1.1. Original own funds (=∑(1.1.1. a 1.1.5.))** | **6,752,264** | **5,308,904** | |
| 1.1.1. Eligible capital (=∑(1.1.1.1. a 1.1.1.4.)) | **6,565,345** | 6,132,407 | |
| 1.1.1.1. Paid-up capital | **3,500,000** | 6,065,000 | (1) |
| 1.1.1.2. (-) Own shares | **-6,376** | -4,314 | |
| 1.1.1.3. Share premium | **71,722** | 71,722 | |
| 1.1.1.4. Other instruments eligible as capital | **3,000,000** | | (2) |
| 1.1.2. Eligible reserves and profits and losses (=∑(1.1.2.1. a 1.1.2.5.)) | **170,638** | -1,813,304 | |
| 1.1.2.1 Reserves | **731,767** | -1,624,763 | (1) |

(continues)

(continuation) Thousand euros

| | 31-12-2012 | 31-12-2011 | |
|---|---|---|---|
| 1.1.2.2. Eligible non-controlling interests | **624,420** | 542,647 | |
| 1.1.2.3. Profits from the previous financial year and preliminary profits from the current financial year<br>1.1.2.4. (-) Losses from the previous financial year and preliminary losses from the current financial year<br>1.1.2.5. Losses from the previous financial year and preliminary losses from the current financial year<br>1.1.2.6. (-) Net gains from capitalisation of future margin income from securitised assets | **-1,185,549** | -731,188 | (3) |
| 1.1.2.7.Valuation differences eligible as original own funds | | | |
| 1.1.3. Funds for general banking risks | | | |
| 1.1.4. Other items eligible as original own funds (1.1.4.1.+1.1.4.2.) | **207,178** | 953,949 | |
| 1.1.4.1. Other items eligible | **173,193** | 173,409 | |
| 1.1.4.2. Impact on the transition into IAS/AAS (negative impact) | **33,985** | 74,861 | |
| 1.1.4.3. Other items eligible as original own funds | | 705,679 | (4) |
| 1.1.5. (-) Other deductions from original own funds (=∑(1.1.5.1. to 1.1.5.3.)) | **-190,897** | 35,852 | |
| 1.1.5.1. (-) Intangible fixed assets | **-258,635** | -250,728 | |
| 1.1.5.2. (-) Items included in original own funds exceeding the eligibility limits | | | |
| 1.1.5.3. (-) Other deductions to original own funds | **67,738** | 286,580 | (5) |
| **1.2. Additional own funds (=∑(1.2.1. to 1.2.3.)-1.3b.)** | **1,226,204** | **1,134,301** | |
| 1.2.1. Core additional own funds – Upper Tier II | **30,786** | 65,128 | |
| 1.2.2. Supplementary additional own funds – Lower Tier II | **1,195,418** | 1,069,174 | |
| 1.2.3. (-) Deductions from additional own funds | | | |
| **1.3. Deductions from original and additional own funds** | **-1,059,233** | **-1,042,662** | (6) |
| 1.3a. Of which: (-) from original own funds | **-529,616** | -521,331 | |
| 1.3b. Of which: (-) from additional own funds | **-529,616** | -521,331 | |
| **1.4. (-) Total original own funds for solvability purpose** | **6,222,647** | **4,787,573** | |
| **1.5. Total addicional own funds for solvability purpose** | **696,588** | **612,970** | |
| **1.6. (-) Deductions from total own funds** | **-146,040** | **-137,366** | (7) |
| **1.7. Total additional own funds specific to cover market risks** | | | |
| **1.8. Memorandum items** | | | |
| 1.8.1. (+) Excess of/(-) shortfall provisions in risk-weighted exposures under the internal ratings based approach (gross amounts)<br>1.8.1.1. Amount of provisions for the internal ratings based approach<br>1.8.1.2. (-) Internal ratings based approach measurement of expected losses | | - | |
| 1.8.2. Gross amount of subordinated loan capital recognised as a positive item of own funds | **4,322,730** | 1,132,074 | |
| 1.8.3. Minimum initial capital requirements | **17,458** | 17,458 | |
| 1.8.4. Reference own funds for the purpose of limits to large exposures | **7,605,140** | 5,889,308 | |

(1) Following the approval on the Bank's General Meeting, the share capital was reduced from 6,064,999,986 euros to 3,000,000 euros in the second quarter, without change in the number of stocks, in order to cover the losses faced in individual accounts of the Bank regarding 2011 and to strengthen future conditions of existence of funds capable of qualifying as regulatory distributable

(2) Hybrid instruments of subordinated debt eligible as Core Tier 1 fully subscribed by the Portuguese State.

(3) Comprises the retained earnings, considering the provisional amount of ordinary dividends payable (null in 2012 and 2011), and the adjustment resulting from regulatory filters, namely those due to the effect of change of own credit risk on financial liabilities accounted at fair value through profit or loss.

(4) As at 31 December 2011, it reflects the regulatory neutralisation permitted by Banco de Portugal, until June, 2012, of impacts arising from both the transfer of pension liabilities to the Social Security General System and the Special Inspections Program, in accordance with the Banco de Portugal Notice no. 1/2012.

(5) Includes the following regulatory filters: pension fund; deduction of the shortfall of impairment to regulatory provisions, calculated on an individual basis, for exposures treated by the Standardised approach; additional impairment deduction related to the Greek public debt in 2011; and deduction related to customers' deposits with interest rates above the limits defined by the Banco de Portugal.

(6) Includes the deductions related to significant investments held in financial and insurance entities and to the shortfall of impairment to expected losses for exposures treated in accordance with IRB approaches.

(7) Includes deductions related to the value of repossessed assets that have exceded the regulatory period of permanence in the balance sheet.

Table VIII shows the reconciliation between the Core Tier I reported on 31 December 2012 and 2011 and the consolidated own funds of Millennium bcp on those dates:

**TABLE VIII – CORE TIER I RECONCILIATION**

Thousand euros

| | 31-12-2012 | 31-12-2011 | |
|---|---|---|---|
| Total equity attributable to Shareholders of the Bank | **3,372,174** | 3,826,755 | |
| Non-controlling interests | **624,420** | 542,647 | (1) |
| Regulatory adjustments: | | | |
| (-) Preference shares and other hybrid instruments | **-173,193** | -173,409 | |
| (+) Equity instruments | **3,000,000** | | |
| (+) Impact on the transition into IAS/AAS | **33,985** | 74,861 | |
| (+) Neutralization permitted by the Bank of Portugal Notice no. 1/2012 | | 705,679 | |
| (+) Corridor of the pension fund's staff in active | **243,215** | 245,492 | |
| (+) Deferral of the mortality tables in 2005 and the revaluation of the pension fund in 2008 | | 124,135 | |
| (-) Intangible assets | **-258,635** | -250,728 | (2) |
| (-) Profit/Loss after tax in debt securities and gains on equity securities | **-99,135** | 181,050 | (3) |
| (-) Results in emissions of financial assets at fair value in the part referring to own credit risk | **-15,113** | -47,606 | |
| (-) Shortfall of the stock of impairment to regulatory credit provisions | **-83,603** | -57,214 | |
| Other adjustments (+/-) to Tier I capital | **-65,043** | -36,166 | (4) |
| **CORE TIER I** | **6,579,071** | **5,135,495** | |

(1) The differences between the perimeter of accounting consolidation and prudential consolidation that have been previously referred led to differences in this heading, as showed in Table III.

(2) Includes the goodwill recorded in the consolidated assets of the Bank, net of impairment.

(3) The evolution of this line was determined by the reversal of unrealized losses on debt securities available for sale (losses in 2011 and profits in 2012).

(4) Includes the adjustments related to regulatory filters, namely those related to fair value reserves in assets available for sale, to regulatory deduction related to the Greek public debt, to customers' deposits with interest rates above the limits defined by the Bank of Portugal and to BCP shares held by Ocidental Vida.

Own funds requirements, as broken down in Table IX, amounted to 4,261,656 thousand euros on 31 December 2012, down 174,762 thousand euros versus the 4,436,418 thousand euros estimated in the end of 2011. Notwithstanding the fact that the amounts reported on these dates are not directly comparable, as previously mentioned, it is important to highlight the factors that mainly contributed for that reduction:

- The decrease amounting to 128,809 thousand euros supported by the maintenance of the deleveraging efforts – evidenced by the decrease in the value of consolidated assets by more than 3,700 million euros – and by the optimisation and increase of collaterals, despite the negative effect of some clients' credit risk deterioration in that period of time;

- The favourable impact of the adoption of the IRB approach for "Loans secured by residential real estate" of Poland's Retail Portfolio, which totalled 23,492 thousand euros (+5 basis points in the Core Tier I ratio);

- The decrease of the value required for covering operational risk, which was set at 22,461 thousand euros (+5 basis points in the Core Tier I ratio);

At the same time, the Core Tier I ratio estimated in accordance with the EBA's criteria attained 9.8% on 31 December 2012, a positive figure in comparison with the 9.7% ratio estimated on 30 June 2012 (first report date for this ratio) and was above the minimum limit (9%). Regarding the Core Tier I ratio of Banco de Portugal, the EBA's Core Tier I is decreased by 50% of the significant investments held in the financial stakes and of the shortfall of impairment considering the expected losses of the exposures handled with the IRB approach, on one hand, and with the capital buffer set by the EBA as of 30 September 2011 to cover sovereign risks, adjusted by the provisions made afterwards pursuant to the restructuring of the Greek public debt, on the other.

**TABLE IX – CAPITAL REQUIREMENTS**

Thousand euros

| | 31-12-2012 | 31-12-2011 |
|---|---|---|
| 2. CAPITAL REQUIREMENTS | **4,261,656** | 4,436,418 |
| 2.1. For credit, counterparty credit and dilution risks and free deliveries | **3,817,380** | 4,072,590 |
| 2.1.1. Standardised approach | **1,898,527** | 2,087,687 |
| 2.1.1.1. Standardised Approach exposure classes, excluding securitisation positions | **1,898,527** | 2,087,687 |
| 2.1.1.1.1. Claims or contingent claims on Central Governments or Central Banks | **26,670** | 31,491 |
| 2.1.1.1.2 Claims or contingent claims on Regional Governments or Local Authorities | **11,347** | 19,801 |
| 2.1.1.1.3 Claims or contingent claims on Administrative Bodies and non-profit Organisations | **686** | 429 |
| 2.1.1.1.4 Claims or contingent claims on Multilateral Development Banks | | |
| 2.1.1.1.5 Claims or contingent claims on International Organisations | | |
| 2.1.1.1.6 Claims or contingent claims on Institutions | **154,963** | 170,403 |
| 2.1.1.1.7 Claims or contingent claims on Corporates | **884,903** | 864,012 |
| 2.1.1.1.8 Retail claims or contingent Retail claims | **96,243** | 118,200 |
| 2.1.1.1.9 Claims or contingent claims secured on real estate property | **201,770** | 425,592 |
| 2.1.1.1.10 Past due items | **165,857** | 182,831 |
| 2.1.1.1.11 Items belonging to regulatory high-risk categories | | |
| 2.1.1.1.12 Claims on covered bonds | | |
| 2.1.1.1.13 Claims on Collective Investment Undertakings (CIU) | **144,968** | 37,740 |
| 2.1.1.1.14 Other items | **211,120** | 237,188 |
| 2.1.1.2. Securitisation positions under the Standardised Approach | | |
| 2.1.2 IRB approach | **1,918,853** | 1,984,903 |
| 2.1.2.1 Not using own estimations of LGD and/or credit conversion factors | **1,222,484** | 1,291,463 |
| 2.1.2.1.1 Claims or contingent claims on Central Governments or Central Banks | | |
| 2.1.2.1.2 Claims or contingent claims on Institutions | | |
| 2.1.2.1.3 Claims or contingent claims on Corporates | **1,222,484** | 1,291,463 |
| 2.1.2.2 Using own estimations of LGD and/or credit conversion factors | **642,379** | 632,456 |
| 2.1.2.1.1 Claims or contingent claims on Central Governments or Central Banks | | |
| 2.1.2.1.2 Claims or contingent claims on Institutions | | |
| 2.1.2.1.3 Retail claims or contingent Retail claims | **642,379** | 632,456 |
| 2.1.2.3 Equity positions | **12,890** | 55,198 |
| 2.1.2.4 Securitisation positions | **41,100** | 5,786 |
| 2.1.2.5 Other assets not related to bond loans | | |
| 2.2. Settlement risk | | |
| 2.3. Capital requirements for position, foreign-exchange and commodities risks | **45,051** | 45,309 |
| 2.3.1 Standardised approach | **7,497** | 20,647 |
| 2.3.1.1 Traded debt instruments | **6,978** | 19,720 |
| 2.3.1.2 Equity | **478** | 922 |
| 2.3.1.3 Foreign exchange risks | | 0 |
| 2.3.1.4 Commodities risks | **41** | 4 |
| 2.3.2 Internal models approach | **37,554** | 24,662 |
| 2.4. Capital requirements for operational risk | **296,058** | 318,519 |
| 2.4.1 Basic indicator approach | | |
| 2.4.2 Standard approach | **296,058** | 318,519 |
| 2.5. Capital requirements – Fixed overhead | | |
| 2.6. Other and transitional capital requirements | **103,167** | (1) |

(1) Transitional capital requirements associated with adoption of IRB methodologies in "Loans secured by residential real estate" and "Renewable positions" in Retail portfolio in Poland as at 31 December 2012 (on this date the capital requirements of the Group due to these portfolios could not be less than 90% of that would result if the calculation was performed by the standardised method; this limit can be reduced to 80% in 31 December 2013 and eliminated as of July 2014 if the conditions underlying the authorization granted by the supervisory authorities to adopt IRB methodologies in Poland are implemented according to the schedule).

By the end of 2012 and of 2011, the Group had an excess of own funds versus the respective own funds requirements of 2,511,539 and of 826,760 thousand euros, respectively, standing at 2,785,855 and 826,760 thousand euros in terms of financial conglomerate, as mentioned in Table X.

**TABLE X – CAPITAL ADEQUACY**

Thousand euros

| | 31-12-2012 | 31-12-2011 |
|---|---|---|
| SURPLUS (+)/ DEFICIT (-) OF OWN FUNDS | 2,511,539 | 826,760 |
| SOLVENCY RATIO (%) | 12.7% | 9.5% |
| Capital adequacy of the financial conglomerate | | |
| Own funds of the financial conglomerate | 7,202,388 | 5,409,375 |
| Capital requirements of the financial conglomerate | 4,416,533 | 4,582,614 |
| SURPLUS (+)/ DEFICIT (-) OF THE CONGLOMERATE'S OWN FUNDS | 2,785,855 | 826,760 |

## 4.4. EVENTS WITH A MATERIAL IMPACT ON CAPITAL AND CAPITAL REQUIREMENTS IN 2013

### SALE OF MILLENNIUM BANK (GREECE) TO PIRAEUS BANK:

On 22 April 2013, Banco Comercial Português signed definitive agreements with Piraeus Bank regarding, on one side, the sale of the entire share capital of Millennium Bank (Greece) and, on the other side, the investment by Millennium bcp in the forthcoming capital increase of Piraeus Bank.

This agreement falls within the framework that has been defined by the Bank of Greece and the Hellenic Financial Stability Fund (HFSF) aiming at the restructuring of the Greek banking system and strengthening of its financial stability. The terms and conditions of the transactions have been approved by the HFSF. The transactions are expected to be consummated in the second quarter of 2013, subject in particular to obtaining the final regulatory approvals.

The key elements of the sale of Millennium Bank (Greece) are the following: (i) sale price of 1 million euros; (ii) pre-closing recapitalisation of the Millennium Bank (Greece) by the Bank, of a total of 400 million euros, through the conversion of around 261 million euros of the funding granted by Millennium bcp to Millennium Bank (Greece), in addition to the 139 million euros already allocated in December 2012. It should be highlighted that the Bank had already booked a provision of 427 million euros for potential losses in Millennium Bank (Greece) at the end of 2012.

On the other hand, Piraeus Bank is to ensure reimbursement by Millennium Bank (Greece) to Millennium bcp, of all the funding provided by it to Millennium Bank (Greece), of around 900 million euros, of which around 650 million euros will be paid on the date of closing of the sale transaction and the remaining will be paid within six months from that date with no asset transfer from Millennium Bank (Greece) to Millennium bcp pursuant to the sale.

At the same time, it was also agreed that Millennium bcp would invest 400 million euros in the forthcoming rights issue of Piraeus Bank within the framework of recapitalisation of Greek banks with the participation of the HFSF, i.e., at the same price as HFSF. This investment, which will not be consolidated by the Bank, will be subject to certain limitations, including a six-month lock-up period and certain temporary voting and orderly disposal rules for the conditioning HFSF period.

The transaction will enable Millennium bcp to decrease around 4,000 million euros in risk weighted asset, following the deconsolidation of Millennium Bank (Greece), therefore, after the settlement of the total intragroup funding yet in effect, the risk weighed assets associated to this transaction will be determined exclusively by the value of the investment in Piraeus Bank, which will also influence the Bank's own funds.

## ANALYSIS OF THE BANK'S RECAPITALISATION PLAN BY THE EUROPEAN COMPETITION AUTHORITY:

The European Competition Authority is presently assessing the Bank's Recapitalisation Plan, and this process may result in the need for the Bank to adopt certain measures that result in materially relevant impacts on own funds and own funds requirements for Millennium bcp.

## 4.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

### 4.5.1. ECONOMIC CAPITAL CALCULATION APPROACHES AND RISK TAKING CAPACITY

The Internal Capital Adequacy Assessment Process (ICAAP) is an important step for the Group towards achieving the best practices in terms of risk management and capital planning. Within this scope, it is of the utmost importance to quantify the amount of capital necessary to absorb potential future losses, with a pre-defined probability, in order to safeguard the interests of its creditors and shareholders.

This involves calculating the internal (or "economic") capital which, independently of the regulatory capital, is adequate to the level of risks incurred. This internal capital adequacy assessment process allows for the establishment of a connection between the Group's level of tolerance to risk and its economic capital needs.

The ICAAP is used to identify all the material risks inherent to the Group's activity and their respective quantification, taking into account the possible effects of correlation between the different risks, as well as the effects of business diversification, which is developed along various lines and products and in various geographical areas.

Once the economic capital needs have been calculated, a comparison is drawn up between these needs and the available financial resources (Risk Taking Capacity), which allows for an economic perspective of capital adequacy, as well as for the identification of activities and/or businesses that create value.

In view of the nature of the Group's main activity in the markets in which it operates (retail banking), the main risks considered for the purposes of the ICAAP are the following:

- Credit risk;
- Operational risk;
- Risk of unhedged positions in the Trading and Banking Books;
- Equity risk;
- Real estate risk;
- Pension fund risk;
- Liquidity risk;
- Business and strategic risk.

For the calculation of economic capital, the Group considers a 12-month timeframe, combining several factors of an economic, regulatory and methodological nature, around the same forecast scenario: business planning, external ratings, regulatory capital under Pillar I and the quantification of credit risk through internal models for probability of default (PD), among others. The economic capital model takes on a global probability of default of six basis points for twelve months, i.e. a 99.94% confidence level.

Thus, the quantification approaches used are based on the VaR (Value-at-Risk) methodology, where the maximum value of potential loss is calculated for each risk, for a 12-month timeframe, with a 99.94% confidence level.

The metrics used by the Group to compute the economic capital are illustrated in Table XI:

**TABLE XI – MODELS USED TO CALCULATE ECONOMIC CAPITAL**

| RISK TYPES | SUBTYPE | METRICS |
|---|---|---|
| Credit risk | | Credit portfolio model |
| Market risks | Trading Book | VaR model |
| | Interest rate risk of the Banking Book | |
| | Equity risk in the Banking Book | Long-term VaR model |
| | Real estate risk | |
| Operational risk | | Standard approach |
| Liquidity risk | | Stress tests model over the funding costs |
| Pensions fund risk | | Simulation model |
| Business and strategic risk | | Model based on the specific volatility of BCP shares |

Aggregation of risks at the various levels of the organisational structure of the Group includes the calculation of the effect of the diversification benefits, leading to an overall result which is less than the sum of the various individual components, thus indicating that the different types of risk are not perfectly correlated and the simultaneous occurrence of the worst-case scenarios is improbable.

A combination of two methods is used for this purpose: i) the correlation method and ii) the dependence of extreme events. In general terms, through the correlation method, the value of total economic capital is obtained from the individual values and from the correlation matrix. This method also allows the calculation of contributions towards the total risk of each type of risk.

The correlation matrix is obtained by submitting the historical loss series to an implicit linear correlation analysis, which differs from traditional linear correlation analysis as it recognises the dependence of extreme events.

## 4.5.2. ECONOMIC CAPITAL ASSESSMENT

Economic capital for credit risk is calculated by using an actuarial portfolio model, developed internally, which provides an estimate of the probability distribution of total losses based on the exposures and specific characteristics of the credit portfolio.

This model incorporates the measurements of the basic variables of credit risk assessment – PD, LGD and CCF, and also considers the uncertainty associated to these measurements by incorporating the volatility of these parameters. Furthermore, the model also incorporates the effects of the diversification/concentration of credit risk, taking into account the degrees of correlation between the various sectors of economic activity.

The methodological basis for the calculation of economic capital requirements relative to market risks is the same as the one used for the calculation of regulatory capital requirements for the Trading Book (VaR model), with some adjustments concerning the time horizon considered.

