MARKET DISCIPLINE REPORT 2013

Millennium bcp

MARKET DISCILPINE REPORT
2013

TABLE OF CONTENTS

2013 **MARKET DISCIPLINE REPORT**

TABLE INDEX

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

AC: Audit Committee
ALM: Asset and Liabilities Management
BoD: Board of Directors
CCF: Credit Conversion Factors
CRA: Commission for Risk Assessment
CRMSC: Credit Risk Monitoring Sub-Commission
CVA: Credit valuation Assessment
EAD: Exposure At Default
EBA: European Banking Authority
EC: Executive Committee of the BoD
ECAI: External Credit Assessment Institutions
ECB: European Central Bank
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 "2013 Market Discipline Report", is comprised within the requisites for the provision of information foreseen in Pillar III of the Basel II, complementing the 2013 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, as showed in the following table:

Report Chapter	Annex of Banco de Portugal Notice no. 10/2007
1. Statement of responsibility of the Board of Directors	Annex I
2. Scope	Annex II
3. Risk Management in the Group	Annex II
4. Capital Adequacy	Annex III
5. Credit Risk	Annex V
6. Counterparty credit risk	Annex IV
7. Credit risk mitigation techniques	Annex VI
8. Equity exposures in the banking book	Annex X
9. Securitisation operations	Annex VII
10. Own funds requirements of the trading book	Annex VIII
11. Own funds requirements for foreign exchange and commodities risks	Annex IX
12. Own funds requirements for operational risk	Annex XI
13. Interest rate risk in the banking book	Annex XII

REGULATORY CALCULATION METHODOLOGIES

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

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

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

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

On 31 December 2013, Banco de Portugal authorised the extension of the IRB method to the real estate promotion segment, as well as the adoption of own estimation of LGD for the "Corporate" exposures in Portugal.

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

	2013	2012
CREDIT RISK AND COUNTERPARTY CREDIT RISK		
Portugal		
Retail	**IRB Advanced**	IRB Advanced
Corporates	**IRB Advanced (2)**	IRB Foundation (1)
Poland		
Retail		
- Loans secured by residential real estate	**IRB Advanced**	IRB Advanced
- Renewable positions	**IRB Advanced**	IRB Advanced
Other exposures (all entities of the Group)	**Standardised**	Standardised
MARKET RISKS(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) 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.
(2) Excluding exposures derived from the 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 "2013 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, respectively, the Directives no. 49/2006 (Capital Adequacy Directive) and no. 48/2006 (Banking Directive), 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 "2013 Market Discipline Report" prepared within the scope of Pillar III, is the sixth 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. The relevant events occurred between the end of the 2013 exercise and the approval date of this report are described in chapter 4.3. – Events with a material impact on own funds and capital requirements in 2014.

VI. Since the regulatory requirements do not foresee it, this report was not audited by the Bank's External Auditor. However, the same includes information included in the audited consolidated financial statements, in the 2013 Annual Report that was appraised and subject to the approval of the General Meeting of Shareholders that took place on 30 May 2014.

VII. 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 "2013 Market Discipline Report", the Board of Directors:

- Certifies that all procedures deemed necessary were carried out and that, to the best of its knowledge, all the information disclosed is trustworthy and true;
- Assures the quality of all the information disclosed, including the one referring to or with origin in entities comprised within the economic group of which the institution is part;
- Informs that no information related to article 12, part III.2 of the Banco de Portugal Notice no. 10/2007, was omitted; and
- Commits to timely disclose any significant alterations that may occur in the course of the financial year subsequent to the one this reports relates to.

Lisbon, 24 june 2014

The Executive Commission of Banco Comercial Português, S.A., by delegation

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 2013, 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 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 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 April 3, 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 I 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 2013 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 2013			
	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%
BCP Internacional B.V.	Full	Holand	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%
BCP África, S.G.P.S., Lda.	Full	Portugal	Holding Company	100.0%
Banca Millennium S.A.	Full	Romania	Banking	100.0%

(continues)

(continuation)

	31 December 2013			
	Accounting Consolidation method	Head office	Economic activity	% control
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Portugal	Holding Company	100.0%
Bitalpart, B.V.	Full	Holland	Holding Company	100.0%
BCP Investment, BV	Full	Holland	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%
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	60.6%
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Full(1)	Portugal	Real Estate Investment Funds	100.0%

(continues)

(continuation)

	31 December 2013			
	Accounting Consolidation method	Head office	Economic activity	% control
Millennium Fundo de Capitalização – Fundo de Capital de Risco	Full(1)	Portugal	Private Equity Fund	100.0%
Funsita – Fundo Especial de Investimento Imobiliário Fechado	Full(1)	Portugal	Real Estate Investment Funds	100.0%
Imoport – Fundo de Investimento Imobiliário Fechado	Full(1)	Portugal	Real Estate Investment Funds	100.0%
Multiusos Oriente – Fundo Especial de Investimento Imobiliário Fechado	Full(1)	Portugal	Real Estate Investment Funds	100.0%
Grand Urban Investment Fund – Fundo Especial de Investimento Imobiliário Fechado	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 Getão 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	8.8%
Constellation, S. A.	Equity method(2)	Mozambique	Real Estate	20.0%
Beira Nave	Equity method(2)	Mozambique	Naval Shipyards	22.8%
Luanda Waterfront Corporation	Equity method(2)	Cayman Islands	Services	10.0%
Flitptrell III S. A.	Equity method(2)	Portugal	Tourism	50.0%
Lubuskie Fabryki Mebli S. A.	Equity method(2)	Poland	Furniture Manufacturer	50.0%
Nanium, S. A.	Equity method(2)	Portugal	Electronic Equipments	41.1%
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%
Enerparcela – Empreendimentos Imobiliários. S.A.	Full(4)	Portugal	Real Estate Management	100.0%

(continues)

(continuation)

	31 December 2013			
	Accounting Consolidation method	Head office	Economic activity	% control
Adelphi Gere, Investimentos Imobiliários, S.A.	Full[(4)]	Portugal	Real Estate Management	100.0%
Sadamora – Investimentos Imobiliários, S.A.	Full[(4)]	Portugal	Real Estate Management	100.0%
Imábida – Imobiliária da Arrábida, S A.	Full[(5)]	Portugal	Real Estate Management	100.0%
QPR Investimentos, S.A.	Full[(5)]	Portugal	Advisory and services	100.0%
Propaço-Sociedade Imobiliária de Paço D'Arcos, Lda.	Full[(5)]	Portugal	Real Estate Development	52.7%
Caravela SME No. 2 Limited	Full	Portugal	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%
Tagus Leasing No. 1 Limited	Full	Ireland	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 6/2010.
(4) Entity excluded from regulatory consolidation, since they belong to investment funds identified in (1).
(5) Entity excluded from regulatory consolidation, since they do not belong to the banking sector.

On 31 December 2013, 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 AS AT 31 DECEMBER 2013

Euro thousand

	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	2,939,663	-2	2,939,661
Repayable on demand	1,054,030	-4,647	1,049,383
Other loans and advances to credit institutions	1,240,628	-2,145	1,238,483
Loans and advances to customers	56,802,197	25,244	56,827,442
Financial assets held for trading	1,290,079	-9,910	1,280,169
Other financial assets held for trading at fair value through profit or loss			
Financial assets available for sale	9,327,120	708,263	10,035,384
Assets with repurchase agreement	58,268		58,268
Hedging derivatives	104,503		104,503
Financial assets held to maturity	3,110,330		3,110,330
Investments in associated companies	578,890	28,556	607,447
Non current assets held for sale	1,506,431	-343,913	1,162,517
Investment property	195,599	-193,921	1,678
Property and equipment	732,563	-210,765	521,798
Goodwill and intangible assets	250,915	-497	250,418
Current tax assets	41,051	-1,679	39,371
Deferred tax assets	2,181,405	-6,713	2,174,691
Other assets	593,362	10,657	604,019
TOTAL ASSETS	82,007,033	-1,471	82,005,563
LIABILITIES			
Amounts owed to central banks	11,191,067		11,191,067
Amounts owed to credit institutions	2,301,469	-382	2,301,087
Amounts owed to customers	48,959,752	90,678	49,050,430
Debt securities	9,411,227		9,411,227
Financial liabilities held for trading	869,530	0	869,530
Other financial liabilities at fair value through profit and loss			
Hedging derivatives	243,373		243,373
Non current liabilities held for sale			
Provisions for liabilities and charges	365,960	-75,317	290,643
Subordinated debt	4,361,338	4,246	4,365,585
Current income tax liabilities	24,684	-2,379	22,306
Deferred income tax liabilities	6,301	-460	5,841
Other liabilities	996,524	-24,318	972,206
	78,731,225	-7,932	78,723,293
EQUITY			
Share capital	3,500,000		3,500,000
Treasury stock	-22,745		-22,745
Share premium	0		0
Preference shares	171,175		171,175
Other capital instruments	9,853		9,853
Reserves and retained earnings	-334,626	0	-334,626
Net income for the period attributable to Shareholders	-740,450	0	-740,450
	2,583,207	0	2,583,207
Non-controlling interests	692,601	6,461	699,062
TOTAL OF LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS	82,007,033	-1,471	82,005,563

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 2013, 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 December 16, 2002, of the European Parliament and Council, transposed to the Portuguese law by Decree-Law no. 145/2006, of July 31, 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), by letter of 22 February 2007, 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.

However, by letter dated 27 June 2013, Banco de Portugal informed the Bank, about the disqualification as a financial conglomerate, justifying this decision with the fact that the balance of the insurance subsector has repeatedly shown a lower dimension to the respective identification threshold. Consequently, the Group is no longer subject to the rules for supplementary supervision set out in Decree-Law no. 145/2006 and in the Banco de Portugal Instructions no. 27/2007 and no. 28/2007, with effect from June 2013, notwithstanding this situation be subject to annual reassessment.

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 centralised manner, in coordination with the respective local departments and taking into consideration the specific risks of each business.

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

Thus, it is particularly relevant to monitor and control the major types of risk – particularly the credit, market, operational and liquidity risks and the risks related with 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 consist of the potential losses that might occur in a given portfolio, as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering either the correlations that exist between those instruments or its volatility.

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

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

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

- Business and strategic risk – business and strategic risk is materialised 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.

Credit, market and operational risks were the object of own funds requirements calculation 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 liquidity, pension fund and business and strategic risks are exclusively dealt within the scope of Pillar II, as referred in sub-chapter "4.4. Internal Capital Adequacy Assessment Process (ICAAP)".

3.2. RISK MANAGEMENT GOVERNANCE IN 2013

On 28 February 2012, the Bank's General Meeting approved an amendment to the corporate bodies, resulting in the current governance model which is composed of, besides the General Meeting of Shareholders, corporate bodies are the Board of Directors, with 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 is also composed by a Remuneration and Welfare Board and a Board for International Strategy.

Millennium bcp's Board of Directors (BoD) is ultimately responsible for the risk management policy comprising 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 Group and entity levels.

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 and the management of capital, liquidity and risk.

The Executive Committee appointed a Risk Commission that is responsible, at an executive level, 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 decision-making regarding management and promotion of a better connection between current management decisions.

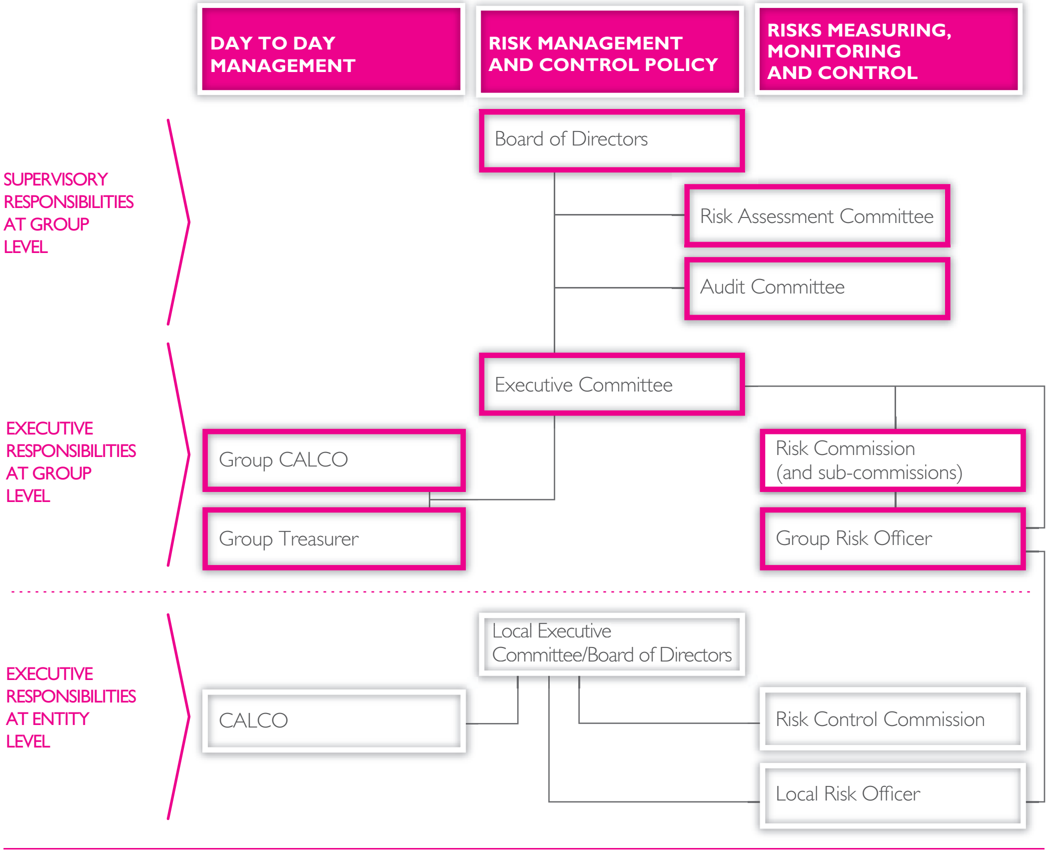
In 2013, there were also two specialised sub-commissions appointed from within the Risk Commission: the Credit Risk Monitoring Sub-Commission (CRMSC) and the Pension Fund Risk Sub-Commission (PFRSC).

