2016 MARKET DISCIPLINE REPORT

Millennium
bcp

INDEX

JOÃO SOUSA
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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
CALCO: Capital Assets and Liabilities Committee
CCF: Credit Conversion Factors
CCP: Central counterparty
CET1: Common Equity Tier 1
CRA: Commission for Risk Assessment
CRD IV: Directive 2013/36/EU of June, 26 regarding access to credit institutions' activity and prudential supervision of credit institutions and investment companies, which alters Directive 2002/87/CE and revokes Directives 2006/48/CE and 2006/49/CE
CRR: Regulation 575/2013/EU of June, 26, related to prudential requirements for credit institutions and for investment companies, which changes Regulation (EU) no. 648/2012
CVA (Credit Valuation Adjustment): Adjustment to credit valuation induced by counterparty credit risk
EAD: Exposure At Default
EBA: European Banking Authority
EC: Executive Committee of the BoD
ECAI: External Credit Assessment Institutions
ECB: European Central Bank
EMIR: European Market Infrastructure Regulation
IAS: International Accounting Standards
ICAAP: Internal Capital Adequacy Assessment Process
ILAAP: Internal Liquidity Adequacy Assessment Process
IRB: Internal Ratings Based
KRI: Key Risk Indicators
LGD: Loss Given Default
OTC: Over-the-Counter
PD: Probability of Default
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
SSM: Single Supervisory Mechanism
SFT: Securities Financing Transaction
SPE: Special Purpose Entity
VaR: Value-at-Risk

INTRODUCTION

The “2016 Market Discipline Report” is comprised within the requisites for the provision of information foreseen in Pillar III of the Capital Accord, complementing the 2016 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 report includes information requisites foreseen in the Capital Requirements Directive IV/Capital Requirements Regulation (CRD IV/CRR) as well as additional information deemed relevant for the evaluation of the Bank’s risk profile and capital adequacy on a consolidated basis, and is structured as follows:

REPORT CHAPTERS	
1	Statement of responsibility of the Board of Directors
2	Scope of application
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
14	Liquidity risk

REGULATORY CALCULATION METHODOLOGIES

Following the request submitted by Millennium bcp in the first six months of 2009, the Bank received 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.

Banco de Portugal authorised, with effects 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 the IRB approach in the calculation of capital requirements for credit and counterparty risks, Banco de Portugal authorised the extension of this methodology 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 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 estimations of LGD (Loss Given Default) for the "Corporate" exposures in Portugal.

Without prejudice to the provision of more detailed information in the next chapters, it is shown in Table 1 a summary of the calculation methodologies of the capital requirements used in the regulatory reporting as well as of the respective geographic application scope.

TABLE 1 – CAPITAL REQUIREMENTS: CALCULATION METHODS AND SCOPE OF APPLICATION

	31 Dec.16	31 Dec.15
CREDIT RISK AND COUNTERPARTY CREDIT RISK		
PORTUGAL		
Retail	**IRB Advanced**	IRB Advanced
Corporates	**IRB Advanced[1]**	IRB Advanced[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[2]		
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[3]	**Standard**	Standard

[1] Excluding exposures derived from the simplified rating system, which were weighted by the standardised approach.
[2] For exposures in the perimeter centrally managed from Portugal; for all other exposures the only approach applied is the standardised method.
[3] 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 "2016 Market Discipline Report", in compliance with the provisions of the CRD IV/CRR.

II. On 26 June 2013, the European Parliament and Council approved Directive 2013/36/EU and Regulation (EU) no. 575/2013 (Capital Requirements Directive IV/Capital Requirements Regulation – CRD IV/CRR), transposed to the Portuguese law through decree-law no.157/2014 of 24 October, with effects as from 1 January 2014, with highlight to the articles 431 to 455 and 492 of the CRR in the scope of Pillar III requisites.

III. The Capital 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 "2016 Market Discipline Report" was prepared within the scope of Pillar III 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 2016 exercise and the approval date of this report are described in chapter 4.4 – Events with a material impact on own funds and capital requirements in 2017.

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 2016 Annual Report that was appraised and subject to approval in the General Meeting of Shareholders that took place on 10 May 2017.

VII. The report has the following chapters:

1. Statement of responsibility of the Board of Directors
2. Scope of application
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
14. Liquidity risk

VIII. The 2016 Annual Report includes information about the Bank's remuneration policy of the Executive Board of Directors under the information reported in Part I of the Corporate Governance Report.

IX. Concerning the information presented in the "2016 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 number 2 of article 432 of the CRR 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 report relates to.