The measurement used for the calculation of economic capital relative to operational risk is the same as that used for regulatory capital for this type of risk (with regulatory weightings defined by business line applied to their gross income, which is estimated as detailed in sub-chapter 12.1 Gross income), considering that the amount so calculated corresponds to the maximum operational loss, with a confidence level of 99.90%. Thus, in order to obtain the value of economic capital for operational risk, the amount of regulatory capital is adjusted (scaled) for a confidence level of 99.94%, which corresponds to the path defined under the ICAAP.

The calculation of economic capital relative to liquidity risk is based on the stress test results regarding future funding needs and its respective costs.

The economic capital related to the pension fund risk is supported by an ALM (Asset Liability Management) simulation model that makes simulations of the profit and loss account and the balance sheet of the pension fund based on multiple scenarios and projections of the fund's inflows and outflows.

The calculation of the economic capital required to cover the economic and strategic risk is based on a long series of the price evolution of the bank's share, an indicator deemed adequate to assess this type of risk, and this evolution is analyzed after the deduction of the external influence of the banking sector stock market, estimated from a time series of share prices of the larger banks listed at Euronext Lisbon.

Table XII presents the overall risk position as at 31 December 2012 and 2011, represented by the economic capital calculated on these dates:

**TABLE XII – ECONOMIC CAPITAL**

Thousand euros

| | 31-12-2012 | | 31-12-2011 | |
|---|---|---|---|---|
| | AMOUNT | % | AMOUNT | % |
| CREDIT RISK | **2,362,898** | **44.1%** | 2,026,811 | 41.3% |
| MARKET RISK | **1,840,154** | **34.4%** | 1,552,422 | 31.6% |
| Trading Book | **19,591** | **0.4%** | 16,988 | 0.3% |
| Banking Book – interest rate risk | **705,776** | **13.2%** | 811,050 | 16.5% |
| Equity risk – share price risk | **665,422** | **12.4%** | 355,565 | 7.2% |
| Real estate risk | **449,366** | **8.4%** | 368,819 | 7.5% |
| OPERATIONAL RISK | **370,009** | **6.9%** | 398,080 | 8.1% |
| LIQUIDITY RISK | **134,805** | **2.5%** | 134,805 | 2.7% |
| PENSION FUND RISK | **431,812** | **8.1%** | 621,350 | 12.7% |
| BUSINESS AND STRATEGIC RISK | **212,989** | **4.0%** | 177,698 | 3.6% |
| NON-DIVERSIFIED ECONOMIC CAPITAL | **5,352,667** | **100.0%** | 4,911,165 | 100.0% |
| Diversification effect | **-1,196,791** | | -1,164,562 | |
| DIVERSIFIED ECONOMIC CAPITAL | **4,155,876** | | **3,746,604** | |

The Economic Capital estimated at the end of 2012 (after the diversification effects) increased 409,272 thousand euros vs. 31 December 2011. This evolution resulted mainly from:

- The increase of capital needs for credit risk, driven by the worsening of the quality of the Bank's credit portfolio in Portugal and Greece, especially centred in Corporate Clients;
- The increase in the risks of shares and real-estate properties, due to the reinforcement of the Bank's stake in credit recovery funds and of the increase of the portfolio of real-estate assets resultant from recovered loans;
- The decrease of interest rate risk for the banking portfolio, originated mainly by the decrease in the volatility levels of the Portuguese public debt portfolio;
- The decrease of risk associated with the pension fund, due to the changes to the implicit assumptions of the economic scenarios considered.

# 5. CREDIT RISK

## 5.1. DEFINITIONS AND POLICIES FOR ASSESSMENT OF LOSSES AND PROVISIONING

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

Past due loans, for accounting purposes, correspond to the global value of the credits and instalments due and not collected associated to credit agreements recognized in the balance sheet in any form whatsoever.

Thus, are accounted in past due loans all the credits (capital) that have not been settled thirty days after their maturity date.

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

Default credit for accounting purposes adopts the definition presented in the Banco de Portugal Instruction no. 16/2004, aggregating the credit due for more than 90 days and the credits with doubtful collection reclassified as past due loans for purposes of provisioning, as established by the provisos of Banco de Portugal Notice no. 3/95.

At the same time, for prudential purposes, the positions with amounts in excess of certain material limits, set in internal regulations per segment, whose maturity date occurred more than 90 days ago, are considered default positions. For prudential purposes, the following situations are also considered to be in default: failure to comply with a contractual credit obligation, use of credit without framework (having demanded to the client its settlement) or the surpassing of a credit limit previously established.

The credit object of impairment analysis comprises all the exposures subject to credit risk where one has detected objective impairment evidence. Thus, it comprises the individual exposures of certain clients or counterparties and homogeneous groups of credits that are not considered individually significant in accordance with the conditions hereinafter described. However, this definition – consistent with the values presented in Table XVIII "Distribution of the risk positions due and object of impairment" – does not include the exposures with losses incurred but not identified that are also provisioned in accordance with the Group's policy in this matter and hereinafter detailed.

Concerning credit, the Group's policy for purposes of provisioning the positions at risk object of impairment consists in the regular evaluation of the existence of an objective evidence of impairment in its books.

The losses due to impairment identified are registered against results being subsequently reversed into results in case the amount of the estimated loss is reduced in a subsequent period.

After the initial recognition, a credit or a client's credit portfolio, defined as a group of credits with similar risk features, may be classified as a portfolio with impairment when there is an objective evidence of impairment resulting from one or more events and when these have impact in the estimated amount of future cash flows of the credit or of the clients credit portfolio, able of being calculated in a reliable manner.

In accordance with the IAS 39 there are two methods to estimate the losses due to impairment: (i) individual assessment; and (ii) collective assessment.

### (I) INDIVIDUAL ASSESSMENT

The individual evaluation of the losses due to impairment is determined through an assessment, on a case by case basis, of the total credit exposure. For each credit deemed individually significant, the Bank assesses, at least every quarter, the objective evidence of impairment. When determining the losses due to impairment in individual terms, the following factors are taken into consideration:

- The total exposure of each Client, on a consolidated basis, and the existence of past due loans;

- The economic-financial feasibility of the Client's business and its capacity to generate sufficient means to meet the debt service in the future;

- The existence, nature and the estimated amount of the collaterals associated with each credit;

- The economic-financial situation of the Client, as well as its evolution;

- The Client's assets in a situation of liquidation or bankruptcy;

- The existence of privileged creditors;

- The amount and the recovery deadlines estimated.

The losses due to impairment are calculated by comparing the present value of the expected future cash flows discounted at the interest rate of each contract and the accounting value of each credit, being the losses registered against gross income. The accounting value of the credits with impairment is presented in the net balance of impairment losses.

The credits not submitted to an individual assessment are grouped in portfolios with similar credit characteristics and evaluated jointly.

## (II) COLLECTIVE ASSESSMENT

The impairment losses based on the collective assessment are estimated by using two perspectives:

- For homogeneous groups of credits with objective signs of impairment but not considered individually significant; or

- Relating to incurred but not reported losses ("IBNR") in credits where there is not an objective evidence of impairment.

The collective impairment losses are determined considering the following aspects:

- The losses past records in portfolios with a similar risk;

- Knowledge on the current credit and economic environment and its influence on past losses; and

- The estimated period of time between the occurrence of the loss and its identification.

The evaluation process of the credit portfolio in order to determine if an impairment loss must be recognized is subject to several estimations and judgements. This process includes factors like the PD, the credit situation, the value of the collaterals related with each operation, the recovery rates and the estimations either of future cash flows or of the moment they are received. The methodologies and the assumptions used to estimate the cash flows are regularly reviewed so as to monitor the differences between the losses estimations and the real losses.

In accordance with the Banco de Portugal Circular Letter no. 15/2009, the write-off of the credits is made when there is no realistic possibility of recovering the credits from an economic perspective and, for collateralized credits, when the funds coming from the use of the collaterals have already been received, by the use of impairment losses when these correspond to 100% of the value of the credits deemed as impossible to recover.

Concerning exposures towards financial instruments, it is made, on each balance date, an evaluation of the objective evidence of impairment, namely of an adverse impact in the expected future cash flows of a financial assets or of a group of financial assets that may be measured in a reliable manner based on the deep and continued fall of the fair value of the asset, under the acquisition cost.

There is impairment in the financial assets available for sale when they present a continued or significant devaluation in their fair value. The determination of a continued or significant devaluation requires a judgement. In that judgement, the Bank evaluates, among other factors, the usual volatility of the prices of the financial assets. Additionally, the evaluations are made by using market prices or evaluation models which require the use of determined assumptions or a judgement in the establishment of fair value expectations.

If impairment is detected in a financial asset available for sale, the accumulated loss (measured as the difference between the acquisition cost and the fair value, excluding impairment losses previously recognized against results) is allocated to fair value reserves and recognized in the results. If, in a subsequent period, the fair value of the debt instruments classified as financial asset available for sale increases and that increase may be objectively related with an event that occurred after the recognition of the impairment loss in the results, the impairment loss is reverted against results. The recovery from impairment losses recognized in capital instruments classified as financial assets available for sale is registered against fair value reserves.

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

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

The allocations and recoveries of impairments and provisions with impact in the consolidated financial statements of 2012 and 2011 are shown in Table XIII.

**TABLE XIII – IMPACT OF IMPAIRMENT AND PROVISION CHARGES AND RECOVERIES ON RESULTS**

Thousand euros

| Impairment and provisions | '12 | '11 |
|---|---|---|
| Charges net of reversions and annulments | **2,127,692** | 1,822,316 |
| Recoveries | **-23,582** | -21,289 |
| Charges net of recoveries | **2,104,110** | 1,801,027 |

Note: Impairment and provision amounts result from amounts ascertained during financial consolidation, including those related to loans and advances to customers, other loans and advances to credit institutions, financial assets available for sale, other assets, warranties and other liabilities.

## 5.2. MANAGEMENT OF CONCENTRATION RISK

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined and described in the document "Credit Principles and Guidelines", approved by the Bank's management body. This policy applies to all Group entities by the transposition of the respective definitions and requirements into the internal rulings of each entity, after the same have been formally approved by the respective management bodies.

Through the document mentioned above, the Group defined the following guidelines relating to the control and management of credit concentration risk:

- The monitoring of the concentration risk and the follow-up of major risks is made, at Group level, based on the concept of "Economic Groups" and "Groups of Clients";
- A "Group of Clients" is a group of Clients (individuals or companies) related among themselves, that represent a single entity from a credit risk standpoint, as follows: if one of those Clients is affected by adverse financial conditions it is likely that another Client (or all the Clients) of that group also experiences difficulties in servicing their debts;

- We may include the following as types of relations between clients that originate "Groups of Clients": the formal participation in an economic group, the evidence that there is a control relationship (direct or indirect) between Clients (including an individual's control over a company) or the existence of a significant business interdependence between Clients that cannot be altered in a near future;

- So as to control the concentration risk and limit the exposure to this risk, there are soft limits defined in view of the own funds (consolidated or for each entity of the Group);

- The Risk Office has, validates and monitors a centralized information process relating to concentration risk, with the participation of all the Group's entities.

The definition of the concentration limits mentioned above is made based on the better judgement of the Risk taking into consideration the specific situation of the Group's credit portfolio in what concerns the respective concentration and observing best market practices.

Besides, the definition of concentration limits (more specifically the several types of limits established) also identifies the types of concentration risk deemed relevant. The definition of the concentration limits of the Group takes into account all types of credit concentration risk mentioned in the Banco de Portugal Instruction no. 2/2010, namely:

- Two types of "major exposures", at Group level and at the level of each Group entity;

- The basis used to define major exposures and to estimate the limit-values of the concentration are own funds (consolidated or individual, at the level of each Group entity);

- The concentration is measured, in case of direct exposures, in terms of net exposures (EAD × LGD, assuming that PD=1) relating to a counterparty or a group of counterparties;

- Concentration limits are defined for major exposures as a whole, for major exposures at Group's level or for major exposures of each entity;

- Sectorial limits and limits for country-risk are equally defined.

Concerning the monitoring of the concentration risk, the Bank's management body and the Risk Commission are regularly informed on the evolution of the concentration limits and on major risks.

Thus, the quantification of the concentration risk in credit exposures (direct and indirect) involves, firstly, the identification of specific concentration and major exposure cases and the comparison of the exposure values in question versus the own funds levels expressed in percentages that are compared with the pre-defined concentration limits. For such, the Risk Office uses their centralized collection of data on credit exposures (the risk Datamart), regularly updated by the Group's systems.

It is also foreseen in the document mentioned above that if a certain limit is exceeded, that fact must be specifically reported to the members of the management body by the Credit Department and by the Risk Office, being that report accompanied by a remedy proposal. Usually, the remedies proposed will imply the reduction of the net exposure to the counterparties in question (by increasing the collaterals, for example) or by a replacement of a collateral (in the case of indirect credit exposures).

One must mention that the Group, while evaluating its internal capital requirements (economic capital /ICAAP), incorporates factors resulting from the concentration level of the credit portfolio, translating the same into the computation of the value of the economic capital relating to credit risk.

On the other hand it is also important to point out that the control and management of concentration risk represents for the Group one of the main pillars of its risk mitigation strategy. It is in this context – and, particularly in credit risk – that the Group is making an ongoing monitoring of potential or effective risk concentration events adopting, whenever justified, the preventive (or corrective) measures deemed necessary.

We must also highlight the continuity of the measures aiming at the progressive reduction of the concentration of credit in the major individual debtors, either by decreasing the credit exposure or increasing the collaterals provided in the credit operations. Moreover, we must also emphasize the reinforcement of the prudential criteria in the analysis and decision-making of financing proposals, particularly in what concerns the mitigation of sectorial concentration.

In 2012, the Group's Risk Office regularly sent internal reports to the Risk Commission, to the Audit Committee and to the Credit Risk Monitoring Sub-Commission, which significantly contributed towards the identification and correction of risk concentration (not only of credit concentration risk but also of other types of concentration related with other types of risk).

The reports sent to the Risk Commission included information on "Pressing risk situations" detected and deemed as significantly relevant divided into three levels (risk scores): low/medium/high. For each one of these situations, the Risk Office made resolution proposals – to "eliminate", "mitigate" or "accept" –, describing the measures and activities necessary to eliminate or mitigate the risks as well as the players to involve in the implementation of those measures and activities.

## 5.3. CHARACTERIZATION OF THE EXPOSURES

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

The total of original exposures, corresponding to the respective gross value of impairments and amortisations attained 111,409,455 thousand euros, as at 31 December 2012, and 117,615,557 thousand euros, as at 31 December 2011, including the securitisations. The Table XIV presents a breakdown of these amounts in accordance with the risk types defined by the Basel II accord.

**TABLE XIV – EXPOSURES BY RISK CLASS**

Thousand euros

| Risk classes (securitisation positions included) | Original exposure | | Original exposure (average) | |
|---|---|---|---|---|
| | **31-12-2012** | 31-12-2011 | **'12** | '11 |
| STANDARDISED APPROACH | **56,058,438** | 62,286,587 | **60,668,181** | 66,423,264 |
| STANDARDISED APPROACH, EXCLUDING SECURITISATION POSITIONS | **56,058,438** | 62,286,587 | **60,668,181** | 66,423,264 |
| Central Governments or Central Banks | **10,976,347** | 9,367,643 | **9,255,402** | 10,803,785 |
| Regional Governments or Local Authorities | **637,504** | 709,175 | **675,554** | 698,212 |
| Administrative and Non-profit Organisations | **181,341** | 110,984 | **167,932** | 777,096 |
| Multilateral Development banks | **92,566** | 88,213 | **87,894** | 121,041 |
| International Organisations | | | **2,900** | 6,251 |
| Institutions | **6,696,676** | 8,154,303 | **7,311,769** | 8,928,174 |
| Corporates | **16,776,895** | 16,940,390 | **16,824,353** | 15,004,138 |
| Retail Portfolio | **2,468,261** | 3,423,146 | **3,363,310** | 7,154,821 |
| Positions guaranteed by real estate | **4,766,392** | 11,351,493 | **10,769,263** | 13,433,829 |
| Past due items | **3,499,725** | 2,873,857 | **3,473,839** | 2,802,832 |
| Covered bonds | | | | |
| Exposures on Collective Investment Undertakings (CIU) | **1,527,914** | 478,686 | **884,025** | 483,367 |
| Other items | **8,434,816** | 8,788,697 | **7,851,940** | 6,209,718 |
| SECURITISATION POSITIONS | | | | |
| IRB APPROACH | **55,351,017** | 55,328,970 | **52,278,553** | 55,039,004 |
| NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | **18,602,412** | 23,543,821 | **21,311,275** | 26,731,786 |
| Claims or contingent claims on Central Governments or Central Banks | | | | |
| Claims or contingent claims on Institutions | | | | |
| Claims or contingent claims on Corporates | **18,602,412** | 23,543,821 | **21,311,275** | 26,731,786 |
| USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | **36,217,648** | 31,073,145 | **30,394,511** | 27,644,732 |
| Claims or contingent claims on Central Governments or Central Banks | | | | |
| Claims or contingent claims on Institutions | | | | |
| Retail claims or Contingent Retail claims | **36,217,648** | 31,073,145 | **30,394,511** | 27,644,732 |
| EQUITY POSITIONS | **47,367** | 198,137 | **75,835** | 131,923 |
| SECURITISATION POSITIONS | **483,591** | 513,866 | **496,932** | 530,562 |
| OTHER ASSETS NOT RELATED TO BOND LOANS | | | | |
| TOTAL | **111,409,455** | 117,615,557 | **112,946,734** | 121,462,268 |

Note: The total amount of original exposures stood at 111,409,455 thousand euros on year-end 2012 (117,615,557 thousand euros on year-end 2011), gross of impairments and amortisations, including 93,165,045 thousand euros recorded on-balance sheet (95,637,351 thousand euros in 2011), 16,141,702 thousand euros off-balance sheet exposures (18,761,794 thousand euros in 2011), 1,520,864 thousand euros related to derivative instruments (2,180,578 thousand euros in 2011), and the remaining amount from repurchase agreements, equity and securitisation positions.

The geographical distribution of the Group's original risk positions at the end of 2012 and 2011 are provided in Table XV.

## TABLE XV – DISTRIBUTION OF EXPOSURES BY GEOGRAPHICAL AREAS

Thousand euros

| Risk Classes | Portugal | | Poland | | Greece | | Other | |
|---|---|---|---|---|---|---|---|---|
| | 31-12-2012 | 31-12-2011 | 31-12-2012 | 31-12-2011 | 31-12-2012 | 31-12-2011 | 31-12-2012 | 31-12-2011 |
| STANDARDISED APPROACH | 32,206,173 | 32,247,680 | 7,109,459 | 12,597,267 | 6,432,758 | 7,238,704 | 10,310,048 | 10,202,936 |
| RISK CLASSES | 32,206,173 | 32,247,680 | 7,109,459 | 12,597,267 | 6,432,758 | 7,238,704 | 10,310,048 | 10,202,936 |
| Central Governments or Central Banks | 7,278,557 | 6,065,574 | 1,990,663 | 897,581 | 85,864 | 856,494 | 1,621,263 | 1,547,993 (1) |
| Regional Governments or Local Authorities | 386,630 | 433,298 | 241,750 | 266,311 | 4,590 | 4,975 | 4,534 | 4,591 |
| Administrative and Non-profit Organisations | 113,353 | 97,779 | 67,928 | 13,187 | 61 | 18 | 0 | 0 |
| Multilateral Development Banks | | | | | | | 92,566 | 88,213 (2) |
| International Organisations | | | | | | | | |
| Institutions | 2,303,493 | 4,196,515 | 250,263 | 57,607 | 230,310 | 218,536 | 3,912,610 | 3,681,645 (3) |
| Corporates | 9,997,067 | 9,846,523 | 2,238,247 | 2,121,511 | 1,767,256 | 2,069,489 | 2,774,324 | 2,902,868 |
| Retail Portfolio | 250,882 | 175,821 | 930,662 | 1,611,931 | 622,569 | 774,918 | 664,148 | 860,476 |
| Positions guaranteed by real estate | 1,459,876 | 1,408,960 | 675,706 | 7,044,914 | 2,203,139 | 2,438,019 | 427,671 | 459,600 |
| Past due items | 1,862,233 | 1,656,186 | 308,650 | 321,205 | 1,122,544 | 682,090 | 206,298 | 214,377 |
| Covered bonds | | | | | | | | |
| Exposures on Collective Investment Undertakings (CIU) | 1,527,914 | 478,686 | | | | | 0 | |
| Other items | 7,026,168 | 7,888,338 | 405,589 | 263,021 | 396,426 | 194,165 | 606,633 | 443,173 |
| SECURITISATION POSITIONS | | | | | | | | |
| IRB APPROACH | 44,956,118 | 51,698,763 | 7,435,454 | 29,648 | 98,091 | 88,237 | 2,861,354 | 3,512,323 |
| NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | 17,125,879 | 21,502,310 | 1,828 | 28,073 | 97,669 | 87,872 | 1,377,035 | 1,925,566 |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | |
| Claims or contingent claims on Corporates | 17,125,879 | 21,502,310 | 1,828 | 28,073 | 97,669 | 87,872 | 1,377,035 | 1,925,566 |
| USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | 27,299,281 | 29,484,449 | 7,433,626 | 1,574 | 422 | 365 | 1,484,319 | 1,586,756 |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | |
| Retail claims or Contingent Retail claims | 27,299,281 | 29,484,449 | 7,433,626 | 1,574 | 422 | 365 | 1,484,319 | 1,586,756 |
| EQUITY POSITIONS | 47,367 | 198,137 | | | | | | |
| SECURITISATION POSITIONS | 483,591 | 513,866 | | | | | | |
| OTHER ASSETS NOT RELATED TO BOND LOANS | | | | | | | | |
| TOTAL | 77,162,291 | 83,946,442 | 14,544,913 | 12,626,914 | 6,530,850 | 7,326,942 | 13,171,402 | 13,715,258 |

Notes: (i) Includes securitisation positions; (ii) all the countries included in 'Other' have an individual representativeness of less than 1%.