The Group Risk Officer is 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 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 changes 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 the monitoring of the liquidity plan execution, definition of transfer prices and capital allocation rules, decision making and monitoring of the coverage of specific positions and of the Investment Portfolio.

TABLE IV – 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 Master Scale, based on the expected Probability of Default (PD), enabling a greater capacity to evaluate and classify the customers and grade the associated risk. The Rating Master Scale also enables the Bank to identify customers that show signs of degradation in their capacity to service their debts and, in particular, those who are classified, within the 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 Master Scale. 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 collateralisation and a better adequacy of the pricing to the incurred risk.

Aiming at the best possible adequacy of credit risk assessment, the Group has defined a series of client macro-segments and segments which are treated under different rating systems and models and support the links between internal ratings (risk grades) and 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 Master Scale, 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 authorisation given by the Polish and Portuguese supervision authorities for the sequential adoption of that approach for Bank Millennium (Poland), effective as at 31 December 2012. More recently, Banco de Portugal has approved, for the Group activities in Portugal and effective from 31st of December 2013, the use of own LGD estimates for the Corporates risk class (IRB Advanced), as well as internal rating models for the real estate promotion clients.

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

In 2013 the following actions should be highlighted:

- Conclusion of the internal rating models for Real Estate Development clients;

- Calculation of the default rates for Retail and Corporate, in order to obtain the PD, for the calibration of the different internal rating models;

- Development of a new performance measurement for the credit recovery areas, based on the evolution of expected loss, and reflecting credit exposure, collateral levels, duration of default and the outcome of the recovery process;

- Updating and validation of LGD estimates for risk positions of the Retail exposure class and calculation and validation of estimates for the Corporate exposure class (including, in this case, ELBE – Expected Loss Best Estimates for events of default) and the updating and validation of CCF parameters for Corporate risk positions;

- Strengthening of the credit quality monitoring of through the systematic follow-up by the Credit Risk Monitoring Sub-Commission of the evolution of the indicators of overdue credit/impairment and of the main risk situations;

- Improvements in the credit process of operations abroad, with a view to ensure an integrated and overall vision of credit risk in the case of economic groups involved in credit operations in the different geographic areas in which the Group operates.

3.3.2. MARKET RISKS

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 sub-types of risk considered. This measure covers the evaluation of the following types of risk: generic risk, specific risk, non-linear risk and commodities' risk. The measurement used on the assessment of the generic market risk – relative to interest rate risk, exchange rate risk, equity risk and price risk of Credit Default Swaps uses a VaR (Value-at-Risk) model based on the analytical 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%.

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 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 2013:

- Characterisation of the trading strategies associated to each of the Group's management areas, allowing for the reorganisation of the trading, investment and ALM portfolios, with specialisation of credit and interest rate risk management in investment and ALM and optimisation of the dimensioning of the trading book;

- Development of the stress tests defined by the ECB under its Comprehensive Assessment (which also includes the AQR exercise, noted above);

- Implementation of CVA (Credit Valuation Adjustments) under IFRS 13;

- Final implementation of the preparatory works for the future access to the derivatives trading and reporting infrastructure, pursuant to the EMIR Regulation of the European Union;

- Integration of the valuation and of counterparty risk control functions with the market risks control functions (also including the hedge accounting functions), namely, of those concerning the financial market activities, thus creating a single line of responsibility concerning these matters (formerly split between different units).

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 authorisations; 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 changes in 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.

(1) The monitoring of the KRI metrics enables the identification of changes in the risk profile or in the efficiency of the controls, providing for the detection of opportunities for the launching of corrective 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.

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 process files definitions;
- Approving new processes, defining, on a case-by-case basis, the need for ISO9001 certification and identifying the processes which, apart from certification, should be submitted to performance measurement (KPI – key performance indicators);
- Aligning the processes-based management practices with the reality of the structural units involved;
- Ensuring the issuance, maintenance and internal disclosure of documentation and information relative to processes-based management;
- Approving changes to existing processes, as well as the design of 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.

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

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

The main accomplishments in terms of operational risk management of 2013 were:

- Reinforcement of the losses database through the systematic identification of new cases in the Group's main operations;
- New risks self-assessment exercises in Portugal, Poland, Romania and Mozambique;
- Regular monitoring of the risk indicators that contribute to the early identification of changes in the risk profile of processes;
- Increasing effectiveness in the use of management instruments by the process owners to identify improvements that contribute to strengthen the processes' control environment;
- Launching of initiatives aimed at preparing the adoption of the Advanced Measurement Approach (AMA), namely, membership of the ORX Consortium.

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.

3.3.6. BUSINESS AND STRATEGIC RISK

The business and strategic risk is materialised 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 authorised 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.

On 31 December 2013, Banco de Portugal authorised the extension of the IRB method to the real estate promotion segment, as well as the adoption of own estimation of LGD for the "Corporates" exposures in Portugal. This authorisation led to several changes to the calculation of regulatory capital and capital requirements assessed in comparison with 2012 figures.

As at December 31, 2013, the own funds of the Group Banco Comercial Português were determined according to the applicable regulatory rules, namely the Banco de Portugal Notice no. 6/2010. Total own funds result from adding base own funds (Tier I) with supplementary own funds (Tier II) 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 I, 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 I, include the elements with a more permanent nature.

As positive elements of Core Tier I 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 I 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 standard approach (revoked by the Banco de Portugal Notice no. 3/2013, as from September 2013), 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 recognising 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 recognised 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 change 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% the value of the Pension Fund as defined in the Banco de Portugal Notice no. 2/2012.

The Core Tier I 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.

In November 2011, Banco de Portugal through Notice no. 6/2010, determined a deduction to Core Tier I related with client deposits with interest rates above a certain value versus the market rates (Banco de Portugal Instruction no. 15/2012).

In June 2012, the Bank issued 3,000 million euros of Core Tier I capital instruments subscribed by the State, within the scope of the Group's recapitalisation 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 I.

The other additional data that are part of base own funds are preferential shares and other hybrid instruments, up to the limit of 15% and 35% of Tier I, respectively, and still some deductions accounted at 50%: (i) of interests held in financial institutions (above 10%) and in insurance entities (not under 20%); (ii) of the amount of 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 II) comprise subordinated debt and 45% of the unrealised gains excluded from Core Tier I in assets available for sale. These elements include the upper Tier II, except for subordinated debt divided between upper Tier II (debt with an undetermined maturity) and lower Tier II (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 II cannot be superior to Tier I, and b) lower Tier II cannot represent more than 50% of Tier I. Additionally, the loans with a determined maturity date must be paid 20% per year during their last five years to maturity. The Tier II is also subject to the deduction of the remaining 50% not deducted to Tier I: (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 II must be removed from base own funds.

In order to conclude the calculation of the regulatory capital, there are still some deductions to total 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 permanency 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 recognised 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, set out by the Banco de Portugal Notice no. 9/2007, are determined by using the standard approach and the own funds requirements for the hedging of market risk, as defined in Banco de Portugal Notice no. 8/2007, 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 I ratios, on a consolidated basis, to at least 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 I ratio of 9% as of June 2012.

On 22 July 2013, EBA issued a Recommendation which establishes the preservation, in absolute value, of the necessary capital to the fulfilment of a minimum 9% ratio previously foreseen, with reference to the capital requirements as at 30 June 2012, including the same capital buffer for sovereign exposures, to ensure an adequate transition to the minimum capital requirements imposed by the CRD IV/CRR.

This Recommendation foresees some exceptions, in particular for the institutions under a restructuring and gradual orderly deleveraging plan, for which the minimum nominal capital could be set taking as reference a later date for capital requirements, upon request made to the Bank of Portugal and after obtaining the proper authorisation. Within this framework, Millennium bcp has made, in due time, this request which, at December 31, 2013, was still under appreciation.

4.2. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER 2013 AND 2012

The main aggregated own funds and consolidated own funds requirements, as of 31 December 2013 and 2012, as well as the respective capital ratios, including Core Tier I ratio, according to both the EBA's and Banco de Portugal's requirements are shown in Table V:

TABLE V – SUMMARY OF THE MAIN CAPITAL AGGREGATES AND RATIOS Euro thousand

	31-12-2013	31-12-2012
OWN FUNDS		
Tier I	**5,646,239**	6,222,647
of which: Core Tier I	**6,040,340**	6,579,071
Tier II	**879,994**	696,588
Deductions to Total Capital	**-105,602**	-146,040
Total capital	**6,420,631**	6,773,195
CAPITAL REQUIREMENTS		
Credit risk and counterparty credit risk	**3,225,845**	3,920,546
Market risk	**38,843**	45,051
Operational risk	**249,410**	296,058
TOTAL	**3,514,099**	4,261,656
CAPITAL RATIOS		
Core Tier I	**13.8%**	12.4%
Tier I	**12.9%**	11.7%
Total capital	**14.6%**	12.7%
EBA ratio(1)	**10.8%**	9.8%

(1) Regarding the Core Tier I 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 calculated according to the rules set forth by Banco de Portugal reached 13.8% on 31 December 2013, an increase of 140 basis points against the 12.4% recorded at the end of 2012 and clearly above the minimum limit defined by Banco de Portugal (10%).

This evolution was determined by the performance of capital requirements, which stood at 3,514,099 thousand euros at 31 December 2013, showing a reduction of 747,557 thousand euros compared to the 4,261,656 thousand euros recorded at the same date in 2012, despite the unfavourable evolution of Core Tier I, which stood at 6,0640,340 thousand euros decreasing 538,731 thousand euros compared to the 6,579,071 thousand euros recorded at the end of 2012, mainly reflecting the following effects:

- The sale of the operation in Greece in June 2013 contributed with +88 basis points to Core Tier I ratio (CTI), leading to a reduction in capital requirements (307,577 thousand euros), which more than offset the negative impact associated with the first semester's consolidated net income (41,394 thousand euros);
- The sale, in October 2013, of the investment in Piraeus Bank, in the scope of the sale process of the subsidiary in Greece, added +16 basis points in the CTI ratio, corresponding to the positive result achieved with this operation (+87,415 thousand euros);
- The synthetic securitisation operation made in June 2013 allowed to obtain +40 basis points in CTI ratio, arising from the savings in capital requirements posted at the end of 2013 (132,811 thousand euros);
- The revoking, in 2013, of the prudential filter that required the deduction of the positive gap, on individual basis, between the regulatory provisions of the Bank of Portugal's Notice no. 3/95 and the IFRS impairments, for standardised exposures, resulted in +12 basis points in CTI ratio, reflecting the increases in Core Tier I (83,603 thousand euros) and in capital requirements (14,130 thousand euros);
- The decrease of the deductions associated with deposits with high interest rates provided a gain of 13 basis points in CTI ratio, related to the increase of Core Tier I (71,426 thousand euros);
- The extension of the IRB method to the real estate promotion segment, as well as the adoption of own estimates of LGD for the "Corporates" exposures in Portugal, with effects as from 31 December 2013, added 76 basis points in CTI ratio, due to the decrease in capital requirements (246,400 thousand euros);
- The impacts regarding the negative net income in 2013, excluding the previously mentioned operations, the change in minority interests, the impacts associated with the pension's fund after taxes, the exchange rate variations, and other reserves and prudential filters, on the one hand, and the decrease in capital requirements from the activity, influenced by the deleveraging and by the optimisation efforts (-74,895 thousand euros), on the other, had a unfavourable effect of 105 basis points in CTI ratio.

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

TABLE VI – OWN FUNDS

Euro thousand

	31-12-2013	31-12-2012	
1. TOTAL OWN FUNDS FOR SOLVENCY PURPOSES (1.1.+1.2.+1.3.+1.6.)	**6,420,631**	6,773,195	
1.1. Original own funds (=∑(1.1.1. to 1.1.5.))	**6,080,680**	6,752,264	
1.1.1. Eligible capital (=∑(1.1.1.1. to 1.1.1.4.))	**6,487,243**	6,565,345	
1.1.1.1. Paid-up capital	**3,500,000**	3,500,000	
1.1.1.2. (-) Own shares	**-12,757**	-6,376	
1.1.1.3. Share premium	**0**	71,722	
1.1.1.4. Other instruments eligible as capital	**3,000,000**	3,000,000	(1)
1.1.2. Eligible reserves and profits and losses (=∑(1.1.2.1. to 1.1.2.7.))	**-447,758**	170,638	
1.1.2.1. Reserves	**-409,917**	731,767	
1.1.2.2. Eligible non-controlling interests	**699,062**	624,420	
1.1.2.3. Profits from the previous financial year and preliminary profits from the current financial year			

(Continues)

(continuation) Euro thousand

	31-12-2013	31-12-2012	
1.1.2.4. (-) Losses from the previous financial year and preliminary losses from the current financial year			
1.1.2.5. Losses from the previous financial year and preliminary losses from the current financial year	**-736,903**	-1,185,549	(2)
1.1.2.6. (-) Net gains from capitalisation of future margin income from securitised assets			
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.to 1.1.4.3.)	**188,032**	207,178	
1.1.4.1. Other items eligible	**171,040**	173,193	
1.1.4.2. Impact on the transition into IAS/AAS (negative impact)	**16,992**	33,985	
1.1.4.3. Other items eligible as original own funds			
1.1.5. (-) Other deductions from original own funds (=∑(1.1.5.1. to 1.1.5.3.))	**-146,838**	-190,897	
1.1.5.1. (-) Intangible fixed assets	**-250,418**	-258,635	
1.1.5.2. (-) Items included in original own funds exceeding the eligibility limits	**-130,700**		(3)
1.1.5.3. (-) Other deductions to original own funds	**234,280**	67,738	(4)
1.2. Additional own funds (=∑(1.2.1. to 1.2.3.))	**1,314,434**	**1,226,204**	
1.2.1. Core additional own funds – Upper Tier II	**163,357**	30,786	(3)
1.2.2. Supplementary additional own funds – Lower Tier II	**1,151,077**	1,195,418	
1.2.3. (-) Deductions from additional own funds			
1.3. Deductions from original and additional own funds	**-868,881**	**-1,059,233**	(5)
1.3a. Of which: (-) from original own funds	**-434,440**	-529,616	
1.3b. Of which: (-) from additional own funds	**-434,440**	-529,616	
1.4. Total original own funds for solvability purpose	**5,646,239**	**6,222,647**	
1.5. Total addicional own funds for solvability purpose	**879,994**	**696,588**	
1.6. (-) Deductions from total own funds	**-105,602**	**-146,040**	(6)
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)			
1.8.1.1. Amount of provisions for the internal ratings based approach			
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	**4,313,192**	4,322,730	
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	**7,092,590**	7,605,140	

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

(2) Comprises the retained earnings, considering the provisional amount of ordinary dividends payable (null in 2013 and 2012), 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.