(1) The amount reported in 'Other' regarding 'Central Governments or Central Banks' results from exposures to this risk class in Mozambique, Angola, Ireland, Romania and Switzerland.

(2) Represents exposures to EIB, based in Luxembourg, and KFW, based in Germany.

3) The amount reported under 'Institutions' classified in 'Other' corresponds mainly to exposures in Banks headquartered in France, with a weight of about 26% of the total exposure, followed by Ireland, with 23%, United Kingdom, with 19% and Spain, with 11% of total exposure. All other countries included in 'Other' have a relative weight below 10%. In 2011, the main concentration was in Banks headquartered in the United Kingdom, with a weight of about 31% of the total exposure, followed by Ireland, with 19% and France with 15%.

The sectorial distribution of the Group's original risk positions at the end of 2012 and 2011 are provided in Table XVI.

## TABLE XVI – DISTRIBUTION OF EXPOSURES BY ECONOMIC SECTOR

Thousand euros

| Risk Classes | 31 December 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Mortgage credit | Services | Consumer credit | Construction | Other activ. – national | Other activ. – international | Wholesale business | Other | |
| STANDARDISED APPROACH | 729,506 | 24,120,665 | 1,396,596 | 3,819,192 | 11,877,051 | 665 | 398,607 | 13,716,157 | |
| RISK CLASSES | 729,506 | 24,120,665 | 1,396,596 | 3,819,192 | 11,877,051 | 665 | 398,607 | 13,716,157 | |
| Central Governments or Central Banks | | 10,976,347 | | | | | | | |
| Regional Governments or Local Authorities | | 637,504 | | | | | | | |
| Administrative and Non-profit Organisations | | 181,341 | | | | | | | |
| Multilateral Development Banks | | 92,566 | | | | | | | |
| International Organisations | | | | | | | | | |
| Institutions | | 6,696,676 | | | | | | | |
| Corporates | | 4,409,288 | | 2,391,248 | 6,310,894 | | 265,026 | 3,400,439 | (1) |
| Retail Portfolio | | 29,164 | 1,252,590 | 27,337 | 1,022,175 | 3 | 48,818 | 88,174 | (2) |
| Positions guaranteed by real estate | 620,297 | 542,650 | | 377,796 | 3,032,614 | 663 | 22,159 | 170,213 | |
| Past due items | 109,209 | 555,129 | 144,006 | 1,022,810 | 1,511,368 | | 62,604 | 94,600 | |
| Covered bonds | | | | | | | | | |
| Exposures on Collective Investment Undertakings (CIU) | | | | | | | | 1,527,914 | (3) |
| Other items | | | | | | | | 8,434,816 | |
| SECURITISATION POSITIONS | | | | | | | | | |
| IRB APPROACH | 26,653,812 | 8,044,463 | 4,589,185 | 3,126,378 | 965,819 | 13 | 3,874,740 | 8,096,609 | |
| NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | | 7,001,154 | | 2,489,653 | 698,391 | | 2,320,651 | 6,092,563 | |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | | |
| Claims or contingent claims on Corporates | | 7,001,154 | | 2,489,653 | 698,391 | | 2,320,651 | 6,092,563 | (1) |
| USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | 26,653,812 | 1,043,309 | 4,589,185 | 636,724 | 267,428 | 13 | 1,554,090 | 1,473,088 | |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | | |
| Retail claims or Contingent Retail claims | 26,653,812 | 1,043,309 | 4,589,185 | 636,724 | 267,428 | 13 | 1,554,090 | 1,473,088 | (2) |
| EQUITY POSITIONS | | | | | | | | 47,367 | |
| SECURITISATION POSITIONS | | | | | | | | 483,591 | |
| OTHER ASSETS NOT RELATED TO BOND LOANS | | | | | | | | | |
| TOTAL | 27,383,317 | 32,165,128 | 5,985,781 | 6,945,570 | 12,842,870 | 678 | 4,273,347 | 21,812,765 | |

(continues)

(continuation) Thousand euros

| Risk Classes | 31 December 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mortgage credit | Services | Consumer credit | Construction | Other activ. – national | Other activ. – international | Wholesale business | Other |
| STANDARDISED APPROACH | 6,899,920 | 22,938,191 | 2,467,061 | 4,498,365 | 12,032,056 | 840 | 455,193 | 12,994,961 |
| RISK CLASSES | 6,899,920 | 22,938,191 | 2,467,061 | 4,498,365 | 12,032,056 | 840 | 455,193 | 12,994,961 |
| Central Governments or Central Banks | | 9,367,643 | | | | | | |
| Regional Governments or Local Authorities | | 709,175 | | | | | | |
| Administrative and Non-profit Organisations | | 97,779 | | | 13,205 | | | |
| Multilateral Development Banks | | 88,213 | | | | | | |
| International Organisations | | | | | | | | |
| Institutions | | 8,154,303 | | | | | | |
| Corporates | | 3,678,464 | | 2,987,664 | 6,498,942 | | 292,101 | 3,483,219 |
| Retail Portfolio | | 14,232 | 2,163,442 | 23,556 | 1,122,968 | 15 | 16,763 | 82,170 |
| Positions guaranteed by real estate | 6,864,306 | 493,988 | | 586,135 | 3,348,510 | 825 | 23,875 | 33,853 |
| Past due items | 35,614 | 334,394 | 303,619 | 901,010 | 1,048,431 | | 122,454 | 128,335 |
| Covered bonds | | | | | | | | |
| Exposures on Collective Investment Undertakings (CIU) | | | | | | | | 478,686 |
| Other items | | | | | | | | 8,788,697 |
| SECURITISATION POSITIONS | | | | | | | | |
| IRB APPROACH | 21,103,912 | 10,091,411 | 3,702,410 | 3,897,287 | 1,919,589 | | 4,658,763 | 9,955,597 |
| NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | | 8,791,484 | | 3,112,566 | 1,584,033 | | 2,750,706 | 7,305,032 |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | |
| Claims or contingent claims on Corporates | | 8,791,484 | | 3,112,566 | 1,584,033 | | 2,750,706 | 7,305,032 |
| USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | 21,103,912 | 1,299,927 | 3,702,410 | 784,721 | 335,556 | | 1,908,057 | 1,938,562 |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | |
| Retail claims or Contingent Retail claims | 21,103,912 | 1,299,927 | 3,702,410 | 784,721 | 335,556 | | 1,908,057 | 1,938,562 |
| EQUITY POSITIONS | | | | | | | | 198,137 |
| SECURITISATION POSITIONS | | | | | | | | 513,866 |
| OTHER ASSETS NOT RELATED TO BOND LOANS | | | | | | | | |
| TOTAL | 28,003,833 | 33,029,602 | 6,169,471 | 8,395,652 | 13,951,645 | 840 | 5,113,956 | 22,950,559 |

Note 1: Securitisation positions included.
(1) Among the amounts included in 'Other' and in the risk class 'Corporates' the following economic sectors stand out: 'Transports and comunications' representing about 29% of the total of this sub-exposure, followed by the 'Machinery, equipment and base metals' industry with 16% and 'Electricity, water ang gas', with about 17% of the amount under analysis. In 2011 the sector 'Transports and comunications' represented about 24% of the total of this sub-exposure folowed by the 'Machinery, equipment and base metals' industry with 18% and 'Electricity, water ang gas' with 16% of the amount under analysis.
(2) Among the amounts included in 'Other' and in the risk class 'Retail portfolio' the following economic sectors stand out: ''Restaurants and hotels' representing about 28% of the total of this sub-exposure, followed by the 'Machinery, equipment and base metals' industry with about 24% of the amount under analysis. In 2011 the sector ''Restaurants and hotels' representing about 25% of the total of this sub-exposure, followed by the 'Machinery, equipment and base metals' industry with about 21% of the amount under analysis.
(3) The amounts contained in this heading correspond to Participation Units in Investment Funds.

The distribution of the Group's original risk positions per residual maturity term at the end of 2012 and 2011 are provided in Table XVII.

**TABLE XVII – DISTRIBUTION OF EXPOSURES BY RESIDUAL MATURITY (RM)**

Thousand euros

| Risk Classes | RM < 1 year | | 1 year < RM < 5 years | | 5 years < RM < 10 years | | RM > 10 years | |
|---|---|---|---|---|---|---|---|---|
| | 31-12-2012 | 31-12-2011 | 31-12-2012 | 31-12-2011 | 31-12-2012 | 31-12-2011 | 31-12-2012 | 31-12-2011 |
| STANDARDISED APPROACH | 29,849,143 | 28,474,181 | 12,031,675 | 12,990,401 | 5,605,725 | 5,535,436 | 8,571,896 | 15,286,569 |
| RISK CLASSES | 29,849,143 | 28,474,181 | 12,031,675 | 12,990,401 | 5,605,725 | 5,535,436 | 8,571,896 | 15,286,569 |
| Central Governments or Central Banks | 6,250,084 | 5,442,722 | 3,582,360 | 3,014,574 | 946,738 | 750,227 | 197,165 | 160,120 |
| Regional Governments or Local Authorities | 148,311 | 150,356 | 126,980 | 113,445 | 216,713 | 204,263 | 145,500 | 241,112 |
| Administrative and Non-profit Organisations | 90,718 | 19,539 | 51,472 | 68,494 | 39,151 | 22,951 | | |
| Multilateral Development Banks | | 16,099 | 15,546 | 1,583 | 47,497 | 44,225 | 29,523 | 26,306 |
| International Organisations | | | | | | | | |
| Institutions | 5,350,608 | 5,577,455 | 919,147 | 1,818,869 | 224,696 | 552,221 | 202,225 | 205,758 |
| Corporates | 10,370,896 | 9,509,180 | 3,354,113 | 4,342,076 | 1,753,076 | 1,532,665 | 1,298,810 | 1,556,469 |
| Retail Portfolio | 1,312,862 | 1,177,714 | 764,158 | 1,730,816 | 296,357 | 293,948 | 94,884 | 220,669 |
| Positions guaranteed by real estate | 1,254,012 | 1,158,288 | 464,230 | 877,554 | 605,485 | 860,148 | 2,442,664 | 8,455,504 |
| Past due items | 2,098,672 | 1,830,013 | 338,743 | 326,528 | 384,191 | 241,405 | 678,119 | 475,910 |
| Covered bonds | | | | | | | | |
| Exposures on Collective Investment Undertakings (CIU) | | | 998,497 | 35,107 | | | 529,417 | 443,579 |
| Other items | 2,972,978 | 3,592,816 | 1,416,428 | 661,355 | 1,091,821 | 1,033,383 | 2,953,589 | 3,501,144 |
| SECURITISATION POSITIONS | | | | | | | | |
| IRB APPROACH | 13,950,409 | 15,308,857 | 6,498,155 | 9,230,241 | 4,373,098 | 4,276,994 | 30,529,355 | 26,512,878 |
| NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | 9,810,882 | 11,988,372 | 3,484,929 | 5,344,222 | 2,490,080 | 2,593,187 | 2,816,520 | 3,618,040 |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | |
| Claims or contingent claims on Corporates | 9,810,882 | 11,988,372 | 3,484,929 | 5,344,222 | 2,490,080 | 2,593,187 | 2,816,520 | 3,618,040 |
| USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS | 4,139,527 | 3,320,485 | 3,013,225 | 3,886,019 | 1,883,018 | 1,683,807 | 27,181,877 | 22,182,835 |
| Claims or contingent claims on Central Governments or Central Banks | | | | | | | | |
| Claims or contingent claims on Institutions | | | | | | | | |
| Retail claims or Contingent Retail claims | 4,139,527 | 3,320,485 | 3,013,225 | 3,886,019 | 1,883,018 | 1,683,807 | 27,181,877 | 22,182,835 |
| EQUITY POSITIONS | | | | | | | 47,367 | 198,137 |
| SECURITISATION POSITIONS | | | | | | | 483,591 | 513,866 |
| OTHER ASSETS NOT RELATED TO BOND LOANS | | | | | | | | |
| TOTAL | 43,799,552 | 43,783,038 | 18,529,830 | 22,220,642 | 9,978,822 | 9,812,430 | 39,101,251 | 41,799,447 |

Note: Securitisation positions included.

The exposures due and those object of an impairment analysis, together with the balance of impairments and of the provisions made, as of 31 December 2012 and 2011, are presented in Table XVIII, detailing the main economic sectors and geographical areas to which the Group is exposed.

**TABLE XVIII – BREAKDOWN OF PAST DUE AND IMPAIRED EXPOSURES**

Thousand euros

| Risk Classes | Past due exposures | | Exposures with impairment | | Impairment and provisions | |
|---|---|---|---|---|---|---|
| | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 |
| TOTAL EXPOSURES | **7,471,135** | 6,423,206 | **14,048,050** | 15,957,961 | **5,048,286** | 4,350,592 |
| BREAKDOWN BY MAIN ECONOMIC SECTORS | | | | | | |
| Mortgage credit | **1,522,091** | 1,501,950 | **2,165,881** | 2,366,160 | **257,837** | 194,718 |
| Services | **1,080,895** | 850,248 | **3,130,815** | 4,271,730 | **970,587** | 847,944 |
| Consumer credit | **635,226** | 540,995 | **884,529** | 860,360 | **441,667** | 428,316 |
| Construction | **1,365,786** | 1,180,730 | **2,543,518** | 2,863,092 | **679,193** | 455,916 |
| Other activ. – national | **1,602,281** | 1,107,540 | **3,093,110** | 2,990,157 | **953,354** | 778,355 |
| Other activ. – international | | | | | **2** | 2 |
| Wholesale business | **513,077** | 488,068 | **753,705** | 802,141 | **230,232** | 255,793 |
| Other | **751,779** | 753,676 | **1,476,492** | 1,804,321 | **1,515,414** | 1,389,547 |
| BREAKDOWN BY MAIN GEOGRAPHIC AREAS | | | | | | |
| Portugal | **5,574,158** | 5,053,280 | **10,432,584** | 12,411,539 | **3,266,309** | 2,679,631 |
| Poland | **391,035** | 321,205 | **610,502** | 552,474 | **306,995** | 284,084 |
| Greece | **1,122,544** | 682,090 | **2,142,433** | 1,745,695 | **902,811** | 759,970 |
| Other | **383,397** | 366,632 | **862,531** | 1,248,254 | **572,172** | 626,906 |

The Table XIX shows the evolution, from 2011 to 2012, of the balances of the items that justify the difference between the value of the original exposures and the net value under which the same are registered in the consolidated balance sheet: the impairments and provisions on one hand and the amortisations, on the other. The evolution registered by these balances is explained by allocations, utilizations, reversions, annulments and other adjustments.

**TABLE XIX – IMPAIRMENT, PROVISIONS AND AMORTISATIONS**

Thousand euros

| | ´12 | | Total | |
|---|---|---|---|---|
| | Impairment and provisions | Amortisations | **'12** | **'11** |
| OPENING BALANCE ON 1 JANUARY | 4,350,592 | 1,189,857 | **5,540,449** | 4,087,101 |
| Charges | 2,952,980 | 61,557 | **3,014,537** | 2,239,684 |
| Uses | -1,420,639 | | **-1,420,639** | -374,035 |
| Re-adjustments/Cancellations | -825,288 | -29,885 | **-855,173** | -392,910 |
| Other adjustments: | -9,358 | 4,346 | **-5,012** | -19,391 |
| – Adjustment for exchange rate differences | 13,248 | 4,395 | **17,643** | -17,545 |
| – Transfers of provisions | -22,606 | -49 | **-22,655** | -1,845 |
| – Business combinations | | | | |
| – Acquisitions and disposals of subsidiaries | | | | |
| – Other | | | | |
| CLOSING BALANCE ON 31 DECEMBER | 5,048,286 | 1,225,876 | **6,274,162** | 5,540,449 |

Note: The amounts of impairment and other provisions result from the financial consolidation (regulatory perimeter), including those related to loans and advances to customers, other loans and advances to credit institutions, financial assets available for sale, other assets, guarantees and other commitments. The aforementioned impairment and other provisions, as well as the amortisations related to tangible assets, are deducted from the original exposures, during the calculation of capital requirements.

## 5.4. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

### 5.4.1. FRAMEWORK OF THE APPROACHES USED

As at 31 December 2011 and 2012, the Group determined the own funds requirements for credit risk in accordance with authorizations granted by Banco de Portugal on the approach to estimate risk weighted assets (RWA).

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

In the procedure to compute capital requirements based on the standardised approach, the exposures are weighted according to the provisos of Banco de Portugal Notice 5/2007. In the risk class "Central Government and Central Banks", credit ratings of issuers or issues are used, attributed by recognised credit rating agencies (ECAI – External Credit Assessment Institutions), which define the risk quality levels defined in Annex I of Banco de Portugal Instruction no. 10/2007 (altered by Instructions no. 4/2010 no. 16/2010, no. 1/2012 and no. 1/2013), applying the weights defined in Banco de Portugal Notice no. 5/2007 (Annex III, Part 2) for each risk quality grade. For the purposes of allocating rating notations to exposures, whenever the same issuer has two or more risk evaluations, the second best rating attributed is used. The credit rating of the issuer is applicable to all of its operations, whereas the rating for a specific issue is only considered for that same issue. The ECAI used by the Group were Standard & Poor's, Moody's, Fitch Ratings and ICAP (Greece).

Regarding the risk class "Institutions", the weight of the exposures is also based on the standardised approach, using the risk weights used for Central Government/Central Banks (sovereign risks) of the countries from which the institutions originate, considering the weights corresponding to a risk score (risk quality level) below that of the respective sovereign risk.

We underline that, regarding the risk classes "Central Government and Central Banks" and "Institutions", in Portugal, the Group uses the standardised approach, pursuant to the partial waiver of the IRB approach ruled in art. 20 of Decree-Law no. 104/2007, of 3 April, as authorized by Banco de Portugal.

On 31 December 2011 and 2012, according to the authorizations granted by Banco de Portugal for the Group's activities in Portugal, the Bank used the Internal Ratings Based Approach for risk classes "Corporate" (without own LGD estimates), "Retail Portfolio" (with own LGD estimates), "Equity" and "Securitisation". Regarding the Corporate risk class, the exposures of the real estate promotion segment and of the simplified rating system were weighted using the standardised approach.

On 31 December 2012, according to the authorizations granted by Banco de Portugal and by KNF (Polish supervision authority) for the Group's activities in Poland, the Bank used the internal ratings based approach for exposures of the "Retail Portfolio" (with own LGD estimates), regarding the positions of individual clients guaranteed by residential real estate collaterals and the retail renewable positions), (QRRE – Qualified Retail Renewable Exposures).

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2012 and 2011 were estimated following the standardised approach.

One may also underline that in Portugal:

- Own funds as at 31 December 2012 for Customer exposures that exceptionally did not receive an internal risk level were computed according to the standardised approach;

- Banco de Portugal's authorization to use the IRB Approach for the Corporate risk class created exceptions for some types of exposures (handled by the Projects Rating System and by the Companies Rating System) related to the real estate sector or to start-ups, therefore their own funds requirements as at 31 December 2012 were estimated following the standardised approach;

- Within the corporate risk class, Banco de Portugal agreed to allow the Bank to partially and permanently use the standardised approach, for a set of Special Purpose Vehicle exposures (SPV), churches, sports clubs and other non-profit organisations.

## 5.4.2. IRB APPROACH – PARAMETERS AND GENERAL INFORMATION

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

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

The internal ratings are given based on the Rating Master Scale, the same for all the rating systems and models used, presented in Table XX:

### TABLE XX – RATING MASTER SCALE

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

(*) Processual risk grade (the presented values of Max. and Min. PD are indicative).

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

The Rating Department is solely responsible for risk ratings – a unit that is independent from the credit decision--making bodies and areas – even though most risk scores are granted by automatic decision making models used for Customers that have exposure in the Retail Portfolio.

All Customers are rated, but the corresponding PD are only used to compute own funds requirements through the IRB Approach for exposures that fit the risk classes for which Banco de Portugal authorized the use of this approach.

The rating models included in the various rating systems are regularly subject to validation by the Models Control Unit (MCU), a Group Risk Office unit independent from the units responsible for the development and maintenance of rating models. Besides that, the MCU is also responsible for ensuring that the Group's Rating Master Scale is up-to-date and correct.

The periodic validation of the rating models by the MCU does not damage the independent revision made by the Audit Department. The conclusions of MCU's validation, as well as its amendment/improvement recommendations and proposals, are analysed and ratified by a specific Validation Committee, whose composition varies according to the type of model analysed. The proposals to amend the models originated in the Validation Committees are submitted to the approval of the Risk Commission.

Besides the responsibilities regarding the PD models and the Rating Master Scale, the MCU is also responsible for validating the models used to estimate LGD and CCF parameters.

Regarding these models, the Bank estimates them all based on the methods validated by Banco de Portugal within the scope of the process to approve the use of the IRB approach.

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

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

We also underline that there is a model owner for each credit risk model – PD, LGD and CCF – responsible for:

- Ensuring compliance with the regulatory requirements for storing input and output data;

- Ensuring adequacy of the model's documentation, including the development documentation, development samples and all the documents regarding changes to model;

- Being the senior person in charge of all requests pertaining to the decision process based on the model;

- Changing the model whenever necessary;

- Ensuring the existence of monitoring processes;

- Ensuring the necessary support to the MCU pursuant to the model validation work.

In addition, regarding the rating systems that include the rating models, there is also a rating system owner, who is responsible for:

- Ensuring the necessary support to the MCU within the scope of the analysis of the rating systems decision flow;

- Promoting the execution of changes to the rating system whenever necessary.

### 5.4.3. IRB APPROACH – CORPORATES RISK CLASS

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

In the first case, the Bank uses the Project Finance rating, *i.e.* the cross-referencing between the scoring of a specific questionnaire (based on the risk valuation questionnaire in Annex 6 to the Basel II Accord – International Convergence of Capital Measurement and Capital Standards, of June 2006 –, that defines the Supervisory Slotting Criteria approach for specialised loans) and one of four possible classifications (besides the possibility of default) for the risks in question, which then define the weights to be used in the computation of own funds requirements (Banco de Portugal Notice no. 5/2007, Annex IV, Part 1).

In the second case, the Bank uses five rating models to grant risk scores (and the respective PD used to compute applicable weights): Large, Mid and Small Corporate Models and the Models for Holdings of Economic Groups and for Investment Holdings.

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

Specifically in the Large Corporate Model, both the quantitative and the qualitative part are weighed by factors that introduce in the assessment the risk inherent to the Customer's activity sector, and the final rating/scoring, after the adjustments above, is decided by a Rating Board composed by specialised analysts and by the heads of the Rating Department. Thus, though based on a risk score given by the Large Corporate Model and on the adjustments foreseen by it, the decisions of the Rating Board involve a relevant level of expert judgement.

Table XXI summarises these rating models and systems:

**TABLE XXI – CORPORATES RATING MODELS AND SYSTEMS**

| Rating system for Projects | Rating model for Project Finance |
|---|---|
| Rating system for Corporates | Large Corporate Model – quantitative component (quantitative score, based on accounting data and taking into consideration the client's activity sector) + qualitative component (based on expert judgment and following sectorial rating matrixes that incorporate the sectors' risk)+ adjustments stemming from pre-defined situations or from the identification of "imminent risk" evidence + adjustments stemming from economic group relations (*e.g.* parents *vs.* affiliates) |
| | Small e Mid Corporate Models – quantitative component (economic/financial grade based on accounting data and taking into consideration the client's activity sector) + qualitative component (based on information gathered by the commercial area on specific templates for that purpose + adjustments stemming from pre-defined situations or from the identification of "imminent risk" evidence + adjustments stemming from economic group relations (*e.g.* parents *vs.* affiliates) |
| | Rating model for Economic groups Holdings |
| | Rating model for investment Holdings |

## 5.4.4. IRB APPROACH – RETAIL PORTFOLIO RISK CLASS

In this risk class, the computation of own funds according to the IRB Approach is based on the PD that correspond to the risk scores given by the rating systems for Small Businesses and for Individuals.

In these rating systems, the attribution of risk scores is made using two types of automated decision models: (i) a behavioural model (TRIAD), based on the past financial data of the Customers at the Bank (executed by computer on a monthly basis), which is complemented by (ii) acceptance scoring models, used whenever the behavioural model does not apply (new Customers for instance) and defined based on the credit product the Customer wants or on the products the Customer already has.

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

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

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

### TABLE XXII – RETAIL PORTFOLIO RATING MODELS AND SYSTEMS

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

Own fund requirements for credit risk and counterparty credit risk originated by portfolios subject to the standardised approach, as at 31 December 2012 and 2011, are presented in Table XXIII.

### TABLE XXIII – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK

Thousand euros

| | 31 December 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Risk weights | | | | | | | | | |
| | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total |
| **1. ORIGINAL EXPOSURE** | | | | | | | | | | |
| CL I – Central Governments or Central Banks | 10,177,331 | | 551,384 | | 45,537 | | 202,092 | 2 | | 10,976,347 |
| CL II – Regional Governments or Local Authorities | 4,590 | | 632,914 | | | | | | | 637,504 |
| CL III – Administrative and non-profit Organisations | 149,474 | | 12,898 | | 18,631 | | 278 | 61 | | 181,341 |
| CL IV – Multilateral Development Banks | 92,566 | | | | | | | | | 92,566 |
| CL V – International Organisations | | | | | | | | | | |
| CL VI – Institutions | | | 4,892,232 | | 271,361 | | 1,398,339 | 134,744 | | 6,696,676 |
| CL VII – Corporates | | | 25,965 | | 51,881 | | 16,062,603 | 636,446 | | 16,776,895 |
| CL VIII – Retail Portfolio | | | | | | 2,464,070 | 4,192 | | | 2,468,261 |
| CL IX – Positions guaranteed by real estate | 1,440 | | 4,038 | 1,926,716 | 1,362,423 | 111,426 | 1,292,219 | 68,129 | | 4,766,392 |
| CL X – Past due items | | | | | | | 2,617,059 | 882,667 | | 3,499,725 |
| CL XI – Covered bonds | | | | | | | | | | |
| CL XII – Exposures on Collective Investment Undertakings (CIU) | | | | | | | 649,339 | 810,023 | 68,553 | 1,527,914 |
| CL XIII – Other items | 2,828,876 | | 1,629,280 | | | | 3,976,660 | | | 8,434,816 |
| **TOTAL ORIGINAL EXPOSURES** | **13,254,277** | **0** | **7,748,712** | **1,926,716** | **1,749,832** | **2,575,496** | **26,202,781** | **2,532,071** | **68,553** | **56,058,438** |
| **2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)** | | | | | | | | | | |
| CL I – Central Governments or Central Banks | 10,508,617 | | 549,443 | | 45,481 | | 200,739 | 1 | | 11,304,281 |
| CL II – Regional Governments or Local Authorities | 4,415 | | 709,165 | | | | | | | 713,580 |
| CL III – Administrative and non-profit Organisations | 142,054 | | 12,845 | | 11,732 | | 138 | | | 166,769 |
| CL IV – Multilateral Development Banks | 94,453 | | | | | | | | | 94,453 |
| CL V – International Organisations | 115 | | | | | | | | | 115 |
| CL VI – Institutions | 113,468 | | 4,929,904 | | 270,283 | | 609,239 | 137,787 | | 6,060,680 |
| CL VII – Corporates | 13,429 | | 83,636 | | 51,881 | | 10,225,451 | 528,782 | | 10,903,178 |
| CL VIII – Retail Portfolio | 2,470 | | | | | 1,601,526 | 1,894 | | | 1,605,889 |
| CL IX – Positions guaranteed by real estate | 1,852 | | 4,023 | 1,914,172 | 1,218,787 | 105,794 | 1,066,599 | 64,016 | | 4,375,243 |
| CL X – Past due items | | | | | | | 1,197,076 | 584,089 | | 1,781,165 |
| CL XI – Covered bonds | | | | | | | | | | |
| CL XII – Exposures on Collective Investment Undertakings (CIU) | | | | | | | 597,065 | 810,023 | | 1,407,088 |

(continues)

(continuation)

| | 31 December 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Risk weights | | | | | | | | | |
| | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total |
| CL XIII – Other items | 2,828,876 | | 1,629,280 | | | | 2,313,147 | | | 6,771,302 |
| TOTAL EXPOSURES | 13,709,748 | 0 | 7,918,296 | 1,914,172 | 1,598,163 | 1,707,319 | 16,211,346 | 2,124,699 | 0 | 45,183,743 |
| 3. TOTAL CAPITAL REQUIREMENTS (=∑ (2. * RISK WEIGHTS) * 8%) | | | | | | | | | | |
| CL I – Central Governments or Central Banks | | | 8,791 | | 1,819 | | 16,059 | 0 | | 26,670 |
| CL II – Regional Governments or Local Authorities | | | 11,347 | | | | | | | 11,347 |
| CL III – Administrative and non–profit Organisations | | | 206 | | 469 | | 11 | | | 686 |
| CL IV – Multilateral Development Banks | | | | | | | | | | |
| CL V – International Organisations | | | | | | | | | | |
| CL VI – Institutions | | | 78.878 | | 10.811 | | 48.739 | 16.534 | | 154.963 |
| CL VII – Corporates | | | 1,338 | | 2,075 | | 818,036 | 63,454 | | 884,903 |
| CL VIII – Retail Portfolio | | | | | | 96,092 | 151 | | | 96,243 |
| CL IX – Positions guaranteed by real estate | | | 64 | 53,597 | 48,751 | 6,348 | 85,328 | 7,682 | | 201,770 |
| CL X – Past due items | | | | | | | 95,766 | 70,091 | | 165,857 |
| CL XI – Covered bonds | | | | | | | | | | |
| CL XII – Exposures on Collective Investment Undertakings (CIU) | | | | | | | 47,765 | 97,203 | | 144,968 |
| CL XIII – Other items | | | 26,068 | | | | 185,052 | | | 211,120 |
| TOTAL CAPITAL REQUIREMENTS | 0 | 0 | 126,693 | 53,597 | 63,927 | 102,439 | 1,296,908 | 254,964 | 0 | 1,898,527 |

| | 31 December 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Risk weights | | | | | | | | | |
| | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total |
| 1. ORIGINAL EXPOSURE | | | | | | | | | | |
| CL I – Central Governments or Central Banks | 8,412,293 | | 676,535 | | 47,362 | | 231,452 | | | 9,367,643 |
| CL II – Regional Governments or Local Authorities | 33,068 | | 676,107 | | | | | | | 709,175 |
| CL III – Administrative and non–profit Organisations | 84,233 | | 13,331 | | 13,109 | | 292 | 18 | | 110,984 |
| CL IV – Multilateral Development Banks | 88,213 | | | | | | | | | 88,213 |
| CL V – International Organisations | | | | | | | | | | |
| CL VI – Institutions | | 97,921 | 6,115,612 | | 205,882 | | 1,508,970 | 225,918 | | 8,154,303 |
| CL VII – Corporates | 47,500 | | 15,341 | | 272,955 | | 15,813,281 | 791,314 | | 16,940,390 |
| CL VIII – Retail Portfolio | | | | | | 3,421,502 | 1,644 | | | 3,423,146 |
| CL IX – Positions guaranteed by real estate | | | 4,542 | 7,270,005 | 1,222,395 | 1,170,983 | 1,639,366 | 44,202 | | 11,351,493 |
| CL X – Past due items | | | | | | | 1,895,641 | 978,216 | | 2,873,857 |
| CL XI – Covered bonds | | | | | | | | | | |
| CL XII – Exposures on Collective Investment Undertakings (CIU) | | | | | | | 478,686 | | | 478,686 |
| CL XIII – Other items | 2,564,650 | | 2,074,136 | | | | 4,149,912 | | | 8,788,697 |
| TOTAL ORIGINAL EXPOSURES | 11,229,957 | 97,921 | 9,575,606 | 7,270,005 | 1,761,703 | 4,592,485 | 25,719,243 | 2,039,668 | 0 | 62,286,587 |

(continues)

(continuation)

| | 31 December 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Risk weights | | | | | | | | | |
| | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total |
| **2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)** | | | | | | | | | | |
| CL I – Central Governments or Central Banks | 7,972,577 | | 673,358 | | 47,315 | | 235,261 | 29 | | 8,928,539 |
| CL II – Regional Governments or Local Authorities | 32,902 | | 627,012 | | | | 122,107 | | | 782,022 |
| CL III – Administrative and non–profit Organisations | 97,903 | | 12,909 | | 5,227 | | 145 | 10 | | 116,196 |
| CL IV – Multilateral Development Banks | 88,213 | | | | | | | | | 88,213 |
| CL V – International Organisations | 291 | | | | | | | | | 291 |
| CL VI – Institutions | 191,702 | 97,921 | 4,882,601 | | 128,359 | | 796,183 | 188,910 | | 6,285,675 |
| CL VII – Corporates | 168,872 | | 7,706 | | 264,775 | | 9,591,280 | 716,627 | | 10,749,260 |
| CL VIII – Retail Portfolio | 45,792 | | | | | 1,968,197 | 1,357 | | | 2,015,347 |
| CL IX – Positions guaranteed by real estate | | | 4,524 | 7,236,222 | 1,168,330 | 1,120,648 | 1,298,816 | 41,897 | | 10,870,436 |
| CL X – Past due items | | | | | | | 1,103,032 | 788,237 | | 1,891,269 |
| CL XI – Covered bonds | | | | | | | | | | |
| CL XII – Exposures on Collective Investment Undertakings (CIU) | | | | | | | 471,756 | | | 471,756 |
| CL XIII – Other items | 2,564,650 | | 2,074,136 | | | | 2,550,027 | | | 7,188,812 |
| **TOTAL EXPOSURES** | **11,162,901** | **97,921** | **8,282,247** | **7,236,222** | **1,614,005** | **3,088,845** | **16,169,964** | **1,735,710** | **0** | **49,387,815** |
| **3. TOTAL CAPITAL REQUIREMENTS (=∑ (2. * RISK WEIGHTS) * 8%)** | | | | | | | | | | |
| CL I – Central Governments or Central Banks | | | 10,774 | | 1,893 | | 18,821 | 4 | | 31,491 |
| CL II – Regional Governments or Local Authorities | | | 10,032 | | | | 9,769 | | | 19,801 |
| CL III – Administrative and non–profit Organisations | | | 207 | | 209 | | 12 | 1 | | 429 |
| CL IV – Multilateral Development Banks | | | | | | | | | | |
| CL V – International Organisations | | 783 | 78,122 | | 5,134 | | 63,695 | 22,669 | | 170,403 |
| CL VI – Institutions | | | 123 | | 10,591 | | 767,302 | 85,995 | | 864,012 |
| CL VII – Corporates | | | | | | 118,092 | 109 | | | 118,200 |
| CL VIII – Retail Portfolio | | | 72 | 202,614 | 46,733 | 67,239 | 103,905 | 5,028 | | 425,592 |
| CL IX – Positions guaranteed by real estate | | | | | | | 88,243 | 94,588 | | 182,831 |
| CL X – Past due items | | | | | | | | | | |
| CL XI – Covered bonds | | | | | | | | | | |
| CL XII – Exposures on Collective Investment Undertakings (CIU) | | | | | | | 37,740 | | | 37,740 |
| CL XIII – Other items | | | 33,186 | | | | 204,002 | | | 237,188 |
| **TOTAL CAPITAL REQUIREMENTS** | **0** | **783** | **132,516** | **202,614** | **64,560** | **185,331** | **1,293,597** | **208,285** | **0** | **2,087,687** |

Note: The original exposures reflect the total reported in Table XIII – Exposures, while the own funds requirements shown in this table correspond to the items in 2.1.1.1. of Table IX – Own funds requirements.

Own funds requirements for credit risk and counterparty credit risk originated by portfolios subject to the IRB approach, as at 31 December 2012 and 2011, are presented in Tables XXIV – A, B, C and D, which translate the different approaches used (with and without own LGD estimates and/or conversion factors, specialised loans and equity positions).

## TABLE XXIV-A – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH)

Thousand euros

| Using own estimations of LGD and/or credit conversion factors | | Internal ratings based system | Original exposure | Exposure at risk | LGD (average weighted by the exposure at risk) (%) | Capital Requirements | | Memorandum Items | |
|---|---|---|---|---|---|---|---|---|---|
| | | PD buckets of customer risk grades (%) | | | | 31-12-2012 | 31-12-2011 | Expected losses | Impairment |
| 1. TOTAL EXPOSURES | | 12% | 36,217,648 | 34,023,969 | 25% | 642,379 | 632,456 | 1,138,770 | 764,189 |
| 1.1 – Exposures related to customers risk grades: Total | | 12% | 36,217,648 | 34,023,969 | 25% | **642,379** | 632,456 | 1,138,770 | 764,189 |
| Breakdown of exposures related to customers risk grades [(a)]: | Risk grade: 1 | 0.01% to 0.05% | | | | | | | |
| | 2 | 0.05% to 0.07% | 161,947 | 47,201 | 51% | **98** | | 9 | 58 |
| | 3 | 0.07% to 0.14% | 7,230,566 | 7,149,765 | 25% | **29,306** | 3,148 | 1,465 | 13,854 |
| | 4 | 0.14% to 0.28% | 7,775,917 | 7,260,668 | 24% | **48,550** | 53,715 | 3,062 | 13,573 |
| | 5 | 0.28% to 0.53% | 4,293,838 | 4,136,342 | 25% | **48,696** | 45,786 | 3,776 | 10,256 |
| | 6 | 0.53% to 0.95% | 2,968,694 | 2,872,697 | 26% | **51,602** | 58,982 | 4,861 | 9,320 |
| | 7 | 0.95% to 1.73% | 2,493,957 | 2,222,697 | 26% | **58,907** | 63,880 | 7,074 | 7,790 |
| | 8 | 1.73% to 2.92% | 1,740,270 | 1,514,944 | 26% | **54,977** | 56,878 | 8,532 | 5,572 |
| | 9 | 2.92% to 4.67% | 1,233,449 | 1,305,022 | 25% | **60,823** | 62,075 | 11,804 | 6,097 |
| | 10 | 4.67% to 7.00% | 1,080,500 | 923,735 | 24% | **53,875** | 50,218 | 12,602 | 3,815 |
| | 11 | 7.00% to 9.77% | 960,468 | 806,890 | 24% | **55,621** | 53,536 | 15,949 | 3,917 |
| | 12 | 9.77% to 13.61% | 1,840,078 | 1,410,996 | 24% | **103,932** | 123,353 | 36,722 | 8,197 |
| | 13 to 15 | 13.61% to 100.00% | 4,437,965 | 4,373,013 | 27% | **75,990** | 60,885 | 1,032,916 | 681,740 |

(a) Ascending sort, in accordance to the average PD attributed to the risk grade of the customer. The PD attributed to defaulted customers equals 100%.
Note 1: This table doesn't include information related to the especialised lending, that is presented in Table XXIV-C.
Note 2: Risk grades and PD buckets presented in this table reflect the risk grades scale and corresponding PDs of Millennium bcp's Rating MasterScale.

## TABLE XXIV-B – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH)

Thousand euros

| Not using own estimations of LGD and/or credit conversion factors | | Internal ratings based system | Original exposure | Exposure at risk | LGD (average weighted by the exposure at risk) (%) | Capital Requirements | | Memorandum Items | |
|---|---|---|---|---|---|---|---|---|---|
| | | PD buckets of customer risk grades (%) | | | | 31-12-2012 | 31-12-2011 | Expected losses | Impairment |
| 1. TOTAL EXPOSURES | | 24% | 16,272,355 | 13,352,522 | 41% | 1,008,256 | 1,096,913 | 1,394,690 | 948,518 |
| 1.1. – Exposures related to customers risk grades: Total | | 24% | 16,272,355 | 13,352,522 | 41% | **1,008,256** | 1,096,913 | 1,394,690 | 948,518 |
| Breakdown of exposures related to customers risk grades [(a)]: | Risk grade: 1 | 0.01% to 0.05% | | | | | | | |
| | 2 | 0.05% to 0.07% | | | | | | | |
| | 3 | 0.07% to 0.14% | 6,381 | 779 | 45% | **20** | 418 | 0 | 7 |
| | 4 | 0.14% to 0.28% | 1,114,869 | 970,653 | 43% | **29,214** | 35,098 | 710 | 726 |
| | 5 | 0.28% to 0.53% | 825,788 | 622,892 | 36% | **23,264** | 31,462 | 821 | 1,517 |
| | 6 | 0.53% to 0.95% | 1,061,495 | 738,575 | 40% | **38,659** | 101,233 | 1,978 | 2,219 |
| | 7 | 0.95% to 1.73% | 1,016,279 | 860,730 | 42% | **62,681** | 90,671 | 4,632 | 2,823 |
| | 8 | 1.73% to 2.92% | 1,516,029 | 1,055,784 | 39% | **79,313** | 227,903 | 8,971 | 4,254 |
| | 9 | 2.92% to 4.67% | 1,461,516 | 1,164,637 | 41% | **107,225** | 143,618 | 16,442 | 4,808 |
| | 10 | 4.67% to 7.00% | 1,416,665 | 1,190,108 | 42% | **135,957** | 130,761 | 28,709 | 5,195 |
| | 11 | 7.00% to 9.77% | 936,153 | 663,978 | 42% | **83,870** | 40,478 | 22,396 | 3,591 |
| | 12 | 9.77% to 13.61% | 3,389,787 | 2,928,462 | 41% | **380,714** | 231,146 | 133,326 | 21,069 |
| | 13 to 15 | 13.61% to 100.00% | 3,527,393 | 3,155,923 | 41% | **67,339** | 64,125 | 1,176,703 | 902,309 |

(a) Ascending sort, in accordance to the average PD attributed to the risk grade of the customer. The PD attributed to defaulted customers equals 100%.
Note 1: This table doesn't include information related to the especialised lending, that is presented in Table XXIV-C.
Note 2: Risk grades and PD buckets presented in this table reflect the risk grades scale and corresponding PDs of Millennium bcp's Rating MasterScale.