(3) Deduction of excess hybrid instruments eligible for Tier I (non-core), taking into account the prudential limits in force. The amount deducted from Tier I is added to Tier II.

(4) Includes the following regulatory filters: pension fund; deduction, in 2012, of the shortfall of impairment to regulatory provisions, calculated on an individual basis, for exposures treated by the Standardised approach (revoked by Banco de Portugal Notice No 3/2013 with effect from September 2013); and deduction related to customers' deposits with interest rates above the limits defined by the Banco de Portugal.

(5) 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.

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

Table VII shows the reconciliation between the Core Tier I reported on 31 December 2013 and 2012 and consolidated equity of Millennium bcp on those dates:

TABLE VII – CORE TIER I RECONCILIATION

Euro thousand

	31-12-2013	31-12-2012	
Total equity attributable to Shareholders of the Bank	**2,583,207**	3,372,174	
Non-controlling interests	**699,062**	624,420	(1)
Regulatory adjustments:			
(-) Preference shares and other hybrid instruments	**-171,040**	-173,193	
(+) Equity instruments (CoCo's)	**3,000,000**	3,000,000	
(+) Impact on the transition into IAS/AAS	**16,992**	33,985	
(+) Corridor of the pension fund's staff in active	**254,728**	243,215	
(-) Intangible assets	**-250,418**	-258,635	(2)
(-) Profit/Loss after tax in debt securities and gains on equity securities	**-83,435**	-99,135	
(-) Results in emissions of financial assets at fair value in the part referring to own credit risk	**-8,687**	-15,113	
(-) Shortfall of the stock of impairment to regulatory credit provisions		-83,603	(3)
(+/-) Other adjustments	**-70**	-65,043	(4)
CORE TIER I	**6,040,340**	**6,579,071**	

(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) Deduction of the shortfall of impairment to regulatory provisions, calculated on an individual basis, for exposures treated by the standardised approach. This deduction was revoked by Banco de Portugal Notice no 3/2013, with effect from September 2013.
(4) Includes the adjustments related to regulatory filters, namely those related to customers' deposits with interest rates above the limits defined by the Banco de Portugal.

In parallel, the Core Tier I ratio, determined in accordance with the European Banking Association (EBA) criteria reached 10.8% as at 31 December 2013, comparing favourably with the 9.8% ratio recorded as at 31 December 2012 and exceeded the defined minimum limit of 9%.

Core Tier I of EBA is based on Core Tier I calculated according to Banco de Portugal's criteria, adjusted by the impact of the following items: i) deduction of 50% of both the value of significant investments held in shareholdings and the impairment shortfall in comparison to the expected losses of the exposures treated under IRB methodologies; and ii) the capital buffer set by EBA with reference to 30 September 2011 to cover sovereign risks, adjusted by the provisioning undertaken subsequently within the scope of the restructuring of the Greek sovereign debt.

On 22 July 2013, EBA issued a Recommendation which establishes the preservation, in absolute value, of the necessary capital to the fulfilment of a minimum 9% ratio previously foreseen, with reference to the capital requirements as at 30 June 2012, including the same capital buffer for sovereign exposures, to ensure an adequate transition to the minimum capital requirements imposed by the CRD IV/CRR.

This Recommendation foresees some exceptions, in particular for the institutions under a restructuring and gradual orderly deleveraging plan, for which the minimum nominal capital could be set taking as reference a later date for capital requirements, upon request made to the Bank of Portugal and after obtaining the proper authorisation. Within this framework, Millennium bcp has made, in due time, this request to the Banco de Portugal which, at 31 December 2013, was still under appreciation.

The excess Core Tier I resulting from the application of the new Recommendation of capital preservation as at 31 December 2013, assuming as reference to the calculation of the mentioned excess the capital requirements calculated for the year-end 2013, was 804,538 thousand euros.

TABLE VIII – CAPITAL REQUIREMENTS

Euro thousand

	31-12-2013	31-12-2012
2. CAPITAL REQUIREMENTS	**3,514,099**	4,261,656
2.1. For credit, counterparty credit and dilution risks and free deliveries	**3,116,075**	3,817,380
2.1.1. Standardised approach	**1,217,898**	1,898,527
2.1.1.1. Standardised approach exposure classes, excluding securitisation positions	**1,217,898**	1,898,527
2.1.1.1.1. Claims or contingent claims on central governments or central banks	**23,562**	26,670
2.1.1.1.2. Claims or contingent claims on regional governments or local authorities	**8,213**	11,347
2.1.1.1.3. Claims or contingent claims on administrative bodies and non-profit organisations	**775**	686
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	**97,782**	154,963
2.1.1.1.7. Claims or contingent claims on corporates	**517,536**	884,903
2.1.1.1.8. Retail claims or contingent retail claims	**96,539**	96,243
2.1.1.1.9. Claims or contingent claims secured on real estate property	**74,281**	201,770
2.1.1.1.10. Past due items	**43,024**	165,857
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 (CIUs)	**187,439**	144,968
2.1.1.1.14. Other items	**168,747**	211,120
2.1.1.2. Securitisation positions under the Standardised Approach		
2.1.2. IRB approach	**1,898,177**	1,918,853
2.1.2.1. Not using own estimations of LGD and/or credit conversion factors		1,222,484
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
2.1.2.2. Using own estimations of LGD and/or credit conversion factors	**1,807,681**	642,379
2.1.2.2.1. Claims or contingent claims on central governments or central banks		
2.1.2.2.2. Claims or contingent claims on institutions		
2.1.2.2.3. Corporate claims or contingent retail claims	**1,229,613**	
2.1.2.2.4. Retail claims or contingent retail claims	**578,067**	642,379
2.1.2.3. Equity positions	**17,261**	12,890
2.1.2.4. Securitisation positions	**73,236**	41,100
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	**38,843**	45,051
2.3.1. Standardised approach	**2,182**	7,497
2.3.1.1. Traded debt instruments	**1,996**	6,978
2.3.1.2. Equity	**133**	478
2.3.1.3. Foreign exchange risks		
2.3.1.4. Commodities risks	**52**	41
2.3.2. Internal models approach	**36,662**	37,554
2.4. Capital requirements for operational risk	**249,410**	296,058
2.4.1. Basic indicator approach		
2.4.2. Standard approach	**249,410**	296,058
2.5. Capital requirements – Fixed overhead		
2.6. Other and transitional capital requirements	**109,770**	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% and eliminated as of July 2014 if the conditions underlying the authorization granted by the supervisory authorities to adopt IRB methodologies in Poland are assured according to the established schedule).

By the end of 2013 and of 2012, the Group had an excess of own funds versus requirements of 2,906,532 thousand euros and of 2,511,539 thousand euros, respectively, as indicated in Table IX. As previously mentioned, the Group is no longer considered a financial conglomerate, therefore the 2013 requirements were not calculated.

TABLE IX – CAPITAL ADEQUACY

Euro thousand

	31-12-2013	31-12-2012
SURPLUS (+)/ DEFICIT (-) OF OWN FUNDS	**2,906,532**	2,511,539
SOLVENCY RATIO (%)	**14.6%**	12.7%
Capital adequacy of the financial conglomerate(1)		
Own funds of the financial conglomerate		7,202,388
Capital requirements of the financial conglomerate		4,416,533
SURPLUS (+)/ DEFICIT (-) OF THE CONGLOMERATE'S OWN FUNDS		2,785,855

(1) According to a Banco de Portugal notification, the Group is no longer considered a finacial conglomerate, ceasing to be subject to the provisions of the Decree-Law no. 145/2006 and Banco de Portugal Instructions no. 27/2007 and no. 28/2007, applicable from June 2013..

4.3. EVENTS WITH A MATERIAL IMPACT ON OWN FUNDS AND CAPITAL REQUIREMENTS IN 2014

The main events with possible material impact on own funds and capital requirements in 2014, could be related with:

I) CRD IV/CRR (CAPITAL REQUIREMENTS DIRECTIVE IV/CAPITAL REQUIREMENTS REGULATION) ADOPTION:

On 26 June 2013, the European Parliament and Council approved, respectively, the 2013/36/UE Directive and EU Regulation no. 575/2013 (CRD IV/CRR), which established new and more stringent capital requirements to credit institutions with effect from 1 January 2014.

This increased demand results from a stricter definition of own funds and risk weighted assets, alongside with the establishment of minimum capital ratios including a capital conservation buffer of 7% for Common Equity Tier I, of 8.5% for Tier I and of 10.5% for total ratio. However, CRD IV/CRR also establishes a transitional period (phase-in) in which institutions can accommodate the new requirements, both in terms of own funds or the compliance with minimum capital ratios. Nevertheless, Banco de Portugal through Notice no. 6/2013 of 23 December, established an obligation to permanently ensure a CET ratio not less than 7%, determining, whenever this does not occur, the adoption of own funds conservation measures.

The first regulatory reporting under the new regulatory framework of the CRD IV/CRR shall refer to 31 March 2014, and should be made until 30 June 2014.

II) BANCO DE PORTUGAL AUTHORISATION FOR THE REIMBURSEMENT OF 400 MILLION EUROS OF COCO'S:

As at May 2014, Banco de Portugal authorised the reimbursement of 400 million euros of hybrid instruments underwritten by the Portuguese State as part of the Bank's recapitalisation process (CoCo's), following the previously submitted request and in line with the established on the capital plan, representing an estimated impact of -93 basis points on Core Tier I consolidated ratio, calculated according to both Banco de Portugal and EBA's rules, as at 31 March 2014.

III) SALE OF THE SHAREHOLDING HELD ON NON-LIFE BUSINESS OF MILLENNIUMBCP AGEAS:

On the scope of the re-focusing process in core business, defined as prioritary on the Strategic Plan, the Bank signed an agreement with the international insurance Group Ageas in May 2014, foreseeking the sale of the total 49% shareholding of Ocidental – Companhia Portuguesa de Seguros and Médis – Companhia Portuguesa de Seguros de Saúde, entities that operate exclusively in the Non-Life business.

The impact of this transaction with reference to the March 2014 consolidated financial statements, is estimated at + 72 million euros on net income, by capital gains assessment and at +17 basis points on Core Tier I consolidated ratio, calculated according to both Banco de Portugal and EBA's rules.

IV) EXEMPTION FROM COMPLIANCE WITH THE EBA RECOMMENDATION OF JULY 22, 2013 (PRESERVATION, OF AN ABSOLUTE VALUE FOR CORE TIER I CAPITAL IN THE TRANSITION TO CRD IV/CRR):

On May 2014, Banco de Portugal approved the waiver of the fulfillment of nominal Core Tier I capital amount foreseen on that Recommendation, following the request submitted by the Bank, given the deleveraging and restructuring plan in progress.

V) CONCLUSION OF A NEW CREDIT SECURITISATION OPERATION ("CARAVELA SME NO. 4"):

On 5 June 2014, the Bank has concluded a new credit securitisation operation ("Caravela SME No. 4"), involving a portfolio of leasing companies and sole proprietors contracts totaling 1,000 million euros.

This operation, framed within the Strategic Plan in progress, has a synthetic nature underling structure that ensures the transfer of a significant part of the credit risk associated with that portfolio and whose placement was performed in the international market with a set of specialised investors.

The impact of this operation on Core Tier I ratio, with reference to the March 2014 consolidated financial statements, was estimated at +17 basis points and +14 basis points, respectively, according to the Banco de Portugal and EBA's rules.

VI) APPROVAL BY THE COUNCIL OF MINISTERS OF A PROPOSED LAW ON THE SPECIAL REGIME APPLICABLE TO DEFERRED TAX ASSETS:

The Council of Ministers approved, on June 2014, a proposed Law on the special regime applicable to deferred tax assets, aiming to restore competitive conditions to domestic companies against the introduction of similar schemes in other European Union countries, as Spain and Italy.

The scheme now approved is applicable to expenses and negative equity changes accounted in tax periods beginning on or after January 1, 2015, as well as the deferred tax assets which are recorded in the annual accounts of the taxpayer related to the last period prior to that date and the share of the expenses and negative equity changes that may be involved.

This approval has no effect on the capital ratios determined according to both Banco de Portugal and EBA's rules, but will have a positive impact on the capital ratios that will be reported to the supervisory authorities within CRD IV/CRR scope, as it would reduce the deductions made to CET1 related to deferred tax assets recorded on consolidated assets, despite it would also lead to an increase of risk weighted assets.

VII) BOARD OF DIRECTORS DELIBERATION:

On 24 June 2014, the Bank's Board of Directors has resolved, with the favourable prior opinion of the Audit Committee, to increase the share capital by approximately 2,242 million euros, through an offering of subscription rights reserved to existing holders of the Bank's ordinary shares, and other investors who acquire subscription rights.

Millennium bcp intends, upon proper Banco de Portugal's authorization, to use the proceeds from the Rights Offering to repay State-subscribed hybrid capital instruments in the amount of 1,850 million euros, reimbursing the remaining no later than the beginning of 2016, subject to regulatory approval.

4.4. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

4.4.1. 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.

Given that the retail banking is the Group's main activity in the markets in which it operates, 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 X:

TABLE X – MODELS USED TO CALCULATE ECONOMIC CAPITAL

RISK TYPES	SUBTYPE	METRICS
Credit risk		Credit portfolio model
Market risk	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.