## TABLE XXIV-C – OWN FUNDS REQUIREMENTS FOR ESPECIALISED LENDING (IRB APPROACH)

Thousand euros

| Risk weights | Original exposure | | Capital requirements | |
|---|---|---|---|---|
| | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 |
| 0% | **20,623** | | | |
| 50% | **27,336** | | **993** | |
| 70% | **196,502** | 18,885 | **10,887** | 917 |
| of which: Grade 1 | | | | |
| 90% | **1,133,586** | 1,820,381 | **79,831** | 123,314 |
| 115% | **531,021** | 404,574 | **46,383** | 36,262 |
| 250% | **420,988** | 174,244 | **76,135** | 34,058 |
| TOTAL | **2,330,056** | 2,418,085 | **214,228** | 194,550 |

## TABLE XXIV-D – OWN FUNDS REQUIREMENTS FOR EQUITY POSITIONS (IRB APPROACH)

Thousand euros

| Using own estimations of LGD and/or credit conversion factors | | Internal ratings based system | Original exposure | Exposure at risk | LGD (average weighted by the exposure at risk) (%) | Capital Requirements | | Memorandum Items | |
|---|---|---|---|---|---|---|---|---|---|
| | | PD buckets of customer risk grades (%) | | | | **31-12-2012** | 31-12-2011 | Expected losses | Impairment |
| 1. PD/LGD APPROACH: TOTAL RISK EXPOSURES | | | | | | | | | |
| Breakdown of exposures related to customers risk grades [(a)]: | Risk grade: 1 | | | | | | | | |
| | 2 | | | | | | | | |
| | 3 | | | | | | | | |
| | 4 | | | | | | | | |
| | 5 | | | | | | | | |
| | ... | | | | | | | | |
| | ... | | | | | | | | |
| | ... | | | | | | | | |
| | n | | | | | | | | |
| 2. SIMPLE WEIGHT APPROACH: TOTAL EXPOSURES AT RISK | | | 47,367 | 47,367 | | **12,890** | 55,198 | 854 | |
| | Risk weight: 190% | | | | | | | | |
| | 290% | | 17,670 | 17,670 | | **4,099** | 12,509 | 141 | |
| | 370% | | 29,697 | 29,697 | | **8,790** | 42,688 | 713 | |
| 3. IRB APPROACH | | | | | | | | | |

(a) Ascending sort, in accordance to the average PD attributed to the risk grade of the customer. The PD attributed to defaulted customers equals 100%.

# 6. COUNTERPARTY CREDIT RISK

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

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

The total exposure limit for financial institutions that are counterparties in contracts subject to this type or risk is divided into two components: one for traditional credit operations (financial and/or signature) and another for treasury products.

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

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

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

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

Both in 2012 and in 2011, for the purposes of reducing counterparty credit risk, the Group used the financial collateral comprehensive method, as established in Annex VI of Banco de Portugal Notice no. 5/2007, and the mark-to-market method to calculate the future exposure in the relevant positions in credit risk, as defined in Part 3 of Annex V to the abovementioned Notice.

After estimating the exposures as at 2011 and 2012, the own funds requirements were computed, on one hand, according to Annex III of Banco de Portugal Notice no. 5/2007, for risk scores and portfolios that followed the standardised approach, and, on the other hand, based on Annex IV to said Notice for the portfolios regarding which Banco de Portugal authorized the IRB Approach.

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

The market values of the operations are collected directly from the front-end application (Kondor+), in which the management and evaluation of the operations is carried out, whilst the add-on values to be applied are directly identifiable in table I of Stage b) of Part 3 of Annex V to Banco de Portugal Notice no. 5/2007.

Table XXV shows own funds requirements for counterparty credit risk for exposures subject to the standardised approach, computed as at the end of 2012 and 2011.

**TABLE XXV – OWN FUNDS REQUIREMENTS FOR COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)**

Thousand euros

| | Original exposure | Credit risk mitigation techniques with substitution effects in the original net exposure (a) | CRM techniques with substitution effect on the net exposure amount (b) | Fully adjusted exposure | Capital requirements | |
|---|---|---|---|---|---|---|
| | | | | | **31-12-2012** | 31-12-2011 |
| Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions | 50,887 | | 4,110 | 46,777 | **760** | 3,364 |
| Derivatives | 1,089,485 | | 360,131 | 729,353 | **29,925** | 27,638 |
| Contractual cross-product netting | | | | | | |

(a) Substitution effects in the exposure, corresponding to the net balance of outflows and inflows.
(b) Funded credit protection – comprehensive financial collateral approach.
Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.1. of Table IX – Own funds requirements.

Own funds requirements for counterparty credit risk for exposures subject to the IRB approach, computed as at the end of 2012 and 2011 are broken down in Table XXVI.

**TABLE XXVI – OWN FUNDS REQUIREMENTS FOR COUNTERPARTY CREDIT RISK (IRB APPROACH)**

Thousand euros

| | Original exposure | Credit risk mitigation techniques with substitution effects in the original net exposure (a) | CRM techniques with substitution effect on the net exposure amount (b) | Fully adjusted exposure | Capital requirements | |
|---|---|---|---|---|---|---|
| | | | | | **31-12-2012** | 31-12-2011 |
| Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions | | | | | | |
| Derivatives | 430,656 | | | 430,656 | **49,384** | 40,225 |
| Contractual cross-product netting | | | | | | |

(a) Substitution effects in the exposure, corresponding to the net balance of outflows and inflows.
(b) Funded credit protection – comprehensive financial collateral approach.
Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.2. of Table IX – Own funds requirements.

As at 31 December 2012 and 2011, the Group had no formal credit risk coverage operation involving credit derivatives underway. On those dates, the Group was exposed to other financial instruments with credit risk arising from intermediation activities, namely credit linked notes and credit default swaps, which correspond, essentially, to a number of structured products issued by the Bank and their associated informal coverage operations. These exposures are shown in Table XXVII.

**TABLE XXVII – CREDIT DERIVATIVES**

Thousand euros

| Credit derivative transactions | Long positions | | Short positions | |
|---|---|---|---|---|
| | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 |
| I. CREDIT PORTFOLIO (TOTAL): | | | | |
| a) Credit default swaps | | | | |
| b) Total return swaps | | | | |
| c) Credit linked notes | | | | |
| d) Other credit derivatives | | | | |
| II. INTERMEDIATION ACTIVITIES (TOTAL): | **2,244,910** | 2,625,050 | **1,969,390** | 2,524,550 |
| a) Credit default swaps | **1,882,400** | 2,016,400 | **1,969,390** | 2,524,550 |
| b) Total return swaps | **19,510** | 19,500 | | |
| c) Credit linked notes | **343,000** | 589,150 | | |
| d) Other credit derivatives | | | | |

Long-term positions – theoretical value of the acquired protection.

Short-term positions – theoretical value of the protection sold.

Notes: The intermediation activities mostly involve net sales of protection via credit default swaps, to hedge the credit risk related to credit linked notes and other financial instruments issued by the Group.

The exposures listed in this table impact on the own funds requirements for counterparty risk, based on market value plus an add-on, with the respective amounts reflected in Tables XXV and XXVI – Own funds requirements for credit risk and counterparty credit risk (Standardised and IRB approaches, respectively).

# 7. CREDIT RISK MITIGATION TECHNIQUES

## 7.1. ELIGIBILITY AND TYPE OF MITIGATION INSTRUMENTS

The internal rules and procedures relative to credit risk mitigation meet the requirements defined in Banco de Portugal Notice no. 5/2007, reflecting also the experience of the Credit Recovery Departments (both Retail and Specialised) and the opinion of the Legal Department with respect to the binding character of the various mitigation instruments.

The relevant collateral and guarantees are grouped in the following categories:

- Financial collateral, real estate collateral and other collateral;
- Values receivable;
- First demand guarantees, issued by banks or other entities with risk grade 7 or higher in the Rating MasterScale;
- Personal guarantees, when the guarantors are classified as risk grade 7 or better;
- Credit derivatives.

The accepted financial collateral must also be transacted in a recognised stock exchange, that is, in an organised, liquid and transparent secondary market, with bid and offer prices, located in European Union countries, the United States of America, Japan, Canada, Hong Kong or Switzerland.

In this context, it is important to mention that Banco Comercial Português shares are not accepted as financial collateral for new credit operations, only being accepted within the scope of guarantees in already existing credit operations or within the scope of restructuring processes associated with credit recovery.

Regarding credit guarantees and derivatives, the principle of substitution of the Customer's grade of risk for the protection provider's risk grade (provided the latter's is better than the former's) is applied when:

- There are State guarantees, mutual guarantee companies or financial institutions guarantees;
- Personal guarantees or bails are provided (or, in the case of leasing operations, there is a supporting contractor);
- Mitigation is carried out through credit derivatives.

In derivative product operations carried out in financial markets, with banking counterparties, the Bank has to, as a principle, support the same counterparties in bilateral compensation agreements (ISDA).

In addition, the Bank has followed the policy of complementing these agreements with Credit Support Annexes (CSA), which guarantee an effective reduction in the counterparty risk of the transactions, by demanding collateralisation with financial instruments of the net amounts payable by one of the counterparties.

## 7.2. PROTECTION LEVELS

For all credit operations, at the moment of credit decision, a protection level is attributed, taking into consideration the credit amount and the value and type of collateral involved. The protection level corresponds to the evaluation of the loss reduction in case of default based on the various types of collateral, considering the relationship between the market value of the collateral and the amount of exposure associated.

In the case of financial collateral, an adjustment of the value of protection is carried out through the application of a set of haircuts, so as to reflect the volatility of the price of the financial instruments. The haircuts considered are the following: (i) specific haircut of the collateral type (differentiating debt instruments according to maturity and the issuer risk or the shares included in a main index versus the shares listed in a recognised stock exchange, for example); (ii) seniority haircut of the instrument (senior debt, subordinated debt and highly subordinated debt and preferential shares); (iii) exchange rate haircut (when the currency of the collateral differs from the exposure currency); and (iv) fixed interest rate debt securities haircut (according to residual maturity).

## 7.3. COLLATERAL REVALUATION

### FINANCIAL COLLATERAL

The market value of the financial collateral is automatically updated on a daily basis, through the existing computer connection between the collateral management system and information of the relevant financial markets.

### REAL ESTATE: HOME MORTGAGES, COMMERCIAL MORTGAGES AND OTHERS

The procedures are based on the concept of value in terms of a mortgage guarantee, being centralised at the Evaluation Unit, regardless of the Customer area (credit concession, credit recovery, real estate received as payment and leasing).

The valuations and respective revisions/revaluations are, in general, carried out by external evaluation entities and ratified by the Bank's Evaluation Unit, and can also be carried out by an internal evaluation expert, irrespective of Customer areas. In any case, they are the object of a written report, in standardised digital format, taking into consideration the methods applied – income, cost and reversion and/or market comparison. The value obtained within the scope of the concept of market value and for the purposes of mortgage guarantee, according to the type of real estate in question, is also considered. Evaluations have been subject to a declaration/certification of the evaluation expert since 2008, as required by Banco de Portugal Notice no. 5/2007.

Relative to real estate for housing, after the initial valuation and in conformity with Banco de Portugal Notices no. 5/2006 and no. 5/2007, the Bank verifies the respective values through indexes value revisions made by expert valuators within the established requirements:

- If the value of the credit operation that benefits from the mortgage is in excess of 500,000 euros, the value is revised by an evaluation expert, every three years;

- If the value of the credit operation that benefits from the mortgage is under of 500,000 euros, the value is revised using market indexes, every three years. Whenever the revision of the value finds a significant decrease (above 10%), the valuation must be revised by an evaluation expert.

For all non-housing real estate properties, the Bank also verifies the value using market indexes and revises the respective value with the minimum regularity defined by Banco de Portugal Notice no. 5/2007, for offices, warehouses and industrial properties.

All the real-estate properties (housing or non-housing) whose value decreased significantly (more than 10%) after the value verifications, are subsequently object of a revision of their value by a valuation expert.

For all other real estate properties (land, businesses and rustic buildings, for instance) there are no market indexes available to verify their value after the initial evaluations. Thus, in these cases and according to the minimum regularity established for the verifications and revisions of the value of these properties, external evaluators are responsible for the value revisions.

The indexes currently used are provided to the Bank by a specialised external entity, which has collected and handled the database on which they are made for over a decade.

The revision of the valuation of the properties, according to the requirements of Banco de Portugal Notice no. 5/2007, are mostly carried out by external evaluation experts. Thus, the Bank does not use any automated systems to obtain valuation values.

Table XXVIII summarises the impact, as at 31 December 2012, of the risk mitigation techniques used by the Group, within the scope of the Standardised approach, effective in terms of both the substitution of risk positions and of the amount of those risk positions per risk class.

## TABLE XXVIII – CREDIT RISK MITIGATION TECHNIQUES – STANDARDISED APPROACH

Thousand euros

| | | CRM techniques with substitution effect on the original net exposure | | | | | CRM techniques with substitution effect on the net exposure amount: funded credit protection (a) | |
|---|---|---|---|---|---|---|---|---|
| | Net exposure | Personal credit protection: fully adjusted value of the protection (GA) | | Funded credit protection | | Substitution effect on the exposure (net of outflows and inflows) | Volatility adjustment to the exposure amount | Financial collateral: amounts adjusted by volatility and any discrepancy between expiration periods (Cvam) (-) |
| | | Guarantees | Credit derivatives | Simple method: financial collaterals | Other forms of funded credit protection | | | |
| **Total exposures** | **51,512,827** | **597,517** | | **254,494** | | **315,457** | | **1,010,286** |
| CL I – Central Governments or Central Banks | 10,969,968 | | | | | 381,978 | | |
| CL II – Regional Governments or Local Authorities | 635,813 | 27 | | | | 115,024 | | |
| CL III – Administrative and non-profit Organisations | 181,268 | | | | | 8,964 | | 731 |
| CL IV – Multilateral Development Banks | 92,566 | | | | | 1,887 | | |
| CL V – International Organisations | | | | | | 115 | | |
| CL VI – Institutions | 6,693,019 | 930 | | | | 573,831 | | 107,646 |
| CL VII – Corporates | 16,013,544 | 558,952 | | 23,279 | | -500,502 | | 848,714 |
| CL VIII – Retail Portfolio | 2,381,451 | 11,305 | | 230,445 | | -239,178 | | 32,829 |
| CL IX – Positions guaranteed by real estate | 4,555,023 | 3,572 | | 412 | | -3,572 | | 12,836 |
| CL X – Past due items | 1,811,784 | 22,732 | | 358 | | -23,089 | | 7,529 |
| CL XI – Covered bonds | | | | | | | | |
| CL XII – Exposures on Collective Investment Undertakings (CIU) | 1,407,088 | | | | | | | |
| CL XIII – Other items | 6,771,302 | | | | | | | |

(a) Comprehensive financial collateral method. Exposure amount shall mean the net exposure after the substitution effect.

Tables XXIX-A and XXIX-B summarise the impact, with reference to 31 December 2012, of the credit risk mitigation techniques used by the Group, under the IRB approach, in terms of the substitution of exposures and the actual amount of exposures, by risk class.

## TABLE XXIX-A – CREDIT RISK MITIGATION TECHNIQUES – IRB APPROACH

Thousand euros

| | | CRM techniques with substitution effect on the original net exposure | | | | CRM techniques with impact on the LGD estimation, excluding the treatment related to simultaneous default | | | | | Treatment related to simultaneous default |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Original exposures | Personal credit protection | | Other forms of funded credit | Substitution effect on the exposure (net of outflows and inflows) | Using own estimations of LGD: Personal credit protection | | Funded credit protection | | | Personal credit protection |
| | | Guarantees | Credit derivatives | | | Guarantees | Credit derivatives | Using own estimations of LGD: other | Eligible collateral | Other eligible collateral (a) | |
| **Total exposures** | **54,820,060** | **2,686,986** | | | **-315,457** | | | **257,447** | **938,166** | **29,434,480** | |
| Claims or contingent claims on Corporates | 18,602,412 | 365,045 | | | -203,612 | | | 71,024 | 675,173 | 2,755,905 | |
| Retail claims or contingent Retail Claims | 36,217,648 | 2,321,941 | | | -111,844 | | | 186,423 | 262,993 | 26,678,575 | |

(a) "Other eligible collateral" include "real estate", "other tangible guarantees" and "amounts due for collection".

### TABLE XXIX-B – CREDIT RISK MITIGATION TECHNIQUES – EQUITY POSITIONS (IRB APPROACH)

Thousand euros

| | Original exposures | CRM techniques with substitution effect on the original net exposure | | |
|---|---|---|---|---|
| | | Personal credit protection | | Substitution effect on the exposure (net of outflows and inflows) |
| | | Guarantees | Credit derivatives | |
| PD/LGD based approach (total) | | | | |
| Simple weight based approach (total) | 47,367 | | | |
| Internal ratings based approach (total) | | | | |

Credit risk mitigation techniques (personal and real credit protection), with reference to 31 December 2012 and 2011, are analysed in Table XXX, taking into consideration the main sectors of activity focused on.

### TABLE XXX – CONCENTRATION ANALYSIS: PERSONAL AND FUNDED CREDIT PROTECTION

Thousand euros

| 31 December 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Personal credit protection | | Funded credit protection | | | | | Other forms of funded credit protection |
| | | | Eligible (financial) collateral | | Other forms of eligible collateral | | | |
| | Guarantees | Credit derivatives – Simple method | Simple Method | Comprehensive financial collateral method | Real-estate | Other tangible guarantees | Amounts due for collection | |
| **TOTAL POSITIONS COVERED** | **3,284,503** | | **254,494** | **1,948,452** | **29,025,771** | **408,709** | | **257,447** |
| Mortgage loans | 1,131,026 | | 412 | 15,196 | 24,587,486 | | | 9,819 |
| Services | 757,206 | | | 873,222 | 1,085,322 | 97,589 | | 32,273 |
| Consumer credit | 68,922 | | 230,445 | 115,927 | 138 | | | 84,338 |
| Construction | 242,947 | | | 116,304 | 451,467 | 9,591 | | 23,910 |
| Other domestic activities | 157,390 | | 23,637 | 550,502 | 384,606 | 9,379 | | 12,770 |
| Other foreign activities | | | | | | | | |
| Wholesale business | 406,368 | | | 92,099 | 902,617 | 26,351 | | 47,681 |
| Other | 520,645 | | | 185,201 | 1,614,135 | 265,799 | | 46,657 |

| 31 December 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Personal credit protection | | Funded credit protection | | | | | Other forms of funded credit protection |
| | | | Eligible (financial) collateral | | Other forms of eligible collateral | | | |
| | Guarantees | Credit derivatives – Simple method | Simple Method | Comprehensive financial collateral method | Real-estate | Other tangible guarantees | Amounts due for collection | |
| **TOTAL POSITIONS COVERED** | **2,705,730** | | **353,349** | **3,955,265** | **24,678,980** | **572,524** | | **293,880** |
| Mortgage loans | 815,943 | | 1,433 | 8,482 | 19,156,408 | | | 8,943 |
| Services | 564,946 | | | 2,364,969 | 1,577,896 | 168,022 | | 38,930 |
| Consumer credit | 89,690 | | 321,052 | 170,743 | 11 | | | 87,009 |
| Construction | 241,237 | | | 173,347 | 478,765 | 22,362 | | 36,302 |
| Other domestic activities | 157,689 | | 30,864 | 966,395 | 398,318 | 12,628 | | 9,828 |
| Other foreign activities | | | | | | | | |
| Wholesale business | 368,663 | | | 115,009 | 1,062,967 | 34,912 | | 55,144 |
| Other | 467,562 | | | 156,320 | 2,004,616 | 334,599 | | 57,725 |

Note: In the scope of application of the standardised approach, mortgages guaranteeing credit risks related to residential (including those arising from leasing contracts) and commercial spaces, are not included within the specific scope of credit risk mitigation techniques, but contribute, namely, to the verification of the criteria that determine the risk weights applied in their capital requirements calculation, and to the deduction of real-estate assets resulting from recovered loans. Similarly, collaterals represented by amounts due to collection and other forms of funded protection, based on the use of own estimations of LGD, are exclusively applied by internal ratings based approaches.

# 8. EQUITY EXPOSURES IN THE BANKING BOOK

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

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

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

Changes in the fair value of these equities are registered against fair value reserves until they are sold or register impairment losses.

When sold, accrued gains or losses recognised in fair value reserves are registered under "Results from available for sale financial assets" on the financial statements. The treatment associated with the recognition and reversion of these assets' impairment losses is described in chapter "5.1. Definitions and policies for determining losses and coverage". Dividends will be recognised under earnings when the rights to receiving them are attributed.