4.4.2. 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 analysed 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 XI presents the overall risk position as at 31 December 2013 and 2012, reflecting the economic capital calculated on these dates:

TABLE XI – ECONOMIC CAPITAL

Euro thousand

	31-12-2013		31-12-2012	
	Amount	%	Amount	%
CREDIT RISK	**2,466,926**	**44.7%**	2,362,898	44.1%
MARKET RISK	**1,965,236**	**35.6%**	1,840,154	34.4%
Trading book	**20,697**	**0.4%**	19,591	0.4%
Banking book – interest rate risk	**532,405**	**9.6%**	705,776	13.2%
Equity risk – share price risk	**944,768**	**17.1%**	665,422	12.4%
Real estate risk	**467,367**	**8.5%**	449,366	8.4%
OPERATIONAL RISK	**311,709**	**5.6%**	370,009	6.9%
LIQUIDITY RISK	**134,805**	**2.4%**	134,805	2.5%
PENSION FUND RISK	**423,604**	**7.7%**	431,812	8.1%
BUSINESS AND STRATEGIC RISK	**217,248**	**3.9%**	212,989	4.0%
NON-DIVERSIFIED ECONOMIC CAPITAL	**5,519,528**	**100.0%**	5,352,667	100.0%
Diversification effect	**-1,202,308**		-1,196,791	
DIVERSIFIED ECONOMIC CAPITAL	**4,317,220**		4,155,876	

The Economic Capital estimated at the end of 2013 (after the diversification effects) increased 161,344 thousand euros vs. 31 December 2012. This evolution resulted mainly from:

- The increase of economic capital needs associated with credit risk, as a consequence from the worsening of internal rating grades in Portugal – especially in the Corporate segment – as well as from the updating of the LGD and CCF (credit conversion factor) parameters;

- The increase in equities risk, resulting from an increase in exposure of assets that are subject, within the model, to the same treatment as equities;

- A decrease in the banking book interest rate risk, stemming from a continuing decrease of the volatility levels observed for the Portuguese Sovereign Debt portfolio.

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 recognised in the balance sheet in any form whatsoever.

Thus, are accounted in past due loans all the credits (capital) that have not been settled 30 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.

Defaulted 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.

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

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 XVII "Breakdown of past due and impaired exposures" – 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 recognised 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 collateralised credits, when the funds coming from the use of the collaterals have already been received, by the use of impairment losses when these correspond to 100% of the value of the credits deemed as impossible to recover.

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

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 recognised against results) is allocated to fair value reserves and recognised 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 recognised in equity instruments classified as financial assets available for sale is registered against fair value reserves when it occurs (not being reversed against results).

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

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

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

The allocations and recoveries of impairments and provisions with impact in the consolidated financial statements of 2013 and 2012 are shown in Table XII.

TABLE XII – IMPACT OF IMPAIRMENT AND PROVISION CHARGES AND RECOVERIES ON RESULTS

Euro thousand

Impairment and provisions	2013	2012
Charges net of reversions and annulments	**1,152,034**	2,127,692
Recoveries	**-16,493**	-23,582
CHARGES NET OF RECOVERIES	**1,135,541**	2,104,110

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;

- The 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 centralised 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 x 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, Risk Office uses a database 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.

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 emphasise 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 2013, 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).

5.3. CHARACTERISATION 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 those handled within the scope of the trading portfolio but the ones related to securitisation.

The total of original exposures, corresponding to the respective gross value of impairments and amortisations attained 99,969,578 thousand euros, as at 31 December 2013, and 111,409,455 thousand euros as at 31 December 2012, including securitisations. The Table XIII presents a breakdown of these amounts in accordance with the risk types defined by the Basel II Accord.

TABLE XIII – EXPOSURES BY RISK CLASS

Euro thousand

Risk classes (securitisation positions included)	Original exposure		Original exposure (average)	
	31-12-2013	31-12-2012	**2013**	2012
STANDARDISED APPROACH	**41,171,551**	56,058,438	**49,893,888**	60,668,181
STANDARDISED APPROACH, EXCLUDING SECURITISATION POSITIONS	**41,171,551**	56,058,438	**49,893,888**	60,668,181
CL I – Central governments or central banks	**11,378,621**	10,976,347	**10,649,179**	9,255,402
CL II – Regional governments or local authorities	**774,719**	637,504	**704,300**	675,554
CL III – Administrative and non-profit organisations	**302,772**	181,341	**306,179**	167,932
CL IV – Multilateral development banks	**73,468**	92,566	**81,846**	87,894
CL V – International organizations				2,900
CL VI – Institutions	**4,471,187**	6,696,676	**5,380,322**	7,311,769
CL VII – Corporates	**10,501,824**	16,776,895	**14,278,843**	16,824,353
CL VIII – Retail portfolio	**2,147,837**	2,468,261	**2,223,391**	3,363,310
CL IX – Positions guaranteed by real estate	**1,758,483**	4,766,392	**3,477,082**	10,769,263
CL X – Past due items	**927,567**	3,499,725	**3,324,687**	3,473,839
CL XI – Covered bonds				
CL XII – Exposures on collective investment undertakings (CIUs)	**2,021,594**	1,527,914	**1,728,330**	884,025
CL XIII – Other items	**6,813,480**	8,434,816	**7,739,731**	7,851,940
SECURITISATION POSITIONS				
IRB APPROACH	**58,798,027**	55,351,017	**54,735,584**	52,278,553
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS		18,602,412	**16,145,383**	21,311,275
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	**17,613,145**	21,311,275
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	**55,647,420**	36,217,648	**36,442,174**	30,394,511
Claims or contingent claims on central governments or central banks				
Claims or contingent claims on institutions				
Claims or contingent claims on corporates	**22,022,387**		**1,835,199**	
Retail claims or contingent retail claims	**33,625,033**	36,217,648	**34,606,975**	30,394,511
EQUITY POSITIONS	**62,104**	47,367	**183,434**	75,835
SECURITISATION POSITIONS	**3,088,503**	483,591	**1,964,593**	496,932
OTHER ASSETS NOT RELATED TO BOND LOANS				
TOTAL	**99,969,578**	111,409,455	**104,629,472**	112,946,734

Note: The total amount of original exposures, gross of impairments and amortizations, stood at 99,969,578 thousand euros on year-end 2013 (111,409,455 thousand euros on year-end 2012), including 82,311,120 thousand euros recorded on-balance sheet (93,165,045 thousand euros in 2012), 13,489,695 thousand euros off-balance sheet exposures (16,141,702 thousand euros in 2012), 1,025,545 thousand euros related to derivative instruments (1,520,864 thousand euros in 2012), and the remaining amount from assets repurchase agreements, equity and securitisation positions.

The geographical distribution of the Group's original risk positions at the end of 2013 and 2012 are provided in Table XIV.

TABLE XIV – DISTRIBUTION OF EXPOSURES BY GEOGRAPHICAL AREAS

Euro thousand

Risk Classes	Portugal		Poland		Greece		Other	
	31-12-2013	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012
STANDARDISED APPROACH	**23,726,230**	32,206,173	**8,457,340**	7,109,459	**24,809**	6,432,758	**8,963,171**	10,310,048
RISK CLASSES	**23,726,230**	32,206,173	**8,457,340**	7,109,459	**24,809**	6,432,758	**8,963,171**	10,310,048
Central governments or central banks	**7,073,594**	7,278,557	**2,563,777**	1,990,663		85,864	**1,741,250**	1,621,263 (1)
Regional governments or local authorities	**565,912**	386,630	**203,693**	241,750		4,590	**5,114**	4,534
Administrative and non-profit organisations	**229,973**	113,353	**70,692**	67,928		61	**2,106**	0
Multilateral development banks							**73,468**	92,566 (2)
International organisations								
Institutions	**2,437,700**	2,303,493	**289,263**	250,263	**24,736**	230,310	**1,719,488**	3,912,610 (3)
Corporates	**5,181,215**	9,997,067	**2,592,533**	2,238,247		1,767,256	**2,728,076**	2,774,324
Retail portfolio	**273,818**	250,882	**1,111,674**	930,662	**72**	622,569	**762,272**	664,148
Positions guaranteed by real estate	**481,044**	1,459,876	**836,654**	675,706		2,203,139	**440,785**	427,671
Past due items	**412,750**	1,862,233	**337,969**	308,650	**0**	1,122,544	**176,847**	206,298
Covered bonds								
Exposures on collective investment undertakings (CIUs)	**1,376,499**	1,527,914					**645,095**	0
Other items	**5,693,725**	7,026,168	**451,084**	405,589		396,426	**668,670**	606,633
SECURITISATION POSITIONS								
IRB APPROACH	**48,849,377**	44,956,118	**7,177,055**	7,435,454	**58,094**	98,091	**2,713,502**	2,861,354
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS		17,125,879		1,828		97,669		1,377,035
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		1,828		97,669		1,377,035
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	**45,698,770**	27,299,281	**7,177,055**	7,433,626	**58,094**	422	**2,713,502**	1,484,319
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates	**20,590,088**		**106**		**57,728**		**1,374,466**	
Retail claims or contingent retail claims	**25,108,682**	27,299,281	**7,176,949**	7,433,626	**366**	422	**1,339,036**	1,484,319
EQUITY POSITIONS	**62,104**	47,367						
SECURITISATION POSITIONS	**3,088,503**	483,591						
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	**72,575,607**	77,162,291	**15,634,395**	14,544,913	**82,903**	6,530,850	**11,676,673**	13,171,402

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 the Ireland, with a weight of about 25% of the total exposure, followed by United Kingdom, with 21%, and France, with 17% of total exposure. All other countries included in 'Other' have a relative weight below 10%. In 2012, the main concentration was in Banks headquartered in the France, with a weight of about 26% of the total exposure, followed by Ireland, with 23%, United Kingdom, with 19% and Spain, with 11%.

The sectorial distribution of the Group's original risk positions at the end of 2013 and 2012 are provided in Table XV.

TABLE XV – DISTRIBUTION OF EXPOSURES BY ECONOMIC SECTOR

Euro thousand

Risk Classes	31 December 2013								
	Mortgage credit	Services	Consumer credit	Construction	Other activ. - national	Other activ. - international	Wholesale business	Other	
STANDARDISED APPROACH	678,922	19,517,794	1,646,306	766,913	7,575,379	496	486,339	10,499,402	
RISK CLASSES	678,922	19,517,794	1,646,306	766,913	7,575,379	496	486,339	10,499,402	
Central governments or central banks		11,378,621							
Regional governments or local authorities		774,719							
Administrative and non-profit organisations		302,772							
Multilateral development banks		73,468							
International organisations									
Institutions		4,471,187							
Corporates		2,304,819		654,050	5,761,185		326,527	1,455,242	(1)
Retail portfolio		27,474	1,497,885	37,935	449,010		48,877	86,657	(2)
Positions guaranteed by real estate	551,085	125,165		20,467	968,572	496	41,289	51,408	
Past due items	127,838	59,568	148,421	54,460	396,612		69,646	71,022	
Covered bonds									
Exposures on collective investment undertakings (CIUs)								2,021,594	(3)
Other items								6,813,480	
SECURITISATION POSITIONS									
IRB APPROACH	25,389,867	11,124,173	4,307,058	5,663,225	1,209,737	65	3,896,629	7,207,274	
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS									
Claims or contingent claims on central governments or central banks									
Claims or contingent claims on institutions									
Claims or contingent claims on corporates									(1)
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	25,389,867	10,326,542	4,307,058	5,461,898	1,209,545	8	3,623,712	5,328,791	
Claims or contingent claims on central governments or central banks									
Claims or contingent claims on institutions									
Claims or contingent claims on corporates		9,395,598		4,917,618	978,890		2,210,831	4,519,451	(1)
Retail claims or contingent retail claims	25,389,867	930,945	4,307,058	544,280	230,655	8	1,412,881	809,339	(2)
EQUITY POSITIONS								62,104	
SECURITISATION POSITIONS		797,631		201,327	192	57	272,917	1,816,379	
OTHER ASSETS NOT RELATED TO BOND LOANS									
TOTAL	26,068,789	30,641,967	5,953,364	6,430,139	8,785,116	561	4,382,967	17,706,676	

(continues)

(continuation)

Euro thousand

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
Retail portfolio		29,164	1,252,590	27,337	1,022,175	3	48,818	88,174
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 (CIUs)								1,527,914
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
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
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

Note1: 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 28% of the total of this sub-exposure, followed by the 'Electricity, water ang gas' industry with 18% and 'Machinery, Equipment and Base Metals', with about 17% of the amount under analysis. In 2012 the sector 'Transports and comunications' represented about 29% of the total of this sub-exposure folowed by the 'Machinery, Equipment and Base Metals' industry with 16% and 'Electricity, water ang gas' with 17% 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 29% 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 2012 the sector ''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.
(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 2013 and 2012 are provided in Table XVI.

TABLE XVI – DISTRIBUTION OF EXPOSURES BY RESIDUAL MATURITY

Euro thousand

Risk Classes	RM < 1 year		1 year < RM < 5 years		5 years < RM < 10 years		RM > 10 years	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012
STANDARDISED APPROACH	20,291,438	29,849,143	11,183,875	12,031,675	4,602,412	5,605,725	5,093,826	8,571,896
RISK CLASSES	20,291,438	29,849,143	11,183,875	12,031,675	4,602,412	5,605,725	5,093,826	8,571,896
Central governments or central banks	6,311,020	6,250,084	4,372,440	3,582,360	610,746	946,738	84,414	197,165
Regional governments or local authorities	97,252	148,311	121,991	126,980	184,825	216,713	370,652	145,500
Administrative and non-profit organisations	76,996	90,718	8,467	51,472	42,451	39,151	174,858	
Multilateral development banks			8	15,546	45,700	47,497	27,759	29,523
International organisations								
Institutions	3,687,512	5,350,608	521,678	919,147	186,051	224,696	75,947	202,225
Corporates	6,451,963	10,370,896	2,155,101	3,354,113	1,265,246	1,753,076	629,513	1,298,810
Retail portfolio	1,019,468	1,312,862	734,744	764,158	378,817	296,357	14,809	94,884
Positions guaranteed by real estate	545,175	1,254,012	471,884	464,230	227,771	605,485	513,653	2,442,664
Past due items	638,519	2,098,672	64,815	338,743	53,026	384,191	171,207	678,119
Covered bonds								
Exposures on collective investment undertakings (CIUs)			1,308,113	998,497			713,481	529,417
Other items	1,463,533	2,972,978	1,424,635	1,416,428	1,607,780	1,091,821	2,383,177	2,953,589
SECURITISATION POSITIONS								
IRB APPROACH	14,523,274	13,950,409	9,152,085	6,498,155	5,063,244	4,373,098	30,059,424	30,529,355
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS		9,810,882		3,484,929		2,490,080		2,816,520
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		3,484,929		2,490,080		2,816,520
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	13,397,004	4,139,527	8,339,147	3,013,225	4,787,753	1,883,018	29,123,516	27,181,877
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates	11,088,190		4,968,890		2,739,618		3,225,690	
Retail claims or contingent retail claims	2,308,814	4,139,527	3,370,258	3,013,225	2,048,135	1,883,018	25,897,827	27,181,877
EQUITY POSITIONS							62,104	47,367
SECURITISATION POSITIONS	1,126,270		812,938		275,491		873,804	483,591
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	34,814,712	43,799,552	20,335,961	18,529,830	9,665,656	9,978,822	35,153,250	39,101,251

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 2013 and 2012, are presented in Table XVII, detailing the main economic sectors and geographical areas to which the Group is exposed.