The Equity exposures in the banking book are analysed in Table XXXI, as follows:

**TABLE XXXI – EQUITY EXPOSURES IN THE BANKING BOOK** Thousand euros

| | Listed shares | | Unlisted shares<br>Private equity | | Other capital instruments (*) | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | |
| Acquisition cost/Notional amount | **43,851** | 81,122 | **86,826** | 78,557 | | 116,257 | **130,677** | 275,936 | |
| Fair value | **19,551** | 55,781 | **69,583** | 63,142 | | 116,027 | **89,134** | 234,949 | |
| Market price | | | | | | | | | |
| Gains or losses arising from sales and settlements in the period | | | | | | | **-895** | 24,013 | (1) |
| Total unrealised gains or losses | | | | | | | **5,452** | 6,539 | (2) |
| Total latent revaluation gains or losses | | | | | | | **-41,542** | -40,987 | (3) |

Note: Equity issued by the Bank as well as derivatives indexed to those instruments are not included.
(*) Venture capital funds, similar to equity for prudencial purposes.
(1) Gains or losses arising from sales and settlements in the period: results before taxes.
(2) Total unrealised gains or losses: reports the amount of the fair value reserves in this portfolio on the reporting dates, doesn't therefore incorporate eventual impairments or goodwill related to the respective securities; corresponds to potential accounting capital gains/losses for this portfolio, to be booked to the profit and loss account in case of divestment.
(3) Total latent revaluation gains or losses: difference between the fair value and the acquisition cost of the securities in the portfolio on the reporting dates. Reflects the total gains/losses underlying the shares of the investment portfolio; however, part of the unrealised losses may have already been recognised, via results or reserves (namely by impairment or goodwill).

On 31 December 2011, within the scope of the approval by Banco de Portugal for the use of IRB methodologies, the Group used the simple weight method to compute own funds requirements for the equity in the banking book held by Group entities headquartered in Portugal, having broadened the use of this approach for the entities held by Bank Millennium in Poland, effective as at 31 December 2012. Own funds requirements for the other operations and countries are still determined using the standardised approach.

The Simple Computation applies 290% and 370% weights to exposures to listed and unlisted stocks, respectively, and one may apply a smaller weight (190%) to risk exposures resulting from shareholdings in unlisted companies included in portfolios that are sufficiently diversified. In addition, shares that were already in the portfolio on 31 December 2007 are exempt from this computation until 31 December 2017, and are subject to a single 100% weight during this period of time, identical to the Standardised approach.

Own funds requirements for exposure to equity in the banking book are presented in Table XXXII.

**TABLE XXXII – CAPITAL REQUIREMENTS FOR EQUITY EXPOSURES**

Thousand euros

| | Risk weights | Risk positions (1) | | Capital requirements | |
|---|---|---|---|---|---|
| | | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 |
| STANDARDISED APPROACH | 100% | **39,884** | 35,357 | **3,191** | 2,829 |
| IRB APPROACH (2) | | **47,367** | 198,137 | **12,890** | 20,854 |
| Listed shares | 290% | **17,670** | 53,920 | **4,099** | 12,509 |
| Unlisted shares | 370% | **29,697** | 144,217 | **8,790** | 8,344 |
| TOTAL | | **87,251** | 233,494 | **16,080** | 23,682 |

(1) Original exposure net of provisioning.
(2) Based on the simple weight based approach; equities held by 31 December 2007 (risk weighted for 100%, as a result of the use of the applicable exemption), were included within the positions whose capital requirements are calculated according to the Standardised approach.

Note1: Own funds requirements shown in this table are emphasized in the scope of item 2.1.1.1.14. and 2.1.2.3. of Table IX – Own funds requirements.

Note 2: Risk positions differ from the fair value amounts as they don't include the amounts deducted to own funds (related to unrealised gains and qualified financial investments).

# 9. SECURITISATION OPERATIONS

## 9.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2012, the number of credit securitisation operations originated by the Group rose to eleven, seven of which from the operation in Portugal, three from Greece and one from Poland.

Since 1998, the Group has regularly carried out securitisation operations based on a great variety of assets and pursuing different goals, based on the market conditions and market opportunities and the Group's interests and needs.

We underline that, until 2007, all the operations made were placed in the market with institutional investors. Taking advantage of the conditions of a favourable market framework, this group of operations – involving mortgage loans, car loans, consumer loans and companies' loans – was carried out with the purpose of supplementing a more efficient management of the Bank's balance sheet, particularly its equity. The type of investors targeted by these operations was widely diverse, broad and mainly supplementary for the investors present in the Bank's direct funding operations in the money markets.

After 2007, market conditions to place these operations altered significantly. Thus the Bank began retaining in its books the totality of the bonds issued within the scope of each credit securitisation operation (from the senior tranche to the first loss tranche). So as to maximise its liquidity, the Bank continues to use the senior tranche of each operation carried out as an eligible asset.

As an investor, the Group does not hold significant positions in securitisation operations, except for those of EnergyOn No.1 and No.2, consisting of assets assigned by EDP Serviço Universal, S.A. made up by pre-defined amounts to be received from the Electric National System through prices paid by all electricity consumers in Portugal.

In general, the entity of the Group that acts as Originator also intervenes as Servicer and, in most cases, as Transaction Manager.

The main features of the securitisation operations with assets originated by the Group, namely in terms of goal, form and level of involvement, the existence or not of a significant risk transfer in each transaction and of securitised securities and debt, for active operations as at 31 December 2012, are summarized in Table XXXIII.

## TABLE XXXIII – DESCRIPTION OF SECURITISATION OPERATIONS

| | MAGELLAN 1 |
|---|---|
| Identification of the securitisation operation | Magellan Mortgages No. 1 Limited |
| Initial objective of the securitisation operation | Securing funding and risk management (2) |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender (Banco Comercial Português, S.A. and Banco de Investimento Imobiliário, S.A.)<br>Manager of the assigned credits<br>Escrow bank of the Securitisation Credit Fund<br>Transaction Manager<br>[Counterparty to the interest rate back-to-back swap] |
| Start date | 18 December 2001 |
| Legal maturity | 15 December 2036 |
| Step-up clause (date) | 15 December 2008 |
| Revolving (years) | N.A |
| Securitised assets (in million euros) | 1,000.0 |
| Significant credit risk transfer (1) | No |

| | MAGELLAN 2 |
|---|---|
| Identification of the securitisation operation | Magellan Mortgages No. 2 Limited |
| Initial objective of the securitisation operation | Securing funding and risk management (2) |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender<br>Manager of the assigned credits<br>Escrow bank of the Securitisation Credit Fund<br>Transaction Manager<br>[Counterparty to the interest rate back-to-back swap] |
| Start date | 24 October 2003 |
| Legal maturity | 18 July 2036 |
| Step-up clause (date) | 18 October 2010 |
| Revolving (years) | N.A |
| Securitised assets (in million euros) | 1,000.0 |
| Significant credit risk transfer (1) | No |

| | MAGELLAN 3 |
|---|---|
| Identification of the securitisation operation | Magellan Mortgages No. 3 Limited |
| Initial objective of the securitisation operation | Securing funding and risk management |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender<br>Manager of the assigned credits<br>Escrow bank of the Securitisation Credit Fund<br>Transaction Manager<br>[Counterparty to the interest rate back-to-back swap] |
| Start date | 30 June 2005 |
| Legal maturity | 15 May 2058 |
| Step-up clause (date) | 15 August 2012 |
| Revolving (years) | N.A |
| Securitised assets (in million euros) | 1,500.0 |
| Significant credit risk transfer (1) | No |

| | MAGELLAN 4 |
|---|---|
| Identification of the securitisation operation | Magellan Mortgages No. 4 Limited |
| Initial objective of the securitisation operation | Securing funding and risk management |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender<br>Manager of the assigned credits<br>Escrow bank of the Securitisation Credit Fund<br>Transaction Manager<br>[Counterparty to the interest rate back-to-back swap] |
| Start date | 13 July 2006 |
| Legal maturity | 20 July 2059 |
| Step-up clause (date) | 20 July 2015 |
| Revolving (years) | N.A |
| Securitised assets (in million euros) | 1,500.0 |
| Significant credit risk transfer (1) | No |

| | KION I |
|---|---|
| Identification of the securitisation operation | Kion Mortgage Finance PLC |
| Initial objective of the securitisation operation | Securing funding and risk management |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece)<br>Manager of the assigned credits (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece)<br>Counterparty to the interest rate back-to-back swap (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece) |
| Start date | 7 December 2006 |
| Legal maturity | 15 July 2051 |
| Step-up clause (date) | 15 January 2014 |
| Revolving (years) | N.A |
| Securitised assets (in millions euros) | 599.9 |
| Significant credit risk transfer [(1)] | No |

| | NOVA 4 |
|---|---|
| Identification of the securitisation operation | Nova Finance No. 4 Limited |
| Initial objective of the securitisation operation | Reinforce the Bank's portfolio of eligible assets |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender<br>Manager of the assigned credits<br>Escrow bank of the Securitisation Credit Fund<br>Transaction Manager<br>Counterparty of the back-to-back interest rate swap (Millennium bcp Bank & Trust)<br>Guarantor of the back-to-back interest rate swap (Banco Comercial Português, S.A., SFI)<br>Escrow bank for the Fund accounts (Fund Account & Fund Operating Reserve Account) |
| Start date | 21 December 2007 |
| Legal maturity | 22 March 2019 |
| Step-up clause (date) | N.A |
| Revolving (years) | 3 years |
| Securitised assets (in millions euros) | 700.0 |
| Significant credit risk transfer [(1)] | No |

| | ORCHIS |
|---|---|
| Identification of the securitisation operation | Orchis Sp. z o.o. |
| Initial objective of the securitisation operation | Securing funding and risk management |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender (Millennium Leasing Sp. z o.o, held by Bank Millennium, S.A., in turn a branch of Banco Comercial Português, S.A. in Poland)<br>Manager of the assigned credits (Millennium Leasing Sp. z o.o, held by Bank Millennium, S.A. in turn a branch of Banco Comercial Português, S.A. in Poland)<br>Receiver within the Collateralised and Protected Deposit (Bank Millennium, S.A.)<br>Guarantor of the warranty pledged under the Support Agreement (Bank Millennium, S.A.)<br>Counterparty of the interest rate swap (Bank Millennium, S.A.)<br>Guarantor of the obligations of Bank Millennium, S.A. under the Support Agreement (Banco Comercial Português, S.A.) |
| Start date | 20 December 2007 |
| Legal maturity | 20 December 2016 |
| Step-up clause (date) | N.A. |
| Revolving (years) | 3 years |
| Securitised assets (in millions euros) | 209.0 |
| Significant credit risk transfer [1] | No |

| | TAGUS LEASING I |
|---|---|
| Identification of the securitisation operation | Tagus Leasing No. 1 Limited |
| Initial objective of the securitisation operation | Reinforce the Bank's portfolio of eligible assets [2] |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender<br>Manager of the assigned credits<br>Transaction Manager |
| Start date | 26 February 2010 |
| Legal maturity | 23 August 2040 |
| Step-up clause (date) | N.A. |
| Revolving (years) | 1year |
| Securitised assets (in millions euros) | 1,200.0 |
| Significant credit risk transfer [1] | No |

| | SME 2 |
|---|---|
| Identification of the securitisation operation | Caravela SME no. 2 |
| Initial objective of the securitisation operation | Reinforce the Bank's portfolio of eligible assets (2) |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender<br>Manager of the assigned credits<br>Transaction Manager |
| Start date | 17 December 2010 |
| Legal maturity | 23 December 2020 |
| Step-up clause (date) | N.A. |
| Revolving (years) | 4 years |
| Securitised assets (in millions euros) | 2,700.0 |
| Significant credit risk transfer (1) | No |

| | KION 3 |
|---|---|
| Identification of the securitisation operation | Kion Mortgage Finance No. 3 PLC |
| Initial objective of the securitisation operation | Securing funding |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece)<br>Manager of the assigned credits (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece) |
| Start date | 8 May 2012 |
| Legal maturity | 8 May 2057 |
| Step-up clause (date) | N.A. |
| Revolving (years) | N.A. |
| Securitised assets (in millions euros) | 1,345.0 (part of the securitised assets are denominated in Swiss francs) |
| Significant credit risk transfer (1) | No |

| | KION CLO |
|---|---|
| Identification of the securitisation operation | Kion CLO Finance No. 1 PLC |
| Initial objective of the securitisation operation | Securing funding |
| Form of the securitisation operation | Traditional securitisation |
| Level of involvement in the respective process | Credit lender (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece)<br>Manager of the assigned credits (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece) |
| Start date | 16 May 2012 |
| Legal maturity | 16 May 2043 |
| Step-up clause (date) | N.A. |
| Revolving (years) | N.A. |
| Securitised assets (in millions euros) | 650.0 (part of the securitised assets are denominated in Swiss francs) |
| Significant credit risk transfer (1) | No |

(1) For regulatory purposes.

(2) Assets that, in 31 December 2012 could be pledged by the Bank as collateral within the Eurosystem in the scope of its financing operations.

The main features of the asset securitisation operations originated in the Group at the end of 2012 and 2011 are summarised in Table XXXIV.

**TABLE XXXIV – MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS**

| | TRADITIONAL | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | MAGELLAN 1 | | MAGELLAN 2 | | MAGELLAN 3 | | MAGELLAN 4 | | KION 1 | |
| | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 |
| INFORMATION ON THE TRANSACTIONS | | | | | | | | | | |
| Amounts in debt (in millions of euros) | **216.0** | 250.9 | **245.0** | 278.9 | **582.3** | 633.5 | **640.7** | 702.7 | **145.5** | 189.2 |
| INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION | | | | | | | | | | |
| Implicit support situations | **N.A.** | N.A. | **N.A.** | N.A. | **Yes*** | Yes* | **N.A.** | N.A. | **N.A.** | N.A. |
| Assets assigned (per institution)/ Securitised assets (total) (%) | **3%** | 2% | **3%** | 2% | **8%** | 5% | **9%** | 5% | **2%** | 1% |
| Initial gains/Value of first loss positions held | **N.A.** | N.A. | **N.A.** | N.A. | **N.A.** | N.A. | **N.A.** | N.A. | **N.A.** | N.A. |

| | TRADITIONAL | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NOVA 4 | | ORCHIS | | MAGELLAN 5 | | KION 2 | | SME 1 | |
| | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 |
| INFORMATION ON THE TRANSACTIONS | | | | | | | | | | |
| Amounts in debt (in millions of euros) | **253.0** | 438.8 | **35.3** | 85.2 | | 1,432.4 | | 443.1 | | 1,875.4 |
| INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION | | | | | | | | | | |
| Implicit support situations | **N.A.** | N.A. | **N.A.** | N.A. | | N.A. | | N.A. | | N.A. |
| Assets assigned (per institution)/ Securitised assets (total) (%) | **3%** | 3% | **0%** | 1% | | 11% | | 3% | | 14% |
| Initial gains/Value of first loss positions held | **N.A.** | N.A. | **N.A.** | N.A. | | N.A. | | N.A. | | N.A. |

| | TRADITIONAL | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | MAGELLAN 6 | | TAGUS LEASING 1 | | SME 2 | | KION 3 | | KION CLO | |
| | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 | **31-12-2012** | 31-12-2011 |
| INFORMATION ON THE TRANSACTIONS | | | | | | | | | | |
| Amounts in debt (in millions of euros) | | 3,379.5 | **683.0** | 914.6 | **2,621.7** | 2,802.4 | **1,335.1** | | **575.1** | |
| INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION | | | | | | | | | | |
| Implicit support situations | | N.A. | **N.A.** | N.A. | **N.A.** | N.A. | **N.A.** | | **N.A.** | |
| Assets assigned (per institution)/ Securitised assets (total) (%) | | 25% | **9%** | 7% | **36%** | 21% | **18%** | | **8%** | |
| Initial gains/Value of first loss positions held | | N.A. | **N.A.** | N.A. | **N.A.** | N.A. | **N.A.** | | **N.A.** | |

N.A. – Not Applicable.

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

## 9.2. GROUP ACCOUNTING POLICIES

The Group fully consolidates SPE resulting from securitisation operations originated in Group entities, when the relation with such entities indicates that the Group controls their activities, regardless of the shareholding owned by it. The assessment of the existence of control is made based on the criteria defined by SIC 12, analysed as follows:

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

Due to the difficulty in determining if an SPE is controlled, we assess if the Group is exposed to the risks and benefits of the activities of the SPE and if it has the decision-making powers in that SPE. The decision on whether an SPE must be consolidated by the Group requires the use of premises and estimates to verify the residual gains and losses and determine who holds most of those gains and losses.

Within the scope of the application of such policy, the accounting consolidation perimeter included the following SPE resulting from securitisation operations: NovaFinance no. 4, Magellan no. 2 and 3, Kion no. 1 and 3, Kion CLO Finance no. 1, Orchis Sp zoo., Caravela SME no. 2 and Tagus Leasing no. 1.

On the other hand, the Group did not consolidate into its accounts the following SPEs that also resulted from the Group's securitisation operations: Magellan no. 1 and 4. Regarding these SPE, not recognised in the balance sheet, we were able to verify that the associated risks and benefits were substantially transferred, since the Group does not hold securities issued by the SPE in question with exposure to most residual risks, nor is it in any other manner exposed to the performance of the their credit portfolios.

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

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

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

## 9.3. OWN FUNDS REQUIREMENTS

On 31 December 2012 and 2011, the Group only owned securitisation positions as an investor, for prudential purposes, since the securitisation operations where it was the assignor did not entail a significant transfer of exposure according to the criteria defined in Banco de Portugal Notice no. 7/2007 and, therefore, the own funds requirements were determined as if these had not occurred.

The computation of own funds of securitisation operations on the year of 2012 was made based on Annex IV of Banco de Portugal Notice no. 7/2007 and using the Internal Ratings Based approach for securitisation positions with the external rating granted by an ECAI, as per Annex III of Banco de Portugal Instruction no. 10/2007. Each quality level defined corresponds to a weight figure. Exposures without external ratings were subject to a 1,250% weight.

Also within the scope of the Internal Ratings Based approach, the weights for assessing capital requirements depend on the levels of credit quality resulting from the relations between the ECAI's ratings and those levels, in this case according to Annex III of Banco de Portugal Instruction no. 10/2007. Likewise, securitisation exposures without external ratings were also subject to a 1,250% weight.

The ECAI used in 2012 and in 2011 to compute own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

The Bank did not compute own funds requirements for securitisation operations according to the Standardised approach, at the end of both 2012 and 2011, as shown in Table XXXV.

**TABLE XXXV – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS: STANDARDISED APPROACH**

Thousand euros

| Traditional securitisation | Total amount of securitised exposures originated (from the lender) | Fully adjusted exposure value | | Breakdown of the exposure amount subject to weighting (2+3) by a risk weight higher or equal to 100% | | | | | Capital requirements | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Position subject to notation | | 1,250% | | Position not subject to notation | | |
| | | | Amounts deducted from own funds (-) | 100% | 350% | Position subject to notation | Position not subject to notation | | **31-12-2012** | 31-12-2011 |
| TOTAL EXPOSURES (=A+B+C) | | | | | | | | | | |
| A – LENDER ENTITY: TOTAL EXPOSURES | | | | | | | | | | |
| A.1. – Balance sheet items | | | | | | | | | | |
| Most senior | | | | | | | | | | |
| *Mezzanine* | | | | | | | | | | |
| First loss | | | | | | | | | | |
| A.2. – Off-balance sheet items and derivatives | | | | | | | | | | |
| A.3. – Early amortisation | | | | | | | | | | |
| B – INVESTOR: TOTAL EXPOSURES | | | | | | | | | | |
| B.1 – Balance sheet items | | | | | | | | | | |
| Most senior | | | | | | | | | | |
| *Mezzanine* | | | | | | | | | | |
| First loss | | | | | | | | | | |
| B.2 – Off-balance sheet items and derivatives | | | | | | | | | | |
| C – SPONSOR: TOTAL EXPOSURES | | | | | | | | | | |
| A.1 – Balance sheet items | | | | | | | | | | |
| A.2 – Off-balance sheet items and derivatives | | | | | | | | | | |

Note: : Own funds requirements shown in this table are emphasized in the scope of item 2.1.1.2. of Table IX – Own funds.

Own funds requirements for securitisation operations computed according to the IRB approach, at the end of both 2012 and 2011, are shown in Table XXXVI.

**TABLE XXXVI – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS: IRB APPROACH**

Thousand euros

| Traditional securitisation | Total amount of the originated securitised exposure (for the lender institution) | Fully adjusted exposure value | | Breakdown of the exposure amount subject to weighting (2+3) by a risk weight higher or equal to 100% | | | | | | Capital requirements | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Internal Ratings approach | | 1,250% | | Regulatory Formula approach | Internal Evaluation approach | | |
| | | | Amounts deducted from own funds (-) | 12%-18% | 100% | Position subject to notation | Position not subject to notation | Average risk weight (%) | Average risk weight (%) | 31-12-2012 | 31-12-2011 |
| TOTAL EXPOSURES (=A+B+C) | | 483,591 | | | 483,490 | | 101 | | | **41,100** | 5,786 |
| A – LENDER ENTITY: TOTAL EXPOSURES | | | | | | | | | | | |
| A.1. – Balance sheet items | | | | | | | | | | | |
| Most senior | | | | | | | | | | | |
| *Mezzanine* | | | | | | | | | | | |
| First loss | | | | | | | | | | | |
| A.2. – Off-balance sheet items and derivatives | | | | | | | | | | | |
| A.3. – Early amortisation | | | | | | | | | | | |
| B – INVESTOR: TOTAL EXPOSURES | | 483,591 | | | 483,490 | | 101 | | | **41,100** | 5,786 |
| B.1. – Balance sheet items | | 483,591 | | | 483,490 | | 101 | | | **41,100** | 5,786 |
| Most senior | | 483,490 | | | 483,490 | | | | | **41,000** | 5,685 |
| *Mezzanine* | | | | | | | | | | | |
| First loss | | 101 | | | | | 101 | | | **101** | 101 |
| B.2. – Off-balance sheet items and derivatives | | | | | | | | | | | |
| C – SPONSOR: TOTAL EXPOSURES | | | | | | | | | | | |
| A.1. – Balance sheet items | | | | | | | | | | | |
| A.2. – Off-balance sheet items and derivatives | | | | | | | | | | | |

Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.2.4 of Table IX – Own funds requirements.