TABLE XVII – BREAKDOWN OF PAST DUE AND IMPAIRED EXPOSURES

Euro thousand

	Past due exposures		Exposures with impairment		Impairment and provisions	
	31-12-2013	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012
TOTAL EXPOSURES	**6,550,959**	7,471,135	**13,064,763**	14,048,050	**4,239,806**	5,048,286
BREAKDOWN BY MAIN ECONOMIC SECTORS						
Mortgage credit	**1,387,480**	1,522,091	**1,991,834**	2,165,881	**271,702**	257,837
Services	**1,208,625**	1,080,895	**4,313,988**	3,130,815	**1,024,320**	970,587
Consumer credit	**613,471**	635,226	**788,003**	884,529	**370,605**	441,667
Construction	**1,440,602**	1,365,786	**2,533,945**	2,543,518	**749,302**	679,193
Other activ. – national	**507,167**	1,602,281	**850,692**	3,093,110	**478,625**	953,354
Other activ. – international					**1**	2
Wholesale business	**544,553**	513,077	**790,763**	753,705	**251,365**	230,232
Other	**849,061**	751,779	**1,795,538**	1,476,492	**1,093,885**	1,515,414
BREAKDOWN BY MAIN GEOGRAPHIC AREAS						
Portugal	**5,727,660**	5,574,158	**11,898,344**	10,432,584	**3,517,811**	3,266,309
Poland	**423,895**	391,035	**556,004**	610,502	**316,152**	306,995
Greece	**0**	1,122,544	**0**	2,142,433	**3**	902,811
Other	**399,403**	383,397	**610,415**	862,531	**405,839**	572,172

The Table XVIII shows the evolution, from 2012 to 2013, 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, utilisations, reversions, annulments and other adjustments.

TABLE XVIII – IMPAIRMENT, PROVISIONS AND AMORTISATIONS

Euro thousand

	2013		Total	
	Impairment and provisions	Amortisations	**2013**	2012
OPENING BALANCE ON 1 JANUARY	5,048,286	1,225,876	**6,274,162**	5,540,449
Charges	2,196,334	44,805	**2,241,139**	3,014,537
Uses	-1,046,980		**-1,046,980**	-1,420,639
Re-adjustments/Cancellations	-1,044,300	-50,889	**-1,095,189**	-855,173
Other adjustments:	-913,535	-89,632	**-1,003,167**	-5,012
– Adjustment for exchange rate differences	-13,898	-9,022	**-22,920**	17,643
– Transfers of provisions	884	-80,610	**-79,726**	-22,655
– Business combinations				
– Acquisitions and disposals of subsidiaries	-900,521		**-900,521**	
– Other				
CLOSING BALANCE ON 31 DECEMBER	4,239,806	1,130,159	**5,369,965**	6,274,162

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 2012 and 2013, the Group determined the own funds requirements for credit risk in accordance with authorisations 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, provided they have been 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 and Fitch Ratings.

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 authorised by Banco de Portugal.

On 31 December 2012, according to the authorisations 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. From that date, also, according to the authorisations 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).

On 31 December 2013, in accordance with the authorisation granted by Banco de Portugal, the risk weighted assets calculation for the "Corporates" risk class, including the real estate promotion exposures, was performed using own estimates for the PD and LGD parameters.

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2013 and 2012 were estimated following the standardised approach.

Also, in Portugal:

- Risk weighted assets as at 31 December 2013 for exposures to customers that exceptionally did not receive an internal risk level were computed according to the standardised approach;

- Within the Corporates risk class, the Bank uses the standardised approach for a set of Special Purpose Vehicle exposures (SPV), churches, sports clubs and other non-profit organisations, in accordance with Banco de Portugal's authorisation for a permanent partial use of this approach, for these cases.

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. On 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 XIX:

TABLE XIX – 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 for RG 13 and 14 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 authorised 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), which is 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 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 its 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 Real Estate Promotion and the Corporates 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 several rating models to grant risk scores (and the respective PD used to compute applicable weights): Large, Mid and Small Corporate models, models for Holdings of Economic Groups and for Investment Holdings, models for Real Estate Promotion projects and companies (in both cases, with specific approaches to investment or development cases), real estate Investment Funds model and Small Real Estate Companies/Small Real Estate Projects models.

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

Finally, if the rating analyst proposes an override to the client's Integrated Rating, this must be approved by the Rating Committee, resulting in the Final Rating. However the overrides are unfrequent.

Table XX summarises these rating models and systems:

TABLE XX – CORPORATES RATING MODELS AND SYSTEMS

Rating system for Projects	• Rating model for Project Finance: Specific Scoring questionnaire based on the risk assessment questionnaire presented in Annex 6 of the Basel II Accord. • Model for Real Estate Promotion Projects for sale/Model for Real Estate Promotion Projects for income/Model for Real Estate Investment Funds. Quantitative component (specific racios, finantial score, financial flexibility) + qualitative component (sector, management quality, assets/projects quality, market and competitiveness) + adjustments stemming from pre-defined situations (including those arising from the identification of "imminent risk" evidence) + adjustments stemming from economic group relations (e.g. parents vs. affiliates). • Model for small Real Estate Projects: Quantitative component + qualitative component + adjustments stemming from pre-defined situations (including those arising from the identification of "imminent risk" evidence) + adjustments stemming from economic group relations (e.g. parents vs. affiliates).
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 Model: 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). • Business Model for Real Estate Development/Model for Investment Companies/Real Estate income. Quantitative component (specific racios, finantial score, financial flexibility) + qualitative component (sector, management quality, assets/projects quality, market and competitiveness) + adjustments stemming from pre-defined situations (including those arising from the identification of "imminent risk" evidence) + adjustments stemming from economic group relations (e.g. parents vs. affiliates). • Model for Small Real Estate agents: Quantitative component + qualitative component + adjustments stemming from pre-defined situations or from the identification of "imminent risk" evidence + adjustments stemming from economic group relations (e.g. parents vs. affiliates).

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 XXI:

TABLE XXI – 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). • 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). • 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 2013 and 2012, are presented in Table XXII.

TABLE XXII – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK

Euro thousand

	31 December 2013									
	Risk weights									
	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total
1. ORIGINAL EXPOSURE										
CL I – Central governments or central banks	10,687,513		459,330		54,004		177,772	2		11,378,621
CL II – Regional governments or local authorities			774,719							774,719
CL III – Administrative and non-profit organisations	267,301		14,024		21,283		163			302,772
CL IV – Multilateral development banks	73,468									73,468
CL V – International organisations										
CL VI – Institutions			3,697,480		125,231		648,477	0		4,471,187
CL VII – Corporates			30,052		271		10,443,171	28,330		10,501,824
CL VIII – Retail portfolio						2,146,249	1,588			2,147,837
CL IX – Positions guaranteed by real estate	2,072		5,149	393,963	652,093	77,118	628,088			1,758,483
CL X – Past due items							801,561	126,006		927,567
CL XI – Covered bonds										
CL XII – Exposures on collective investment undertakings (CIUs)							834,594	1,050,718	136,282	2,021,594
CL XIII – Other items	3,063,883		197,974				3,551,623			6,813,480
TOTAL ORIGINAL EXPOSURES	**14,094,236**		**5,178,729**	**393,963**	**852,881**	**2,223,367**	**17,087,036**	**1,205,056**	**136,282**	**41,171,551**
2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)										
CL I – Central governments or central banks	11,346,720		452,084		53,978		177,115	1		12,029,898
CL II – Regional governments or local authorities			513,316							513,316
CL III – Administrative and non-profit organisations	250,765		13,987		13,622		82			278,456
CL IV – Multilateral development banks	76,267									76,267
CL V – International organisations	730									730
CL VI – Institutions	123,031		3,108,290		101,919		549,653	0		3,882,895
CL VII – Corporates	20,299		79,675		271		6,419,415	22,479		6,542,138
CL VIII – Retail portfolio	2,318					1,608,143	635			1,611,096
CL IX – Positions guaranteed by real estate	8,249		5,137	391,118	628,834	74,668	420,176			1,528,182
CL X – Past due items							366,954	113,895		480,848
CL XI – Covered bonds										
CL XII – Exposures on collective investment undertakings (CIUs)							766,911	1,050,718		1,817,628
CL XIII – Other items	3,063,883		197,974				2,069,747			5,331,603
TOTAL EXPOSURES	**14,892,262**		**4,370,463**	**391,118**	**798,624**	**1,682,811**	**10,770,687**	**1,187,092**		**34,093,058**

(continues)

(continuation) Euro thousand

	31 December 2013									
	Risk weights									
	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total
3. TOTAL CAPITAL REQUIREMENTS (=∑ (2. * RISK WEIGHTS) * 8%)										
CL I – Central governments or central banks			7,233		2,159		14,169	0		23,562
CL II – Regional governments or local authorities			8,213							8,213
CL III – Administrative and non-profit organisations			224		545		7			775
CL IV – Multilateral development banks										
CL V – International organisations										
CL VI – Institutions			49,733		4,077		43,972	0		97,782
CL VII – Corporates			1,275		11		513,553	2,697		517,536
CL VIII – Retail portfolio						96,489	51			96,539
CL IX – Positions guaranteed by real estate			82	10,951	25,153	4,480	33,614			74,281
CL X – Past due items							29,356	13,667		43,024
CL XI – Covered bonds										
CL XII – Exposures on collective investment undertakings (CIUs)							61,353	126,086		187,439
CL XIII – Other items			3,168				165,580			168,747
TOTAL CAPITAL REQUIREMENTS	**0**		**69,927**	**10,951**	**31,945**	**100,969**	**861,655**	**142,451**		**1,217,898**

Euro thousand

	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 (CIUs)							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**		**7,748,712**	**1,926,716**	**1,749,832**	**2,575,496**	**26,202,781**	**2,532,071**	**68,553**	**56,058,438**

(continues)

(continuation)

	31 December 2012									
	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	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 (CIUs)							597,065	810,023		1,407,088
CL XIII – Other items	2,828,876		1,629,280				2,313,147			6,771,302
TOTAL EXPOSURES	**13,709,748**		**7,918,296**	**1,914,172**	**1,598,163**	**1,707,319**	**16,211,346**	**2,124,699**		**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 (CIUs)							47,765	97,203		144,968
CL XIII – Other items			26,068				185,052			211,120
TOTAL CAPITAL REQUIREMENTS	**0**		**126,693**	**53,597**	**63,927**	**102,439**	**1,296,908**	**254,964**		**1,898,527**

Note: The original exposures reflect the total reported in Table XII – Exposures, while the own funds requirements shown in this table correspond to the items in 2.1.1.1 of Table VIII - Capital requirements.

Own funds requirements for credit risk and counterparty credit risk originated by portfolios subject to the IRB approach, as at 31 December 2013 and 2012, are presented in Tables XXIII – 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 XXIII-A – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH)

Euro thousand

Retail portfolio		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 (%))				31-12-2013	31-12-2012	Expected losses	Impairment
1. TOTAL EXPOSURES		11%	33,625,033	31,767,379	25%	578,067	642,379	1,019,273	727,740
1.1 – Exposures related to customers risk grades: Total		11%	33,625,033	31,767,379	25%	**578,067**	642,379	1,019,273	727,740
Breakdown of exposures related to customers risk grades (a):	Risk grade: 1	0.01% to 0.05%							
	2	0.05% to 0.07%	35,949	24,901	32%	**57**	98	3	24
	3	0.07% to 0.14%	7,859,952	7,440,001	26%	**30,529**	29,306	1,545	10,487
	4	0.14% to 0.28%	6,566,688	6,238,261	23%	**40,921**	48,550	2,592	7,931
	5	0.28% to 0.53%	4,025,680	3,871,907	25%	**45,018**	48,696	3,492	6,346
	6	0.53% to 0.95%	2,815,723	2,770,995	25%	**48,907**	51,602	4,570	5,483
	7	0.95% to 1.73%	2,205,130	2,069,541	25%	**53,783**	58,907	6,317	5,147
	8	1.73% to 2.92%	1,678,732	1,543,465	25%	**55,523**	54,977	8,312	4,021
	9	2.92% to 4.67%	1,291,925	1,300,981	25%	**60,393**	60,823	11,313	4,193
	10	4.67% to 7.00%	1,147,457	977,640	24%	**56,336**	53,875	13,098	3,091
	11	7.00% to 9.77%	798,520	671,813	24%	**45,670**	55,621	12,989	2,704
	12	9.77% to 13.61%	1,435,717	1,136,725	24%	**84,145**	103,932	29,543	6,464
	13 to 15	13.61% to 100.00%	3,763,559	3,721,148	28%	**56,787**	75,990	925,501	671,849

(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 XXIII-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 XXIII-B – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH)

Euro thousand

Corporates		Internal ratings based system: PD buckets of customer risk grades (%)	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements 31-12-2013	Capital requirements 31-12-2012	Memorandum items: Expected losses	Memorandum items: Impairment
1. TOTAL EXPOSURES		35%	20,026,959	17,200,807	40%	1,069,895	1,008,256	2,469,795	2,087,544
1.1. – Exposures related to customers risk grades: Total		35%	20,026,959	17,200,807	40%	**1,069,895**	1,008,256	2,469,795	2,087,544
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%	18,366	4,018	48%	**66**	20	2	10
	4	0.14% to 0.28%	965,748	792,184	45%	**20,751**	29,214	698	605
	5	0.28% to 0.53%	934,400	772,216	37%	**25,875**	23,264	1,092	1,598
	6	0.53% to 0.95%	655,041	478,041	43%	**27,107**	38,659	1,457	684
	7	0.95% to 1.73%	1,172,194	957,726	41%	**65,583**	62,681	4,980	2,188
	8	1.73% to 2.92%	946,529	705,938	38%	**49,948**	79,313	5,873	1,805
	9	2.92% to 4.67%	1,391,684	1,097,654	40%	**93,555**	107,225	15,488	2,654
	10	4.67% to 7.00%	728,513	585,890	38%	**53,553**	135,957	12,249	4,394
	11	7.00% to 9.77%	1,253,133	1,053,409	39%	**113,080**	83,870	32,537	5,498
	12	9.77% to 13.61%	3,866,389	3,293,112	35%	**331,981**	380,714	124,463	68,210
	13 to 15	13.61% to 100.00%	8,094,960	7,460,619	43%	**288,395**	67,339	2,270,956	1,999,899

(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 XXIII-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 XXIII-C – OWN FUNDS REQUIREMENTS FOR ESPECIALISED LENDING (IRB APPROACH)

Euro thousand

Risk weights	Original exposure 31-12-2013	Original exposure 31-12-2012	Capital requirements 31-12-2013	Capital requirements 31-12-2012
0%	**80,549**	20,623		
50%	**25**	27,336	**0**	993
70%	**177,086**	196,502	**9,804**	10,887
of which: Grade 1				
90%	**1,088,447**	1,133,586	**76,495**	79,831
115%	**498,571**	531,021	**43,809**	46,383
250%	**150,751**	420,988	**29,610**	76,135
TOTAL	**1,995,428**	2,330,056	**159,719**	214,228

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

Euro thousand

Using own estimations of LGD and/or credit conversion factors	Internal ratings based system – PD buckets of customer risk grades (%)	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements – **31-12-2013**	Capital requirements – 31-12-2012	Memorandum items – Expected losses	Memorandum items – 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		62,104	62,104		**17,261**	12,890	1,210	
Breakdown of exposures per risk weight:	Risk weight: 190%							
	290%	17,535	17,535		**4,068**	4,099	140	
	370%	44,569	44,569		**13,192**	8,790	1,070	
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 counterparties that are not financial institutions 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 part to guarantee the payment of these contractual obligations. In these contracts, the Bank (almost exclusively) 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 2013 and in 2012, 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 2012 and 2013, 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 authorised the IRB Approach.