On 31 December 2012 and 2011 there were no additional amounts of risk weighted exposures to securitisation operations of renewable exposures with early repayment clauses, regarding the application of the provisos of items 32 to 35 of no. 9 of Annex IV of Banco de Portugal Notice no. 7/2007, regarding the Internal Ratings Based approach in effect.

# 10. OWN FUNDS REQUIREMENTS OF THE TRADING BOOK

The trading book is composed of positions held with the purpose of obtaining short-term gains, via sales or revaluations. It is actively managed and rigorously and frequently evaluated.

In a letter dated 30 April 2009, Banco de Portugal authorized the Group to use the Internal Models approach to compute own funds requirements in terms of generic risk of the trading book.

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

Thus, as at 31 December 2012 and 2011, own funds requirements for generic market risks of the Group's trading book were calculated in accordance with the Internal Models approach for generic risk, within the universe of entities centrally managed from Portugal; for the remaining entities, the own funds requirements were calculated in accordance with the Standardised approach. With regards to specific risk, the Standardised approach was used for all eligible positions.

Table XXXVII shows own funds requirements associated with the Group's trading book as at 31 December 2012 and 2011, by type of risk.

**TABLE XXXVII - OWN FUNDS REQUIREMENTS FOR THE TRADING BOOK**

Thousand euros

| | 31-12-2012 | 31-12-2011 |
|---|---|---|
| TOTAL TRADING BOOK RISKS (=Σ(1.A 3.)) | **32,048** | 40,334 |
| 1. EXPOSURE RISK (1.1.+1.2.) | **32,048** | 40,334 |
| 1.1. Standardised approach for the trading book (=Σ (1.1.1. a 1.1.6.)) | **7,456** | 20,643 |
| 1.1.1. Debt instruments | **6,978** | 19,720 |
| 1.1.1.1. Specific risk | **4,959** | 18,898 |
| 1.1.1.2. General risk | **2,019** | 822 |
| 1.1.2. Equity securities | **478** | 922 |
| 1.1.2.1. Specific risk | **478** | 922 |
| 1.1.2.2. General risk | | |
| 1.1.3. Collective investment undertakings (CIU) | | |
| 1.1.4. Exchange-traded futures and options | | |
| 1.1.5. Futures and options traded in OTC markets | | |
| 1.1.6. Other | | |
| 1.2. Internal Models approach for the trading book | **24,593** | 19,691 |
| 2. COUNTERPARTY CREDIT RISK (=Σ(2.1.A 2.3.)) | | |
| 2.1. Sales/purchases with repurchase/resale agreement, securities or commodities lending or borrowing transactions, long-term settlement transactions and margin lending transactions | | |
| 2.2. Derivative instruments | | |
| 2.3. Contractual cross-product netting | | |
| 3. SETTLEMENT RISK | | |

Note: Own funds requirements shown in this table are emphasized in the scope of items 2.2., 2.3.1.1. and 2.3.1.2. and, partially, in item 2.3.2. of Table IX – Own funds requirements.

## 10.1. CALCULATION METHODOLOGIES

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

- Debt instruments: in this portfolio, own funds requirements for generic market risk were calculated in accordance with the duration approach – in conformity with Point 5 of Section II-B of Part 2 of Annex II to Banco de Portugal Notice no. 8/2007 – and with the treatment of positions included in Section I of the same Annex.

- Capital instruments: for this portfolio, own funds requirements for generic market risk were calculated in accordance with the methodology described in Section III-B and II-C of Part 2 of Annex II to Banco de Portugal Notice no. 8/2007.

In addition, for the purposes of application of the Internal Models approach, the Group applies a VaR methodology to measure generic market risk – including interest rate risk, foreign exchange risk and equity risk – for all subportfolios covered by the previously mentioned internal modelling authorisation. VaR is calculated based on the parametric approximation defined in the methodology developed by RiskMetrics, considering a ten-working day time horizon and a significance level of 99%.

Table XXXVIII presents the main generic risk VaR statistics, computed according to the Internal Models approved by Banco de Portugal, exclusively for the group of entities managed from Portugal, in 2012 and 2011:

**TABLE XXXVIII – HISTORICAL RECORD OF GENERIC RISK IN THE TRADING BOOK (PORTUGAL)**

Thousand euros

| | '12 | '11 |
|---|---|---|
| Maximum | **11,428** | 13,021 |
| Average | **3,725** | 2,984 |
| Minimum | **1,187** | 1,405 |
| Amount on 31 December | **3,539** | 5,032 |

Note: VaR 10 days with 99% unilateral confidence level

Own funds requirements for specific market risk continued to be calculated in accordance with the Standardised approach, including those of the subtrading books regarding which Banco de Portugal authorised the use of the Internal Models approach to calculate the generic market risk, as previously mentioned.

These requirements were determined, for the total positions of the Group's trading book, pursuant to Sections II-A or III-A of Part 2 of Annex II to Banco de Portugal Notice no. 8/2007, according to the type of financial instruments in question (debt instruments or capital instruments, respectively).

## 10.2. STRESS TESTS ON THE TRADING BOOK

Besides calculating the VaR, aiming to identify the concentration of risks not captured by that metric and to assess other possible losses, the Group continually tests a wide set of stress scenarios on the trading book, analysis the results of those stress tests.

Table XXXIX summarises the results of these tests on the Group's global trading book on 31 December 2012, indicating that its exposure to the various risk factors is limited and that the main risk to account for is the global plunge of interest rates associated to a decrease in their time frame.

**TABLE XXXIX – STRESS TESTS OVER THE TRADING BOOK**

Thousand euros

| Tested scenarios | Negative results scenarios | Result |
|---|---|---|
| Parallel shift of the yield curve by +/- 100 b.p. | -100 b.p. | -7,293 |
| Change in the scope of the yield curve (for maturities from 2 to 10 years) by +/- 25 b.p.. | -25 b.p. | -1,511 |
| 4 possible combinations of the pevious 2 scenarios | -100 b.p. and -25 b.p.<br>-100 b.p. and +25 b.p. | -8,803<br>-5,782 |
| Variation in the main stock market indices by +/- 30% | -30% | -2,792 |
| Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies | -10%, -25% | -2,638 |
| Variation in the swap spreads by +/- 20 b.p. | +20 b.p. | -523 |

## 10.3. BACKTESTING THE INTERNAL MODELS APPROACH

The Group carries out back-tests of the results of the Internal Models approach, in relation to the theoretical results obtained by the target portfolio of the calculation, unchanged between two consecutive working days and revaluated at market prices of the second day. In parallel, the Group has a complementary process to verify the results of the model in relation to the actual results obtained (currently undergoing validation), excluding the effects of operations carried out via intermediation (at different market prices).

The evaluation of financial assets and liabilities included in the trading book is carried out by a unit that is totally independent from the negotiation of those assets, and the control of the evaluations is assured by the Model Control Unit, part of the Group's Risk Office. The evaluation and control procedures are documented in the Group's internal regulations. The segregation between position-taking and position-evaluation duties is also contemplated at the level of information technology systems that intervene in the entire process involving the management, evaluation, settlement and recording of operations.

With regards to verification of the results of the approach carried out *a posteriori*, the number of excesses recorded between 2010 and 2012, relative to the total trading book of companies managed from Portugal, for which Banco de Portugal approved the use of the Internal Models approach to compute generic risk capital requirements, is shown in Table XL.

**TABLE XL – BACKTESTING OF THE VAR APPROACH APPLIED IN MARKET RISK CALCULATION**

| Year | Number of excesses occurred |
|---|---|
| 2010 | 3 |
| 2011 | 1 |
| 2012 | 3 |

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

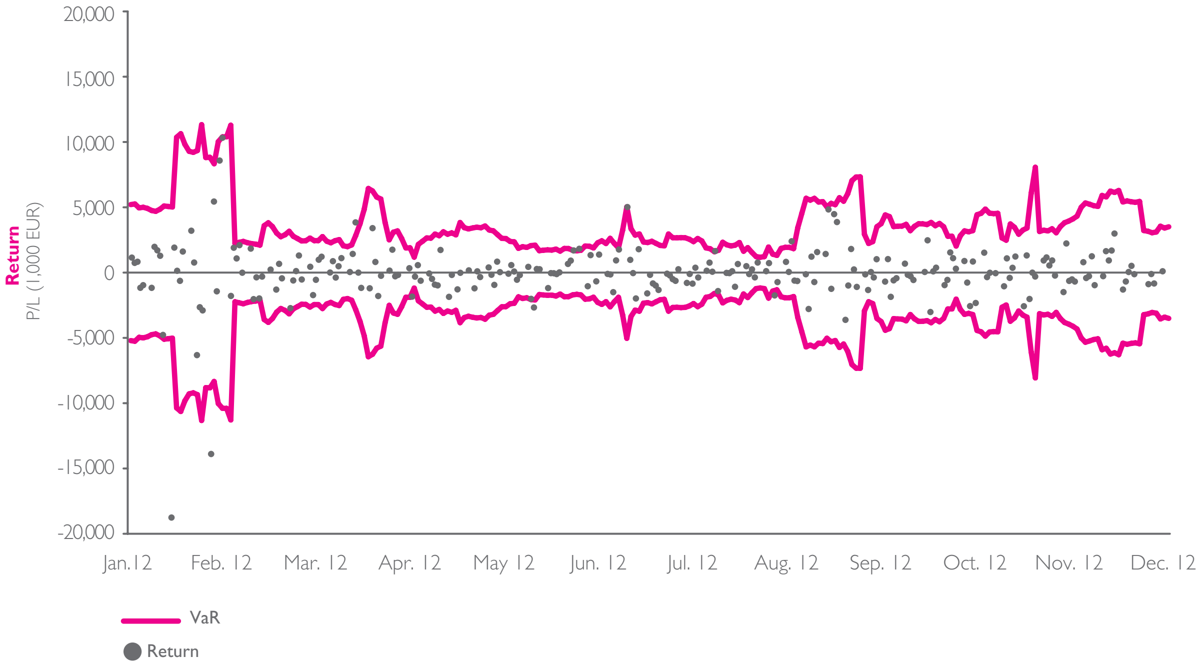
The accuracy of the model to estimate generic risk is monitored on a daily basis by the back-testing process that compares the risk values computed on a given day (VaR) with the (theoretical) result of applying the following day's market rates to those exposures.

In the following graphic, one may see this hypothetical back-testing, for the trading book centrally managed from Portugal in 2012.

As mentioned previously, in 2012 we were only able to find three excesses in the hypothetical results of the approach, confirming its adequacy to evaluate the risks in question.

VaR levels throughout 2012 were significantly stable after the first two months of that year due to the decrease in estimates of market volatility, mainly in what regards the Portuguese public debt and the global reduction in volume of the trading portfolio.

**VaR – (TRADING BOOK/PORTUGAL) – HYPOTHETICAL BACKTESTING**




In addition, Table XLI presents in great detail the results of the daily back-testing to the trading book managed from Portugal in 2012. Here is an excess when the value (in module) of the theoretical result is higher than the VaR:

**TABLE XLI – HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2012**

Thousand euros

| Date | VaR | Hypothetical results | Date | VaR | Hypothetical results | Date | VaR | Hypothetical results |
|---|---|---|---|---|---|---|---|---|
| 02-01-2012 | 5,255 | 1,123 | 06-03-2012 | 2,471 | -1,687 | 11-05-2012 | 2,630 | 34 |
| 03-01-2012 | 5,303 | 727 | 07-03-2012 | 2,780 | -541 | 14-05-2012 | 2,408 | -83 |
| 04-01-2012 | 5,002 | 812 | 08-03-2012 | 2,426 | 964 | 15-05-2012 | 2,372 | 562 |
| 05-01-2012 | 5,044 | -1,141 | 09-03-2012 | 2,304 | 1,188 | 16-05-2012 | 1,873 | 81 |
| 06-01-2012 | 4,959 | -944 | 12-03-2012 | 2,465 | 6 | 17-05-2012 | 2,000 | -536 |
| 09-01-2012 | 4,797 | -1,144 | 13-03-2012 | 2,547 | 855 | 18-05-2012 | 1,947 | -191 |
| 10-01-2012 | 4,736 | 1,930 | 14-03-2012 | 2,067 | -371 | 21-05-2012 | 2,086 | 428 |
| 11-01-2012 | 4,892 | 1,669 | 15-03-2012 | 2,006 | 478 | 22-05-2012 | 2,117 | -1,969 |
| 12-01-2012 | 5,147 | 1,260 | 16-03-2012 | 2,135 | 1,085 | **23-05-2012** | **1,693** | **-2,616** (3) |
| 13-01-2012 | 5,107 | -4,673 | 19-03-2012 | 2,887 | 43 | 24-05-2012 | 1,731 | 268 |
| **16-01-2012** | **5,068** | **-18,363** (1) | 20-03-2012 | 3,769 | 1,400 | 25-05-2012 | 1,754 | 250 |
| 17-01-2012 | 10,453 | 1,873 | 21-03-2012 | 4,885 | 3,765 | 28-05-2012 | 1,739 | -1,161 |
| 18-01-2012 | 10,731 | 135 | 22-03-2012 | 6,500 | -1 | 29-05-2012 | 1,814 | -42 |
| 19-01-2012 | 9,901 | -620 | 23-03-2012 | 6,311 | -1,147 | 30-05-2012 | 1,658 | -50 |
| 20-01-2012 | 9,372 | 1,578 | 26-03-2012 | 5,837 | -1,177 | 31-05-2012 | 1,865 | -111 |
| 23-01-2012 | 9,292 | 3,138 | 27-03-2012 | 5,683 | 3,332 | 01-06-2012 | 1,861 | 15 |
| 24-01-2012 | 9,431 | 754 | 28-03-2012 | 3,894 | 796 | 04-06-2012 | 1,723 | 650 |
| 25-01-2012 | 11,428 | -6,186 | 29-03-2012 | 2,531 | -1,756 | 05-06-2012 | 1,680 | 897 |
| 26-01-2012 | 8,890 | -2,596 | 30-03-2012 | 3,124 | -239 | 06-06-2012 | 1,726 | 1,661 |
| 27-01-2012 | 8,907 | -2,833 | 02-04-2012 | 3,221 | 148 | 08-06-2012 | 2,053 | 1,784 |
| **30-01-2012** | **8,411** | **-13,599** (2) | 03-04-2012 | 2,626 | 1,717 | 11-06-2012 | 2,036 | -1,022 |
| 31-01-2012 | 10,116 | 5,326 | 04-04-2012 | 1,903 | -279 | 12-06-2012 | 1,904 | 1,309 |
| 01-02-2012 | 10,486 | -1,405 | 05-04-2012 | 1,912 | -175 | 14-06-2012 | 2,302 | -657 |
| 02-02-2012 | 10,492 | 8,398 | 09-04-2012 | 1,194 | 329 | 15-06-2012 | 2,456 | 1,350 |
| 03-02-2012 | 11,386 | 10,107 | 10-04-2012 | 2,181 | -1,801 | 18-06-2012 | 2,246 | -100 |
| 06-02-2012 | 2,257 | -1,750 | 11-04-2012 | 2,424 | -305 | 19-06-2012 | 2,646 | -141 |
| 07-02-2012 | 2,336 | 1,864 | 12-04-2012 | 2,677 | 559 | 20-06-2012 | 2,253 | -1,467 |
| 08-02-2012 | 2,409 | 1,062 | 13-04-2012 | 2,662 | -611 | 21-06-2012 | 1,909 | 913 |
| 09-02-2012 | 2,307 | 2,057 | 16-04-2012 | 2,978 | -66 | 22-06-2012 | 3,286 | 1,730 |
| 10-02-2012 | 2,237 | -9 | 17-04-2012 | 2,848 | -473 | 25-06-2012 | 5,078 | 4,912 |
| 13-02-2012 | 2,198 | 1,798 | 18-04-2012 | 3,152 | -902 | 26-06-2012 | 3,394 | 955 |
| 14-02-2012 | 2,121 | -1,990 | 19-04-2012 | 2,964 | -958 | 27-06-2012 | 2,896 | -37 |
| 15-02-2012 | 3,622 | -355 | 20-04-2012 | 3,071 | 1,695 | 28-06-2012 | 2,984 | -1,940 |
| 16-02-2012 | 3,848 | -1,938 | 23-04-2012 | 2,916 | -1,819 | 29-06-2012 | 2,361 | 1,753 |
| 17-02-2012 | 3,549 | -300 | 24-04-2012 | 3,870 | -174 | 02-07-2012 | 2,322 | -1,560 |
| 20-02-2012 | 3,053 | 225 | 26-04-2012 | 3,474 | -1,258 | 03-07-2012 | 2,419 | -170 |
| 22-02-2012 | 2,773 | -1,274 | 27-04-2012 | 3,374 | -17 | 04-07-2012 | 2,256 | -814 |
| 23-02-2012 | 2,921 | 655 | 30-04-2012 | 3,449 | 166 | 05-07-2012 | 2,099 | -973 |
| 24-02-2012 | 3,189 | -430 | 02-05-2012 | 3,507 | -1,180 | 06-07-2012 | 2,066 | -1,301 |
| 27-02-2012 | 2,804 | -2,666 | 03-05-2012 | 3,466 | 95 | 09-07-2012 | 2,982 | -83 |
| 28-02-2012 | 2,628 | -590 | 04-05-2012 | 3,602 | -334 | 10-07-2012 | 2,695 | -215 |
| 29-02-2012 | 2,444 | 114 | 07-05-2012 | 3,289 | 385 | 11-07-2012 | 2,683 | -491 |
| 01-03-2012 | 2,460 | 1,280 | 08-05-2012 | 3,223 | -163 | 12-07-2012 | 2,704 | -618 |
| 02-03-2012 | 2,666 | -518 | 09-05-2012 | 2,929 | -923 | 13-07-2012 | 2,688 | 250 |
| 05-03-2012 | 2,469 | 435 | 10-05-2012 | 2,646 | 819 | 16-07-2012 | 2,578 | -774 |

(1) Increase of up to 369 b.p. of Portuguese bond rates.

(continues)

(2) Increase of up to 383 b.p. of Portuguese bond rates.

(3) Decrease of 8 b.p. in the 9 years German bond rates and 1% increase in the yen and U.S. dollar exchange rate.

(continuation)

Thousand euros

| Date | VaR | Hypothetical results | Date | VaR | Hypothetical results | Date | VaR | Hypothetical results |
|---|---|---|---|---|---|---|---|---|
| 17-07-2012 | 2,392 | -103 | 19-09-2012 | 3,779 | 41 | 23-11-2012 | 3,981 | -223 |
| 18-07-2012 | 2,634 | -828 | 20-09-2012 | 4,456 | -364 | 26-11-2012 | 4,144 | -1,461 |
| 19-07-2012 | 2,443 | 364 | 21-09-2012 | 4,327 | 1,003 | 27-11-2012 | 4,360 | 2,183 |
| 20-07-2012 | 1,905 | -366 | 24-09-2012 | 3,555 | -677 | 28-11-2012 | 5,049 | -624 |
| 23-07-2012 | 1,844 | 139 | 25-09-2012 | 3,584 | 1,011 | 29-11-2012 | 5,380 | -510 |
| 24-07-2012 | 1,612 | 745 | 26-09-2012 | 3,592 | -1,818 | 30-11-2012 | 5,283 | -670 |
| 25-07-2012 | 1,725 | 64 | 27-09-2012 | 3,727 | -582 | 03-12-2012 | 5,171 | 779 |
| 26-07-2012 | 2,342 | 1,612 | 28-09-2012 | 3,240 | -422 | 04-12-2012 | 5,117 | -406 |
| 27-07-2012 | 2,142 | -1,385 | 01-10-2012 | 3,573 | 670 | 05-12-2012 | 5,960 | -270 |
| 30-07-2012 | 2,056 | -23 | 02-10-2012 | 3,772 | -164 | 06-12-2012 | 5,847 | 1,222 |
| 31-07-2012 | 2,120 | -39 | 03-10-2012 | 3,764 | -274 | 07-12-2012 | 6,295 | -943 |
| 01-08-2012 | 2,322 | 100 | 04-10-2012 | 3,712 | -554 | 10-12-2012 | 6,195 | -268 |
| 02-08-2012 | 1,651 | -1,064 | 08-10-2012 | 3,874 | 47 | 11-12-2012 | 6,344 | 1,605 |
| 03-08-2012 | 1,927 | 642 | 09-10-2012 | 3,623 | 2,421 | 12-12-2012 | 5,458 | 910 |
| 06-08-2012 | 1,561 | 481 | 10-10-2012 | 3,796 | -2,956 | 13-12-2012 | 5,540 | 1,654 |
| 07-08-2012 | 1,238 | -110 | 11-10-2012 | 3,542 | 92 | 14-12-2012 | 5,471 | 2,927 |
| 08-08-2012 | 1,187 | 244 | 12-10-2012 | 2,810 | 366 | 17-12-2012 | 5,431 | -1,271 |
| 09-08-2012 | 1,236 | -358 | 15-10-2012 | 2,807 | -939 | 18-12-2012 | 5,497 | -669 |
| 10-08-2012 | 1,974 | 752 | 16-10-2012 | 2,051 | -550 | 19-12-2012 | 3,251 | 44 |
| 13-08-2012 | 1,425 | 108 | 17-10-2012 | 2,843 | 1,510 | 20-12-2012 | 3,194 | 503 |
| 14-08-2012 | 1,330 | 711 | 18-10-2012 | 3,226 | 1,080 | 21-12-2012 | 3,080 | -119 |
| 16-08-2012 | 1,868 | -1,711 | 19-10-2012 | 3,150 | 290 | 26-12-2012 | 3,135 | -866 |
| 17-08-2012 | 1,951 | -712 | 22-10-2012 | 3,243 | 867 | 27-12-2012 | 3,581 | -108 |
| 20-08-2012 | 1,948 | 803 | 23-10-2012 | 4,470 | -749 | 28-12-2012 | 3,442 | -817 |
| 21-08-2012 | 1,851 | 49 | 24-10-2012 | 4,579 | -2,512 | 31-12-2012 | 3,539 | 100 |
| 22-08-2012 | 3,459 | 2,347 | 25-10-2012 | 4,907 | 830 | | | |
| 23-08-2012 | 4,594 | -600 | 26-10-2012 | 4,590 | -2,279 | | | |
| 24-08-2012 | 5,741 | -630 | 29-10-2012 | 4,556 | 1,493 | | | |
| 27-08-2012 | 5,597 | -125 | 30-10-2012 | 4,577 | -339 | | | |
| 28-08-2012 | 5,736 | -2,729 | 31-10-2012 | 2,677 | -13 | | | |
| 29-08-2012 | 5,451 | 1,194 | 02-11-2012 | 2,504 | -44 | | | |
| 30-08-2012 | 5,483 | -709 | 05-11-2012 | 3,759 | -1,026 | | | |
| 31-08-2012 | 5,073 | 1,538 | 06-11-2012 | 3,499 | 1,066 | | | |
| 03-09-2012 | 5,349 | 1,396 | 07-11-2012 | 2,967 | -398 | | | |
| 04-09-2012 | 5,249 | 4,734 | 08-11-2012 | 3,283 | 359 | | | |
| 05-09-2012 | 5,784 | -1,217 | 09-11-2012 | 3,444 | 1,204 | | | |
| 06-09-2012 | 5,515 | 4,382 | 12-11-2012 | 6,131 | -2,522 | | | |
| 07-09-2012 | 6,100 | 3,789 | 13-11-2012 | 8,137 | 1,286 | | | |
| 10-09-2012 | 7,104 | -3,543 | 14-11-2012 | 3,175 | -1,979 | | | |
| 11-09-2012 | 7,385 | -968 | 15-11-2012 | 3,275 | -4 | | | |
| 12-09-2012 | 7,395 | 1,769 | 16-11-2012 | 3,220 | -295 | | | |
| 13-09-2012 | 2,957 | 236 | 19-11-2012 | 3,385 | 908 | | | |
| 14-09-2012 | 2,251 | -1,074 | 20-11-2012 | 3,077 | 1,136 | | | |
| 17-09-2012 | 2,396 | -134 | 21-11-2012 | 3,554 | 536 | | | |
| 18-09-2012 | 3,547 | -1,306 | 22-11-2012 | 3,854 | 910 | | | |

Note: VaR 10 days with 99% unilateral confidence level, hypothetical result obtained through a validation procedure a posteriori of the VaR model (daily result scaled for 10 days by the square root of the time).

# 11. OWN FUNDS REQUIREMENTS FOR FOREIGN EXCHANGE AND COMMODITIES RISKS

As at 31 December 2012 and 2011, own funds requirements for exchange rate risks were determined by using the internal models approach, authorised by Banco de Portugal for exposures managed centrally from Portugal, simultaneously and in the same conditions as for the generic market risk of the trading book, previously mentioned, having been calculated in accordance with the standardised approach for all other exposures.

Own funds requirements for commodities risk, regarding the Group's banking and trading books, were calculated in accordance with the standardised approach for this risk type, at the end of 2012 and of 2011.

The market risk for the global exchange rate positions of Group entities subject to the use of the standardised approach, for the purposes of calculating own funds requirements, was evaluated in accordance with Annex V of Banco de Portugal Notice no. 8/2007.

Besides, the Group calculated own funds requirements for market risk in connection with the portfolio positions sensitive to commodities risk in accordance with the Maturity Ladder approach, pursuant to paragraphs 2 to 7 of Part 3 of Annex VI of Banco de Portugal Notice no. 8/2007.

Own funds requirements for exchange rate risks and commodities risks calculated by the Group, with reference to 31 December 2012 and 2011, are shown in Table XLII.

**TABLE XLII – OWN FUNDS REQUIREMENTS FOR EXCHANGE RATE AND COMMODITIES RISKS**

Thousand euros

| | 31-12-2012 | 31-12-2011 |
|---|---|---|
| 1. EXCHANGE RATE RISK (1.1.+1.2.) | 12,962 | 4,971 |
| 1.1. Standardised approach | | 0 |
| 1.2. Internal models approach | 12,962 | 4,971 |
| 2. COMMODITIES RISK (=Σ(2.1.TO 2.2.)) | 41 | 4 |
| 2.1. Standardised approach (=Σ(2.1.1.to 2.1.4.)) | 41 | 4 |
| 2.2.1. Maturity ladder approach or simplified approach | 41 | 4 |
| 2.2.2. Futures and commodity options traded on the stock-exchange | | |
| 2.2.3. Futures and commodity options traded in OTC markets | | |
| 2.2.4. Other | | |
| 2.2. Internal models approach | | |

Note: The own funds requirements shown in this table correspond to those in items 2.3.1.3 and 2.3.1.4, and, partly, in item 2.3.2 of Table IX – Own funds requirements.

# 12. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

As at 31 December 2012 and 2011, the Group calculated own funds requirements for operational risk in accordance with the standard approach, pursuant to the authorization granted by Banco de Portugal previously mentioned.

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

The framework for this calculation was provided by Banco de Portugal Notice no. 9/2007 and Instruction no. 23/2007, and also by additional clarifications provided by Banco de Portugal, namely with respect to the accounting items considered in the determination of the gross income.

## 12.1. GROSS INCOME

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

Yet, neither the compensations received as a result of insurance contracts nor revenues from the insurance activity are added to the value of the gross income. Finally, other operating expenses cannot contribute to the reduction of the gross income value, with exception of the costs resulting from outsourcing provided by external entities to the Group or by entities that are not subject to the provisions of Decree-Law no. 104/2007, of April 3.

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

## 12.2. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK – STANDARD APPROACH

Own funds requirements calculated in accordance with the standard approach are determined by the average, over the last three years, of the sum of the risk-weighted gross income, calculated each year, relative to the activity segments and the risk weights that are defined in Part II of Annex I of Banco de Portugal Notice no. 9/2007, whose scope corresponds in general terms to the following:

- Corporate Finance (subject to an 18% weight): underwriting activities and related services, investment analysis and other financial consulting activities;

- Trading and Sales (subject to an 18% weight): dealing on own account and intermediation activities in monetary and financial instrument markets;

- Retail Brokerage (subject to a 12% weight): placement of financial instruments without a firm underwriting and intermediation of orders relative to financial instruments, on behalf of private customers and small businesses;

- Commercial Banking (subject to a 15% weight): taking deposits and credit and guarantee concession and undertaking other commitments to companies;

- Retail Banking (subject to a 12% weight): taking deposits and credit and guarantee concession and undertaking other commitments to individual and small businesses;

- Payment and Settlement (subject to an 18% weight): payment operations and issue and management of means of payment activities;

- Agency Services (subject to a 15% weight): services associated to the safekeeping and administration of financial instruments;

- Asset Management (subject to a 12% weight): investment fund and individual portfolio management activities.

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

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

The gross income by segments of activity for Portugal, Poland and Greece was calculated based on their financial statements, complemented with information collected from their management information systems, whereas for the other foreign operations, accounting information was used. With respect to Poland and Greece, the entire calculation process was conducted locally, taking into consideration that these are operations with a diversified activity and materially relevant, which require the contribution of own management information systems. On the other hand, the remaining foreign subsidiaries, which have a standardised activity concentrated in the Retail segment, were treated centrally.

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

In addition, the calculation of the gross income by activity segments for the Group's foreign operations, excluding Poland and Greece, was based on the financial statements of each subsidiary, as previously mentioned. Bearing in mind that these subsidiaries develop a retail activity, they were allocated, in a first phase, to the Retail Banking segment, with exception of the values recorded in the Profits and losses arising on financial transactions item, which, by their nature, are immediately placed in the Trading and Sales segment, and subsequently the transfers for achieving a segmentation in line with the defined perimeter for the gross income are carried out. This calculation is carried out for the operations of Romania, Switzerland, Angola, Mozambique and of Millennium bcp Bank & Trust, with registered office in the Cayman Islands, in addition to ActivoBank, which, although it develops its activity in Portugal, verifies the same assumptions and, thus, follows the same methodology. This estimate also encompassed the operations in Turkey and in the US until 2010, when they were sold.

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

As at 31 December 2012, the Group reported 296,058 thousand euros of own funds requirements for operational risk, having reported 318,519 thousand euros as at 31 December 2011, computed based on Table XLIII.

**TABLE XLIII – GROSS INCOME FOR OPERATIONAL RISK**

Thousand euros

| Segments | Gross income 2012 | | | Memorandum items: Advanced measurement method – reduction of own funds requirements (2012) | |
|---|---|---|---|---|---|
| | '10 | '11 | **'12** | Expected losses captured in business practices | Risk transfer mechanisms |
| 1. BASIC INDICATOR APPROACH | | | | | |
| 2. STANDARD APPROACH | 2,453,972 | 2,346,303 | **2,063,644** | | |
| Corporate finance | 30,009 | 28,551 | **29,191** | | |
| Trading and sales | 9,889 | -370,740 | **-168,369** | | |
| Retail brokerage | 23,218 | 25,273 | **19,636** | | |
| Commercial banking | 659,737 | 767,678 | **819,009** | | |
| Retail banking | 1,577,463 | 1,718,668 | **1,206,311** | | |
| Payment and settlement | 122,876 | 122,870 | **109,202** | | |
| Agency services | 15,068 | 33,055 | **28,634** | | |
| Asset management | 15,711 | 20,949 | **20,030** | | |
| ADVANCED MEASUREMENT APPROACH (a) | | | | | |

Thousand euros

| | Gross income 2011 | | | Memorandum items: Advanced measurement method – reduction of own funds requirements (2011) | |
|---|---|---|---|---|---|
| | '09 | '10 | '11 | Expected losses captured in business practices | Risk transfer mechanisms |
| 1. BASIC INDICATOR APPROACH | | | | | |
| 2. STANDARD APPROACH | 2,517,387 | 2,453,972 | 2,346,303 | | |
| Corporate finance | 30,064 | 30,009 | 28,551 | | |
| Trading and sales | 123,054 | 9,889 | -370,740 | | |
| Retail brokerage | 25,815 | 23,218 | 25,273 | | |
| Commercial banking | 637,563 | 659,737 | 767,678 | | |
| Retail banking | 1,529,201 | 1,577,463 | 1,718,668 | | |
| Payment and settlement | 122,113 | 122,876 | 122,870 | | |
| Agency services | 30,752 | 15,068 | 33,055 | | |
| Asset management | 18,825 | 15,711 | 20,949 | | |
| ADVANCED MEASUREMENT APPROACH (a) | | | | | |

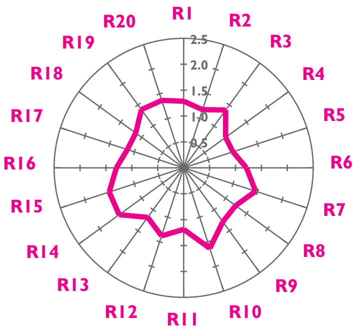
(a) Information on the relevant indicator for activities subject to the Advanced measurement approach.

## 12.3. OPERATIONAL RISK MANAGEMENT

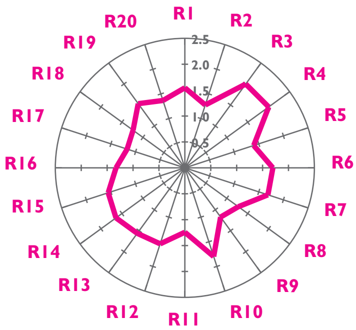
Operational risk management is based on an end-to-end process structure, defined for all the Group's subsidiary companies, and the responsibility for their management was given to process owners, who must: characterize operational losses captured within their processes; carry out the Risk Self-Assessment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

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

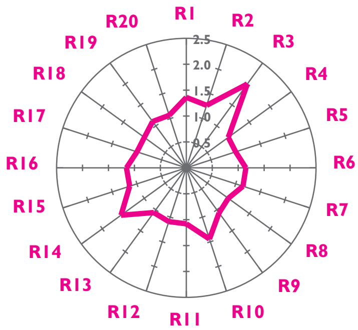
**PORTUGAL**



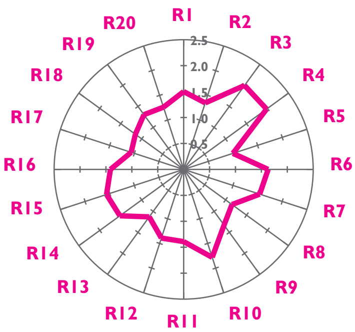

**POLAND**



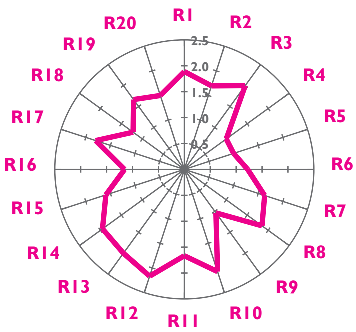

**GREECE**




**ROMANIA**




**MOZAMBIQUE**

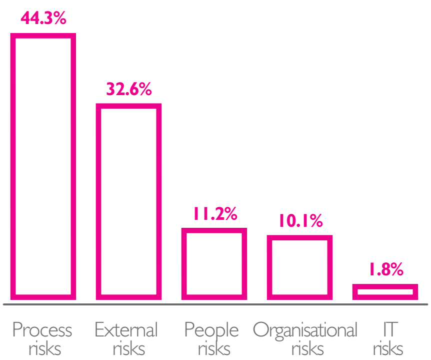



R1 Internal fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safety regulations
R5 Discrimination over Employees
R6 Loss of key Staff
R7 Hardware and software problems
R8 Problems related to telecom services & lines
R9 Systems security
R10 Transaction,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

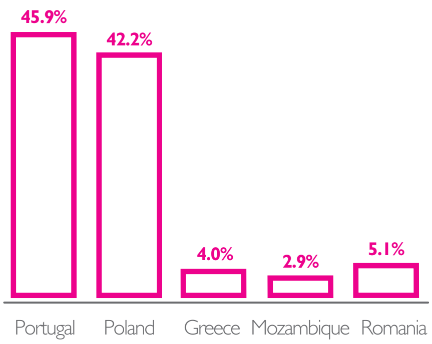
The operational losses identified are connected with the respective process and registered in the Group's operational risk application. They are duly considered and assessed according to their nature and, when applicable, measures are taken to mitigate them.

The following graphs feature the profile of accrued operational losses until 31 December 2012.

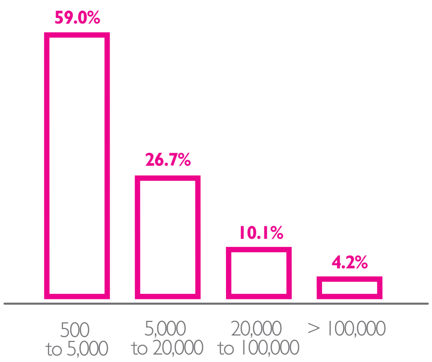
**LOSS AMOUNTS DISTRIBUTION**
By type of event




**LOSS AMOUNTS DISTRIBUTION**
By country




**LOSS AMOUNTS DISTRIBUTION**
By amount range (in euros)




A set of KRI was identified and implemented within the Group's various operations to monitor the main procedures' risks. These KRI are management instruments represented by metrics that aim to identify changes in risk profiles and in control effectiveness, so as to enable preventive measures and avoid turning potential risk situations into actual losses.

The information on the KRI identified is consolidated in a KRI Library to share the information with the subsidiary companies, and it presently includes over four hundred indicators.

At the same time, the Group continued to strengthen and perfect its business continuity management during the 2012 financial year, aiming to ensure continuity in the execution of the main activities – business or business support – in case of a catastrophe or significant contingency.

In the Group, this matter is handled in two ways, different but complementary:

- The Disaster Recovery Plan, for communication systems and infra-structures; and

- The Business Continuity Plan (BCP), for people, premises and equipment required for the minimum support of selected processes, deemed critical.

For example, in Portugal there are 36 critical processes encompassed by the BCP, involving 62 structure units, and the management of this specific operational risk area is designed, promoted and coordinated by a specific structure unit, across the Group: the Business Continuity Unit.

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

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

# 13. INTEREST RATE RISK IN THE BANKING BOOK

Evaluation of the interest-rate risk originated by the banking portfolio is performed via a risk-sensitivity analysis process carried out every month involving all operations included in the Group's consolidated perimeter, and reflects the potential loss that can be recorded as a result of adverse changes to interest rates.

The banking book includes all the positions not included in the trading book, including the positions resulting from institutional funding operations and in monetary markets, as well as commercial and structural operations and investment portfolio securities.

The market interest rates variation has impact on the Group's financial margin, both in short-term and in medium-/long-term. The main risk factors are the repricing mismatch of the trading positions (repricing risk) and the yield curve risk. In addition – though with less impact – there is the risk of having unequal variations in different indexes with the same repricing term (basis risk).

So as to identify the exposure of the Group's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of the contracts available in the information systems to project the respective expected cash-flows, in accordance with repricing dates, as well as the calculation of the impact on the Group's economic value resulting from several scenarios involving changes in market interest rate curves.

The risk positions of the commercial and structural areas not specifically hedged on the market are transferred, through in-house operations, to the market areas and, from then on, are considered a part of the respective portfolios. As such, they are evaluated daily based on the VaR methodology.

The fundamental assumptions used in this analysis are documented in internal regulations and consist, essentially, in establishing interest rate refixing maturities (for items regarding which there is no defined repricing date) or understanding expected early repayment behaviour.

For those items for which there are no defined repricing dates, the most adequate repricing periods for each case, considering the Bank's structure and practices, are applied, as follows:

- Nostro and Vostro Accounts: assumption of repricing in 1 month;
- Demand deposits at central banks: assumption of repricing in 1 month;
- Roll-over credit (current accounts, credit cards and overdrafts): assumption of 60% repricing in 1 month, 30% in 3 months and 10% in 6 months;
- Non-interest bearing demand deposits and other deposits: assumption of 30% repricing in 1 month, 30% in 3 months and 40% in 1 year;
- Interest earning demand deposits: assumption of 50% repricing in 1 month, 40% in 3 months and 10% in 6 months.

Regarding the expected behaviour of early repayment, certain assumptions are adopted in the portfolios in which they result in significant impacts at the level of analysed risk measures, namely in fixed interest rate loan portfolios. The assumptions are approved by the Risk Committee and are based on the fixed pre-payment percentages verified in the last year for each relevant portfolio or on dynamic models based on the interest rate differential comparison between the present moment and the moment in which the loan was granted.

Stress tests are carried out for the banking book by applying standard shocks of parallel shifts to the yield curve. Stress tests are also carried out in different macroeconomic scenarios, contemplating several variables of analysis and total Group positions, in which the interest rate risk of the banking book is a relevant component within the scope of analysis.

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

Macroeconomic scenarios are designed based on the economic situation and the impact that the main risk analysis variables may suffer, namely, prices of transacted assets, interest rates, exchange rates, default probabilities and the capability of recovering non-performing loans.

Table XLIV illustrates the impacts on the shareholders' equity of the Group as at 31 December 2012 and 2011, in value and percentage, as a result of shocks of +200 and –200 b.p. in interest rates.

**TABLE XLIV – SENSITIVITY ANALYSIS TO THE INTEREST RATE RISK IN THE BANKING BOOK**

Thousand euros

| | | 31-12-2012 | 31-12-2011 |
|---|---|---|---|
| Value | +200 b.p. | **-40,755** | -134,732 |
| | -200 b.p. | **157,925** | 215,831 |
| % shareholders' equity | +200 b.p. | **1.1%** | 3.2% |
| | -200 b.p. | **4.1%** | 5.1% |

(1) Shareholders' equity excludes hybrid products accounted in equity but not eligible for the Core Tier 1.

On 31 December 2012 and 2011, the range of shocks considered for the purposes of this analysis (parallel variations of interest rate curves of +/- 200 b.p.) reflects itself in a significant asymmetry of the impacts calculated in the economic value of the Group, which were influenced by the restriction of the non-existence of negative interest rates (since final rate levels, for many maturities, are under the variation considered in the scenarios) and by the different sensitivities of the short and long-term exposures.

The sensitivity of the banking portfolio to the variations of the interest rates recorded a downward trend between the end of 2011 and 2012, in terms of both the ups and downs of the interest rates. Due to the difference in sensitivity between short and long-term, the absolute impact of the downwards scenario is substantially higher than what was estimated for the upwards scenario.

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