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

The market values of the operations are collected directly from the Bank's 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 XXIV shows own funds requirements for counterparty credit risk for exposures subject to the standardised approach, computed as at the end of 2013 and 2012.

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

Euro thousand

	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	
					31-12-2013	31-12-2012
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions	58,257		56,428	1,829	**72**	760
Derivatives	767,671		212,023	555,649	**20,936**	29,925
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 VIII – Capital requirements..

Own funds requirements for counterparty credit risk for exposures subject to the IRB approach, computed as at the end of 2013 and 2012 are broken down in Table XXV.

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

Euro thousand

	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	
					31-12-2013	31-12-2012
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions						
Derivatives	257,873			257,873	**23,810**	49,384
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 VIII – Capital requirements.

As at 31 December 2013 and 2012, the Group had one risk coverage operation in force, involving credit derivatives, with a nominal value of, 255,000 thousand euros. 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 XXVI.

TABLE XXVI – CREDIT DERIVATIVES

Euro thousand

Credit derivative transactions	Long positions		Short positions	
	31-12-2013	31-12-2012	**31-12-2013**	31-12-2012
I. CREDIT PORTFOLIO (TOTAL):	**255,000**			
a) Credit default swaps	**255,000**			
b) Total return swaps				
c) Credit linked notes				
d) Other credit derivatives				
II. INTERMEDIATION ACTIVITIES (TOTAL):	**1,751,560**	2,244,910	**1,542,714**	1,969,390
a) Credit default swaps	**1,499,300**	1,882,400	**1,542,714**	1,969,390
b) Total return swaps	**19,510**	19,510		
c) Credit linked notes	**232,750**	343,000		
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 XXIV and XXV – 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 Master Scale;
- 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 thousand 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 thousand 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 XXVII summarises the impact, as at 31 December 2013, 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 XXVII - CREDIT RISK MITIGATION TECHNIQUES (STANDARDISED APPROACH)

Euro thousand

	Net exposure	CRM techniques with substitution effect on the original net exposure						CRM techniques with substitution effect on the net exposure amount: funded credit protection[a]
		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	38,717,376	735,602		274,895		181,659		645,782
CL I – Central governments or central banks	11,374,857					682,831		
CL II – Regional governments or local authorities	773,167	196,535				-167,599		
CL III – Administrative and non-profit organisations	302,303					7,951		1,251
CL IV – Multilateral development banks	73,468					2,799		
CL V – International organisations						730		
CL VI – Institutions	4,471,032	44				370,156		99,360
CL VII – Corporates	10,284,813	530,332		45,115		-485,487		513,613
CL VIII – Retail portfolio	2,102,559	2,080		223,601		-223,110		23,319
CL IX – Positions guaranteed by real estate	1,703,609	5,628		6,177		-5,628		7,736
CL X – Past due items	482,337	983		2		-985		504
CL XI – Covered bonds								
CL XII – Exposures on collective investment undertakings (CIUs)	1,817,628							
CL XIII – Other items	5,331,603							

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

Tables XXVIII-A and XXVIII-B summarise the impact, with reference to 31 December 2013, 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 XXVIII-A – CREDIT RISK MITIGATION TECHNIQUES (IRB APPROACH)

Euro thousand

	Original exposures	CRM techniques with substitution effect on the original net exposure				Credit risk mitigation techniques with impact on the LGD estimation, excluding the treatment related to simultaneous default					Treatment related to simultaneous default
		Personal credit protection		Other forms of funded credit protection	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	55,647,420	1,857,694			-181,659			139,239	1,070,278	29,938,768	
Claims or contingent claims on corporates	22,022,387	262,887			-105,277			55,195	837,218	4,671,335	
Retail claims or contingent retail claims	33,625,033	1,594,806			-76,382			84,044	233,059	25,267,432	

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

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

Euro thousand

	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)	62,104			
Internal ratings based approach (total)				

Credit risk mitigation techniques (personal and real credit protection), with reference to 31 December 2013 and 2012, are analysed in Table XXIX, considering the main sectors of activity focused on.

TABLE XXIX – CONCENTRATION ANALYSIS: PERSONAL AND FUNDED CREDIT PROTECTION

Euro thousand

	31 December 2013							
	Personal credit protection		Funded credit protection					
			Eligible (financial) collateral		Other forms of eligible collateral			Other forms of funded credit protection
	Guarantees	Credit derivatives - Simple method	Simple Method	Comprehensive financial collateral method	Real-estate	Other tangible guarantees	Amounts due for collection	
TOTAL POSITIONS COVERED	**2,593,295**		**274,895**	**1,716,060**	**29,938,768**			**139,239**
Mortgage loans	862,847		6,177	12,980	23,496,958			7,812
Services	684,763			887,369	2,521,470			20,443
Consumer credit	47,239		223,601	103,866	167			29,140
Construction	183,095			57,768	1,754,216			18,877
Other domestic activities	283,343		45,116	410,327	287,580			5,643
Other foreign activities								
Wholesale business	232,302			87,040	658,810			28,944
Other	299,707			156,710	1,219,567			28,380

Euro thousand

	31 December 2012							
	Personal credit protection		Funded credit protection					
			Eligible (financial) collateral		Other forms of eligible collateral			Other forms of funded credit protection
	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

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 recognised at fair value, including gains and losses associated with the transactions, and are afterwards valued at their fair value based on the following hierarchy of criteria: market price listed in regulated 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 XXX, as follows:

TABLE XXX – EQUITY EXPOSURES IN THE BANKING BOOK

Euro thousand

	Listed shares		Unlisted shares Private equity		Other capital instruments(*)		Total		
	31-12-2013	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012	
Acquisition cost/Notional amount	**44,292**	43,851	**69,108**	86,826			**113,400**	130,677	
Fair value	**19,676**	19,551	**52,718**	69,583			**72,394**	89,134	
Market price									
Gains or losses arising from sales and settlements in the period							**127,698**	-895	(1)
Total unrealised gains or losses							**6,234**	5,452	(2)
Total latent revaluation gains or losses							**-41,006**	-41,542	(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).

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 as from 31 December 2011, 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 XXXI.

TABLE XXXI – CAPITAL REQUIREMENTS FOR EQUITY EXPOSURES

Euro thousand

	Risk weights	Risk positions (1)		Capital requirements	
		31-12-2013	31-12-2012	**31-12-2013**	31-12-2012
STANDARDISED APPROACH	100%	**39,110**	39,884	**3,129**	3,191
IRB APPROACH(2)		**62,104**	47,367	**8,367**	12,890
Listed shares	290%	**17,535**	17,670	**4,068**	4,099
Unlisted shares	370%	**44,569**	29,697	**4,299**	8,790
TOTAL		**101,214**	87,251	**11,496**	16,080

(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 VIII – Capital requirements.

Note2: 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 2013, the number of credit securitisation operations originated by the Group rose to nine, eight of which from the operation in Portugal and one from Poland.

Since 1998, the Group has regularly carried out securitisation operations supported on diversified assets and pursuing different goals, based on the market conditions and market opportunities and the Group's interests.

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 of these operations is widely diverse, broad and mainly presents as supplementary for the base of investors resulting from 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.

Taking advantage of market conditions and in particular the appetite for risk originated in Portugal, the Bank, in June 2013, carried out a synthetic securitisation, which embodied the hedge a significant portion of its short, medium and long-term loan corporate portfolio. This transaction was aimed at reducing risk weighted assets associated with that portfolio, achieved through an effective transfer of risk to the investors, and corresponds to the first securitisation operation with market placement realised by the Bank since 2006.

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 2013, are summarised in Table XXXII.

TABLE XXXII – DESCRIPTION OF SECURITISATION OPERATIONS

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

	MAGELLAN NO. 2
Identification of the securitisation operation	Magellan Mortgages No. 2 Limited
Initial objective of the securitisation operation	Securing funding and risk management(2)
Form of the securitisation operation	Traditional securitisation Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager
Start date	24 October 2003
Legal maturity	18 July 2036
Step-up clause (date)	18 October 2010
Revolving (years)	N.A.
Securitised assets (in million of euros)	1,000.0
Significant credit risk transfer(1)	No

	MAGELLAN NO. 3
Identification of the securitisation operation	Magellan Mortgages No. 3 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager
Start date	30 June 2005
Legal maturity	15 May 2058
Step-up clause (date)	15 August 2012
Revolving (years)	N.A.
Securitised assets (in millions of euros)	1,500.0
Significant credit risk transfer[1]	No

	MAGELLAN NO. 4
Identification of the securitisation operation	Magellan Mortgages No. 4 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager
Start date	13 July 2006
Legal maturity	20 July 2059
Step-up clause (date)	20 July 2015
Revolving (years)	N.A.
Securitised assets (in millions of euros)	1,500.0
Significant credit risk transfer[1]	No

	NOVA NO. 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 Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager Counterparty of the back-to-back interest rate swap (Millennium bcp Bank & Trust) Guarantor of the back-to-back interest rate swap (Banco Comercial Português, S.A., SFI) 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 of euros)	700.0
Significant credit risk transfer[1]	No

	TAGUS LEASING NO. 1
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 Credit lender Manager of the assigned credits Transaction Manager
Start date	26 February 2010
Legal maturity	23 August 2040
Step-up clause (date)	N.A.
Revolving (years)	1 Year
Securitised assets (in millions of euros)	1,200.0
Significant credit risk transfer[1]	No

	CARAVELA SME NO. 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 Credit lender Manager of the assigned credits 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 of euros)	2,700.0
Significant credit risk transfer[1]	No

	CARAVELA SME NO. 3
Identification of the securitisation operation	Caravela SME No. 3
Initial objective of the securitisation operation	Reduction of the RWAs associated with the portfolio
Form of the securitisation operation	Synthetic securitisation Originator of the securitised assets Manager of the assigned credits Counterparty of the credit default swap
Start date	28 June 2013
Legal maturity	25 March 2036
Step-up clause (date)	N.A.
Revolving (years)	4 years
Securitised assets (in millions of euros)	2,383.0
Significant credit risk transfer[1]	Yes

(1) For regulatory purposes.

(2) Assets that, in December 31, 2013 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 2013 and 2012 are summarised in Table XXXIII.

TABLE XXXIII – MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS

	TRADITIONAL									
	MAGELLAN NO.1		MAGELLAN NO.2		MAGELLAN NO.3		MAGELLAN NO.4		KION NO.1	
	31-12-2013	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012
INFORMATION ON THE TRANSACTIONS										
Amounts in debt (in millions of euros)	**187.6**	216.0	**217.1**	245.0	**527.9**	582.3	**585.1**	640.7		145.5
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.
Assets assigned (per institution)/ Securitised assets (total) (%)	**3%**	3%	**3%**	3%	**8%**	8%	**9%**	9%		2%
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.
	TRADITIONAL									
	NOVA NO.4		TAGUS LEASING NO.1		SME NO.2		KION NO.3		KION CLO	
	31-12-2013	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012	**31-12-2013**	31-12-2012
INFORMATION ON THE TRANSACTIONS										
Amounts in debt (in millions of euros)	**125.3**	253.0	**518.5**	683.0	**2,211.5**	2,621.7		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.		N.A.
Assets assigned (per institution)/ Securitised assets (total) (%)	**2%**	3%	**8%**	9%	**33%**	36%		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.

	SYNTHETIC	
	SME NO.3	
	31-12-2013	31-12-2012
INFORMATION ON THE TRANSACTIONS		
Amounts in debt (in millions of euros)	**2,383.2**	
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION		
Implicit support situations	**N.A.**	
Assets assigned (per institution)/Securitised assets (total) (%)	**35%**	
Initial gains/Value of first loss positions held	**N.A.**	

N.A.– Not applicable.

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

9.2. GROUP ACCOUNTING POLICIES

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

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

- The SPE's activities are being mainly carried out in favour of the Group, according to its specific business needs, so that the Group benefits from the 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. Other assumptions and estimates could result in differences in the consolidation perimeter of the Group, with a direct impact on results.

Within the scope of the application of such policy, the accounting consolidation perimeter included the following SPE resulting from securitisation operations: NovaFinance no. 4, Magellan no. 2 and 3, 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 credit portfolios.

On 28 June 2013, was concluded a synthetic securitisation operation Caravela SME No. 3, associated to a corporate loan portfolio, mostly small and medium sized enterprises (SMEs) or individual entrepreneurs.

Regarding the SPE included in the consolidation perimeter, should it be determined that the control exercised by the Group over their activities has ceased, namely pursuant to the sale of the most subordinated securities issued by them, the SPE will no longer be consolidated. In this case, since the law determines that the management of loans granted remains within the group, 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, it will be associated with the sale of the securities issued, incorporated in liabilities as a premium or discount and accrued according to the effective rate until maturity or, (ii) if the SPE is not consolidated with due grounds, will result from the sale of the assets, which will be derecognised, and the sale will be recognised in the consolidated income statements.

9.3. OWN FUNDS REQUIREMENTS

On 31 December 2013, the Group held securitisation positions as an investor and as an originator entity. For some of the securitisation positions as an originator there was no significant credit risk transfer, according to the criteria defined in Banco de Portugal Notice no. 7/2007 and, therefore, the own funds requirements where determined as if the securitisations had not occurred.

The computation of own funds of securitisation operations on the year of 2013 was made based on Annex IV of Banco de Portugal Notice no. 7/2007.

For the securitisation positions as an investor, with an external rating attributed by an ECAI, a rating based approach was used, according to Annex III of Banco de Portugal Instruction no. 10/2007. Each quality level so defined corresponds to a risk weighting. The exposures without external rating 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 2013 to compute own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

For the securitisation positions held as an originator, the regulatory formula method was used, in accordance to no. 6 of Annex IV of Banco de Portugal Instruction no. 7/2007.

The Bank did not compute own funds requirements for securitisation operations according to the standardised approach, at the end of both 2013 and 2012, as shown in Table XXXIV.

TABLE XXXIV – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS (STANDARDISED APPROACH)

Euro thousand

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		**31-12-2013**	31-12-2012
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 amortization										
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										
C.1. – Balance sheet items										
C.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 of Table VIII – Own funds requirements.

Own funds requirements for securitisation operations computed according to the IRB approach, at the end of both 2013 and 2012, are shown in Tables XXXV-A and XXXV-B.

TABLE XXXV-A – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS: IRB APPROACH (TRADITIONAL)

Euro thousand

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	Positionnot subject to notation	Average risk weight (%)	Average risk weight (%)	**31-12-2013**	31-12-2012
TOTAL EXPOSURES (=A+B+C)		450,325			450,225		101			**38,279**	41,100
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 amortization											
B – INVESTOR: TOTAL EXPOSURES		450,325			450,225		101			**38,279**	41,100
B.1. – Balance sheet items		450,325			450,225		101			**38,279**	41,100
Most senior		450,225			450,225					**38,179**	41,000
Mezzanine											
First loss		101					101			**100**	101
B.2. – Off-balance sheet items and derivatives											
C – SPONSOR: TOTAL EXPOSURES											
C.1. – Balance sheet items											
C.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 VIII – Capital requirements.

TABLE XXXV-B – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS: IRB APPROACH (SYNTHETIC)

Euro thousand

Synthetic 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 (-)	20% - 35%	100%	Position subject to notation	Position not subject to notation		Average risk weight (%)		Average risk weight (%)	**31-12-2013**	31-12-2012
TOTAL EXPOSURES (=A+B+C)	2,638,178	2,383,178		255,000				2,128,178				34,956	
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 amortization													
B – INVESTOR: TOTAL EXPOSURES	2,638,178	2,383,178		255,000				2,128,178				34,956	
B.1. – Balance sheet items	2,383,178	2,128,178						2,128,178				30,876	
Most senior	2,109,112	2,109,112						2,109,112	7%			11,811	
Mezzanine	250,234												
First loss	23,832	19,065						19,065	1,250%			19,065	
B.2. – Off-balance sheet items and derivatives	255,000	255,000		255,000								4,080	
C – SPONSOR: TOTAL EXPOSURES													
C.1. – Balance sheet items													
C.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 VIII – Capital requirements.

On 31 December 2013 and 2012 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 authorised the Group to use the internal models approach to compute own funds requirements in terms of generic risk and specific risk of the trading book.

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

Thus, as at 31 December 2013 and 2012 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 XXXVI shows own funds requirements associated with the Group's trading book as at 31 December 2013 and 2012, by type of risk.

TABLE XXXVI – OWN FUNDS REQUIREMENTS FOR THE TRADING BOOK

Euro thousand

	31-12-2013	31-12-2012
TOTAL TRADING BOOK RISKS (=Σ(1.TO 3.))	**27,428**	32,048
1. EXPOSURE RISK (1.1.+1.2.)	**27,428**	32,048
1.1. Standardised approach for the trading book (=Σ(1.1.1. to 1.1.6.))	**2,129**	7,456
1.1.1. Debt instruments	**1,996**	6,978
1.1.1.1. Specific risk	**1,180**	4,959
1.1.1.2. General risk	**816**	2,019
1.1.2. Equity securities	**133**	478
1.1.2.1. Specific risk	**133**	478
1.1.2.2. General risk		
1.1.3. Collective investment undertakings (CIUs)		
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	**25,299**	24,593
2. COUNTERPARTY CREDIT RISK (=Σ(2.1.TO 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 VIII – Capital 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 (Value-at-risk) methodology to measure generic market risk – including interest rate risk, foreign exchange risk and equity risk – for all sub-portfolios covered by the previously mentioned authorisation for internal modelling.

Table XXXVII 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 2013 and 2012:

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

Euro thousand

	2013	2012
Maximum	**10,711**	11,428
Average	**4,987**	3,725
Minimum	**1,984**	1,187
Amount on 31 December	**2,151**	3,539

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 sub-trading books regarding which Banco de Portugal authorised the use of the internal models approach to calculate the generic market risk as previously mentioned.

These requirements were determined, for 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, analysing the results of those stress tests.

Table XXXVIII summarises the results of these tests on the Group's global trading book on 31 December 2013, 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 XXXVIII – STRESS TESTS OVER THE TRADING BOOK

Euro thousand

Tested scenarios with reference to December 31, 2013	Negative results scenarios	Result
Parallel shift of the yield curve by +/- 100 b.p.	+100 p.b.	-5,932
Change in the scope of the yield curve (for maturities from 2 to 10 years) by +/- 25 b.p.	+25 p.b.	-517
Combinations of the pevious 2 scenarios	+ 100 b.p. and + 25 b.p. + 100 b.p. and - 25 b.p.	-6,449 -5,415
Variation in the main stock market indices by +/- 30%	+30%	-725
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	-10% -25%	-7,961
Variation in the swap spreads by +/- 20 b.p.	-20 p.b.	-268

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 2 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. 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 2011 and 2013, 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 XXXIX.

TABLE XXXIX – BACKTESTING OF THE VaR APPROACH APPLIED IN MARKET RISK CALCULATION

Year	Number of excesses ocurred
2011	1
2012	3
2013	2

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

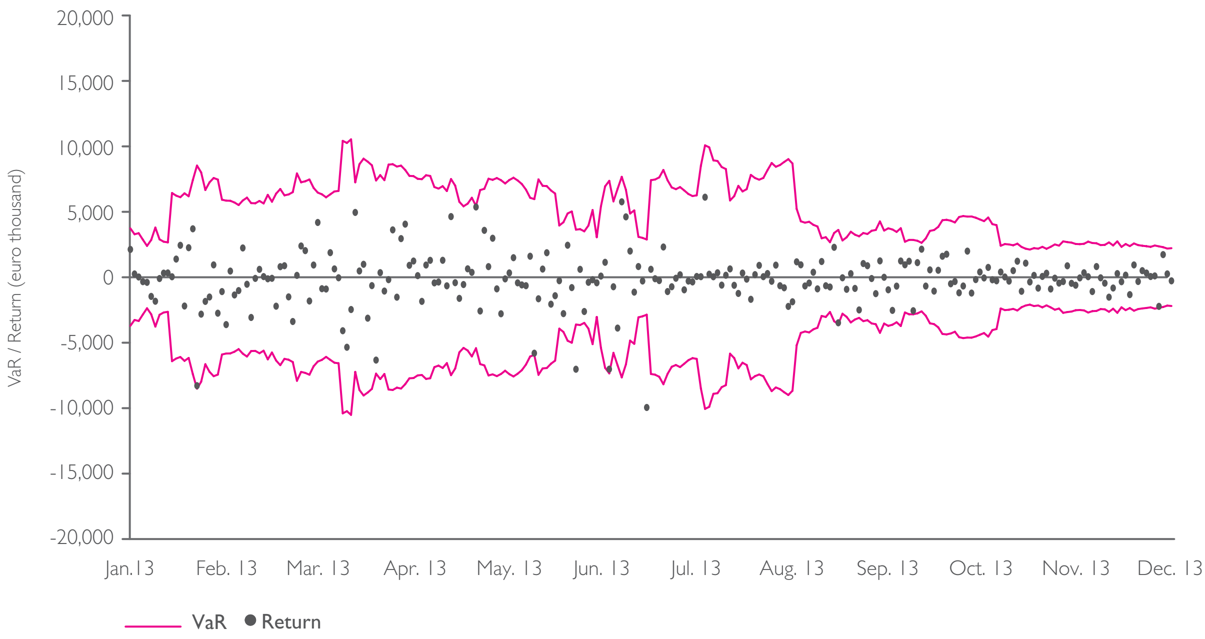
The accuracy of the model to estimate generic risk is monitored on a daily basis by the back-testing process that compares the risk values computed on a given day (VaR) with the (theoretical) result of applying the following day's market rates to those exposures.

In the following graphic, one may see this hypothetical back-testing, for the trading book centrally managed from Portugal in 2013.

As mentioned previously, in 2013 there were only two excesses in the hypothetical results of the approach, confirming its adequacy to evaluate the risks in question.

VaR levels throughout 2013 had some volatility along the first eight months of the year, with a subsequent reduction of those levels and stabilisation in lower levels in the last four months of the year.

VaR MODEL BACK-TESTING (TRADING BOOK)



In addition, Table XL presents in great detail the results of the daily back-testing to the trading book managed from Portugal in 2013. An excess occurs when the value (in module) of the theoretical result of the model is higher than the recorded VaR:

TABLE XL – HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2013

Euro thousand

Date	VaR	Hypothetical results	Date	VaR	Hypothetical results	Date	VaR	Hypothetical results
02-01-2013	3,711	2,109	07-03-2013	6,437	4,161	14-05-2013	7,133	-136
03-01-2013	3,264	241	08-03-2013	6,305	-885	15-05-2013	7,395	318
04-01-2013	3,344	7	11-03-2013	6,078	-909	16-05-2013	7,570	1,478
07-01-2013	2,851	-349	12-03-2013	6,304	1,862	17-05-2013	7,362	-437
08-01-2013	2,375	-401	13-03-2013	6,524	624	20-05-2013	7,093	-596
09-01-2013	2,830	-1,472	14-03-2013	6,565	-52	21-05-2013	6,662	-655
10-01-2013	3,774	-1,840	15-03-2013	10,379	-4,087	22-05-2013	6,044	1,589
11-01-2013	2,875	-110	18-03-2013	10,218	-5,345	23-05-2013	5,939	-5,798
14-01-2013	2,696	302	19-03-2013	10,494	-2,471	24-05-2013	7,444	-1,652
15-01-2013	2,646	316	20-03-2013	7,221	4,926	27-05-2013	6,956	612
16-01-2013	6,406	25	21-03-2013	8,598	466	28-05-2013	6,928	1,855
17-01-2013	6,204	1,373	22-03-2013	9,020	975	29-05-2013	6,601	-2,064
18-01-2013	6,087	2,422	25-03-2013	8,793	-3,130	30-05-2013	6,364	-1,419
21-01-2013	6,383	-2,204	26-03-2013	8,517	-650	31-05-2013	3,929	-277
22-01-2013	6,158	2,239	27-03-2013	7,357	-6,323	03-06-2013	4,181	-2,784
23-01-2013	7,394	3,679	28-03-2013	7,768	338	04-06-2013	4,847	2,427
24-01-2013	8,499	-8,273	01-04-2013	7,383	-1,064	05-06-2013	5,001	-800
25-01-2013	7,973	-2,823	02-04-2013	8,567	-197	**06-06-2013**	**3,614**	**-7,019** (1)
28-01-2013	6,637	-1,852	03-04-2013	8,601	3,597	07-06-2013	3,652	590
29-01-2013	7,214	-1,517	04-04-2013	8,422	-1,531	11-06-2013	3,488	-2,622
30-01-2013	7,550	930	05-04-2013	8,491	2,931	12-06-2013	3,928	-398
31-01-2013	7,431	-2,751	08-04-2013	8,159	4,034	14-06-2013	5,109	-203
01-02-2013	5,896	-1,104	09-04-2013	7,712	896	17-06-2013	3,036	-434
04-02-2013	5,824	-3,619	10-04-2013	7,690	1,224	18-06-2013	5,392	76
05-02-2013	5,813	459	11-04-2013	7,488	111	19-06-2013	6,913	1,126
06-02-2013	5,683	-1,361	12-04-2013	7,459	-1,850	20-06-2013	7,334	-7,014
07-02-2013	5,488	-1,029	15-04-2013	7,759	919	21-06-2013	5,769	-736
08-02-2013	5,835	2,220	16-04-2013	7,705	1,277	24-06-2013	6,721	-3,885
11-02-2013	6,053	-546	17-04-2013	6,859	-440	25-06-2013	7,640	5,734
13-02-2013	5,635	-3,076	18-04-2013	6,743	-377	26-06-2013	6,648	4,589
14-02-2013	5,623	-99	19-04-2013	6,924	1,280	27-06-2013	4,839	1,982
15-02-2013	5,800	590	22-04-2013	6,555	-665	28-06-2013	5,084	-1,146
18-02-2013	5,609	37	23-04-2013	7,472	4,609	01-07-2013	3,066	804
19-02-2013	6,266	-130	24-04-2013	6,968	-427	02-07-2013	2,987	-297
20-02-2013	5,740	-92	26-04-2013	5,731	-1,622	**03-07-2013**	**2,865**	**-9,933** (2)
21-02-2013	6,357	-2,217	29-04-2013	5,393	-567	04-07-2013	7,382	594
22-02-2013	6,710	793	30-04-2013	5,594	631	05-07-2013	7,434	-126
25-02-2013	6,227	866	02-05-2013	6,045	361	08-07-2013	7,595	-264
26-02-2013	6,296	-1,508	03-05-2013	5,419	5,340	09-07-2013	8,163	2,293
27-02-2013	6,471	-3,384	06-05-2013	6,630	-2,584	10-07-2013	7,376	-1,102
28-02-2013	7,900	132	07-05-2013	6,725	3,561	11-07-2013	6,832	-735
01-03-2013	7,221	2,371	08-05-2013	7,493	797	12-07-2013	6,697	-89
04-03-2013	7,300	2,016	09-05-2013	7,410	2,960	15-07-2013	6,857	177
05-03-2013	7,437	-1,822	10-05-2013	7,546	-896	16-07-2013	6,602	-970
06-03-2013	6,796	920	13-05-2013	7,382	-2,794	17-07-2013	6,330	-304

(1) Increase of up to 31 b.p. of Portuguese bond rates; increase of up to 22 b.p. of Spanish 4 to 5 years bond rates; 1% valuation of JPY/EUR exchange; 1% devaluation USD/EUR exchange; increase of 18 b.p. on the rate of the 5 years Polish swaps.
(2) Increase of up to 153 b.p. of Portuguese bond rates.

(continues)

(continuation)

Euro thousand

Date	VaR	Hypothetical results	Date	VaR	Hypothetical results	Date	VaR	Hypothetical results
18-07-2013	6,173	-369	20-09-2013	4,244	1,235	22-11-2013	2,663	860
19-07-2013	6,231	46	23-09-2013	3,542	-15	25-11-2013	2,626	-475
22-07-2013	8,484	31	24-09-2013	3,716	-968	26-11-2013	2,525	-619
23-07-2013	10,038	6,086	25-09-2013	3,629	-2,537	27-11-2013	2,507	-62
24-07-2013	9,886	220	26-09-2013	3,441	-690	28-11-2013	2,537	329
25-07-2013	8,893	25	27-09-2013	3,723	1,226	29-11-2013	2,701	29
26-07-2013	8,844	328	30-09-2013	2,694	937	02-12-2013	2,596	-1,101
29-07-2013	8,385	-612	01-10-2013	2,833	1,208	03-12-2013	2,577	802
30-07-2013	8,232	141	02-10-2013	2,832	-2,561	04-12-2013	2,437	-56
31-07-2013	5,836	623	03-10-2013	2,765	1,101	05-12-2013	2,456	-463
01-08-2013	6,169	-626	04-10-2013	2,612	2,125	06-12-2013	2,642	-1,530
02-08-2013	6,952	-1,245	07-10-2013	2,944	-686	09-12-2013	2,411	-831
05-08-2013	6,524	308	08-10-2013	3,519	549	10-12-2013	2,722	267
06-08-2013	6,700	-157	09-10-2013	3,585	-1,068	11-12-2013	2,301	-352
07-08-2013	7,787	-1,693	10-10-2013	3,827	519	12-12-2013	2,519	148
08-08-2013	7,546	187	11-10-2013	4,332	1,588	13-12-2013	2,359	-1,336
09-08-2013	7,421	893	14-10-2013	4,366	1,742	16-12-2013	2,563	926
12-08-2013	7,554	32	15-10-2013	4,296	-511	17-12-2013	2,436	-336
13-08-2013	8,148	271	16-10-2013	4,163	-340	18-12-2013	2,388	490
14-08-2013	8,689	-319	17-10-2013	4,577	-1,196	19-12-2013	2,351	310
16-08-2013	8,405	911	18-10-2013	4,649	-678	20-12-2013	2,304	44
19-08-2013	8,536	-657	21-10-2013	4,609	1,978	23-12-2013	2,405	89
20-08-2013	8,772	-814	22-10-2013	4,616	-1,217	26-12-2013	2,342	-2,230
21-08-2013	8,983	-2,233	23-10-2013	4,523	-191	27-12-2013	2,277	1,713
22-08-2013	8,653	-1,881	24-10-2013	4,392	386	30-12-2013	2,174	243
23-08-2013	5,198	1,163	25-10-2013	4,263	-65	31-12-2013	2,202	-285
26-08-2013	4,251	936	28-10-2013	4,538	737			
27-08-2013	4,146	-675	29-10-2013	4,035	-207			
28-08-2013	4,214	-452	30-10-2013	3,957	-283			
29-08-2013	3,981	369	31-10-2013	2,388	386			
30-08-2013	3,857	-896	01-11-2013	2,516	9			
02-09-2013	2,958	1,187	04-11-2013	2,488	-307			
03-09-2013	3,038	-659	05-11-2013	2,422	492			
04-09-2013	2,656	-756	06-11-2013	2,544	1,209			
05-09-2013	3,361	2,269	07-11-2013	2,297	-1,082			
06-09-2013	3,594	-3,482	08-11-2013	2,162	1,061			
09-09-2013	2,791	-52	11-11-2013	2,099	-370			
10-09-2013	3,029	-931	12-11-2013	2,207	131			
11-09-2013	3,454	263	13-11-2013	2,164	-841			
12-09-2013	3,230	-863	14-11-2013	2,305	50			
13-09-2013	3,107	-2,502	15-11-2013	2,156	294			
16-09-2013	3,358	1,032	18-11-2013	2,306	-906			
17-09-2013	3,284	866	19-11-2013	2,487	-83			
18-09-2013	3,528	-110	20-11-2013	2,397	-457			
19-09-2013	3,592	-1,261	21-11-2013	2,722	-341			

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 2013 and 2012, 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 2013 and of 2012.

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 2013 and 2012, are shown in Table XLI.

TABLE XLI – OWN FUNDS REQUIREMENTS FOR EXCHANGE RATE AND COMMODITIES RISKS

Euro thousand

	31-12-2013	31-12-2012
1. EXCHANGE RATE RISK (1.1.+1.2.)	**11,363**	12,962
1.1. Standardised approach		
1.2. Internal models approach	**11,363**	12,962
2. COMMODITIES RISK (=∑(2.1.TO 2.2.))	**52**	41
2.1. Standardised approach (=∑(2.1.1.to 2.1.4.))	**52**	41
2.2.1. Maturity ladder approach or simplified approach	**52**	41
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 VIII – Capital requirements.

12. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

As at 31 December 2013 and 2012, the Group calculated own funds requirements for operational risk in accordance with the standard approach, pursuant to the authorisation 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 or 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 3 April.

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.

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 (in this case only in 2012, since this operation was sold in 2013) 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.

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 2013, the Group reported 249,410 thousand euros of own funds requirements for operational risk, having reported 296,058 thousand euros as at 31 December 2012, computed based on Table XLII. It should be noted that, for purposes of determining capital requirements for 2013, the amounts of 2012 and 2011 exclude the contributions of the operation in Greece, due to its sale in 2013, therefore differing of the amounts calculated for 2012.

TABLE XLII – GROSS INCOME FOR OPERATIONAL RISK

Euro thousand

Segments	Gross Income 2013			Memorandum items: Advanced measurement method – reduction of own funds requirements (2013)	
	2011	2012	**2013**	Expected losses captured in business practices	Risk transfer mechanisms
1. BASIC INDICATOR APPROACH					
2. STANDARDISED APPROACH	2,110,643	2,017,654	**1,754,697**		
Corporate finance	28,551	29,191	**19,977**		
Trading and sales	-373,226	-236,047	**-381,172**		
Retail brokerage	24,783	19,311	**21,691**		
Commercial banking	726,911	840,616	**902,527**		
Retail banking	1,531,225	1,210,546	**1,034,429**		
Payment and settlement	119,190	105,992	**111,570**		
Agency services	32,880	28,496	**29,562**		
Asset management	20,330	19,549	**16,114**		
ADVANCED MEASUREMENT APPROACH[(A)]					

Euro thousand

Segments	Gross Income 2012			Memorandum items: Advanced measurement method – reduction of own funds requirements (2012)	
	2010	2011	2012	Expected losses captured in business practices	Risk transfer mechanisms
1. BASIC INDICATOR APPROACH					
2. STANDARDISED 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)]					

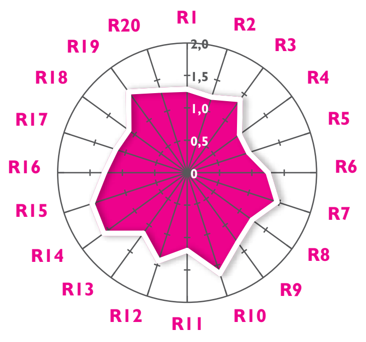
(a) Information on the relevant indicator for activities subject to the advanced measurement approach.

12.3. OPERATIONAL RISK MANAGEMENT

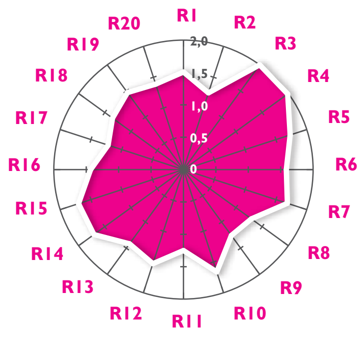
Operational risk management is based on an end-to-end process structure, defined for all the Group's subsidiary companies, and the responsibility for their management was given to process owners, who must: characterize operational losses captured within their processes; carry out the Risk Self-Assessment (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 and Mozambique in terms of the average score of each of the 20 risk sub-types defined for operational risk within the set of processes assessed. The outside border represents a 2.5 score on a scale of 1 (less serious) to 5 (most serious).

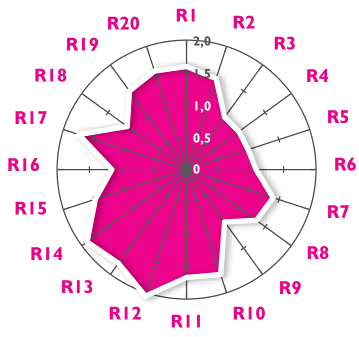
PORTUGAL



POLAND



MOZAMBIQUE

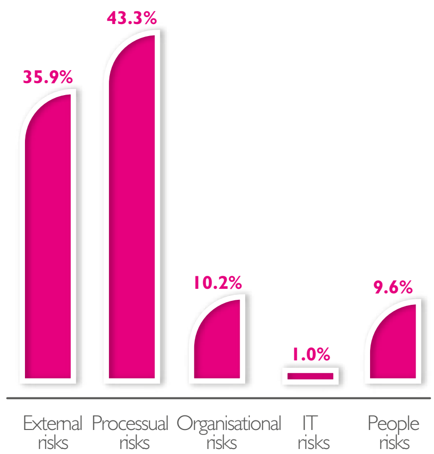


R1 International fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safty regulations
R5 Discrimation over employees
R6 Loss of key staff
R7 Hardware and Software problems
R8 Problems related to telecom services & lines
R9 Systems security
R10 Transaction, capture, execution & maintenance
R11 Monitoring and reporting errors
R12 Customers 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 Project risks
R19 Outsourcing related problems
R20 Other third parties' related problems

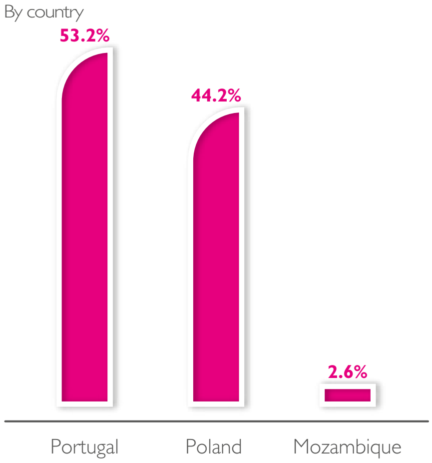
The operational losses identified are connected with the respective process and registered in the Group's operational risk application. They are duly considered and assessed according to their nature and, when applicable, measures are taken to mitigate them.

The following graphs feature the profile of accrued operational losses until 31 December 2013.

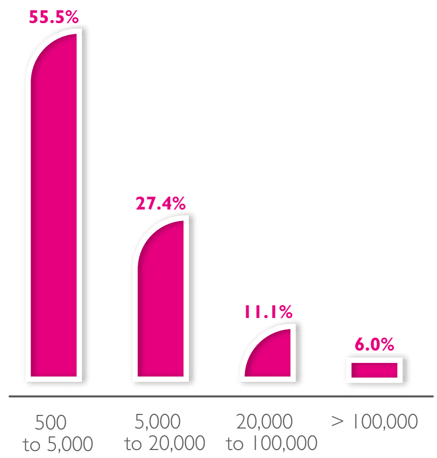
LOSS AMOUNT DISTRIBUTION
By type of event



LOSS AMOUNT DISTRIBUTION
By country



LOSS AMOUNT 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 and fifty indicators.

At the same time, the Group continued to strengthen and perfect its business continuity management during the 2013 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 balance sheet, reflecting the potential economical value loss that can occur as the 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 following assumptions of repricing were applied, in 2013:

- *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.

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 XLIII illustrates the impacts on the shareholders' equity of the Group as at 31 December 2013 and 2012, in value and percentage, as a result of shocks of +200 and -200 basis points (b.p.) in interest rates.

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

Euro thousand

		31-12-2013	31-12-2012
Value	+200 p.b.	**-142,520**	-44,027
	-200 p.b.	**166,139**	157,925
% Shareholders' equity[1]	+200 p.b.	**4.6%**	1.2%
	-200 p.b.	**5.3%**	4.1%

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

On 31 December 2013, the range of shocks considered in this analysis (parallel variations of interest rate curves of +/-200 b.p.) is reflected in some symmetry of impacts over the economic value of the Group, comparing to a strong asymmetry of impacts that was verified in 31 December 2012. The relative symmetry verified in 2013 is mainly due to the increase in the terms to maturity of the positions at stake.

The sensitivity of the banking book portfolio to the decrease variations of the interest rates was recorded at similar levels at the end of each year, while there was a significant increase in what concerns to the sensitivity of increasing interest rates, due to the change in the portfolio's maturity profile above mentioned.

2013 Market Discipline Report

www.millenniumbcp.pt

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

Hedd Office:
Praça D. João I, 28
4000-295 Porto

Share Capital:
1,465,000,000 euros

Registered at:
Commercial Registry Office of Porto
under the Single Registration and
Tax Identification number 501 525 882

Pre-press:
Choice – Comunicação Global, Lda.

July 2014

Millennium
bcp