Lisbon, 8 June 2017

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

2. SCOPE OF APPLICATION

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 share capital of the Bank, on 31 December 2016 was 4,268,817,689.20 euros, fully paid up and represented by 944,624,372 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 the European Central Bank supervision on both individual and consolidated basis, through the Single Supervisory Mechanism (SSM), in accordance with the provisions of Regulation (EU) no. 468/2014 of the European Central Bank (ECB/2014/17) (SSM Framework Regulation).

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, which differs from the consolidation perimeter of the Group accounts defined in accordance with the International Financial Reporting 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. 5/2005.

The main differences between the consolidation perimeter for prudential purposes and 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.

The companies mentioned in the previous paragraph are excluded from consolidation for prudential purposes, but are considered by the equity method. Notwithstanding, and according to the Notice 8/94 of Banco de Portugal, 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, may have to be deducted from consolidated own funds, totally or partially, under the terms defined by the CRR, as detailed in chapter “4. Capital adequacy”. As of 31 December 2016, there are no subsidiaries not included in the consolidation perimeter for prudential purposes, whose own funds are lower than the minimum required 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 CET1 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 2016 are described in Table 2, 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 2 - CONSOLIDATION METHODS AND REGULATORY TREATMENT

	31 December 2016			
	Accounting Consolidation method	Head office	Economic activity	% control
Banco de Investimento Imobiliário, S.A.	Full	Portugal	Banking	100.0%
Banco ActivoBank, S.A.	Full	Portugal	Banking	100.0%
Bank Millennium, S.A.	Full	Poland	Banking	50.1%
Banque Privée BCP (Suisse) S.A.	Full	Switzerland	Banking	100.0%
BIM – Banco Internacional de Moçambique, S.A.	Full	Mozambique	Banking	66.7%
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	Financial	34.1%
Caracas Financial Services, Limited	Full	Cayman Islands	Financial services	100.0%
MB Finance AB	Full	Sweden	Financial	50.1%
Millennium BCP – Escritório de Representações e Serviços, Ltda.	Full	Brazil	Financial services	100.0%
BCP International B.V.	Full	Netherlands	Holding company	100.0%
BCP Investment, B.V.	Full	Netherlands	Holding company	100.0%
BCP Holdings (USA), Inc.	Full	USA	Holding company	100.0%
BCP África, S.G.P.S., Lda.	Full	Portugal	Holding company	100.0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Portugal	Holding company	100.0%
BCP Capital – Sociedade de Capital de Risco, S.A.	Full	Portugal	Venture capital	100.0%
BG Leasing S.A.	Full	Poland	Leasing	37.1%
Enerparcela – Empreendimentos Imobiliários. S.A.	Full[(4)]	Portugal	Real estate management	100.0%
Interfundos – Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Portugal	Investment fund management	100.0%
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%
Monumental Residence – Investimentos Imobiliários, S.A.	Full[(4)]	Portugal	Real estate management	100.0%
Millennium bcp – Prestação de Serviços, A.C.E.	Full	Portugal	Services	93.5%
Millennium bcp Teleserviços – Serviços de Comércio Electrónico, S.A.	Full	Portugal	Videotext services	100.0%
Millennium Dom Maklerski S.A.	Full	Poland	Brokerage services	50.1%
Millennium Goodie Sp. z o.o.	Full	Poland	Consulting and services	50.1%

(Continues)

(Continuation)

	31 December 2016			
	Accounting Consolidation method	Head office	Economic activity	% control
Millennium Leasing Sp. z o.o.	Full	Poland	Leasing	50.1%
Millennium Service Sp. z o.o.	Full	Poland	Services	50.1%
Millennium Telecommunication Sp. z o.o.	Full	Poland	Brokerage services	50.1%
Millennium TFI – Towarzystwo Funduszy Inwestycyjnych, S.A.	Full	Poland	Investment fund management	50.1%
Millennium bcp Imobiliária, S.A.	Full	Portugal	Real estate management	99.9%
MULTI 24 – Sociedade Imobiliária, S.A.	Full	Portugal	Real estate management	100.0%
Propaço – Sociedade Imobiliária de Paço D'Arcos, Lda.	Full(5)	Portugal	Real estate company	52.7%
Servitrust – Trust Managment Services S.A.	Full	Portugal	Trust services	100.0%
Setelote – Aldeamentos Turísticos S.A.	Full(5)	Portugal	Real estate company	100.0%
Irgossai – Urbanização e construção, S.A.	Full(5)	Portugal	Real estate company	100.0%
Imábida – Imobiliária da Arrábida, S A.	Full(5)	Portugal	Real estate company	100.0%
Bichorro – Empreendimentos Turísticos e Imobiliários S.A.	Full(5)	Portugal	Real estate company	100.0%
Finalgarve – Sociedade de Promoção Imobiliária Turística, S.A.	Full(5)	Portugal	Real estate company	100.0%
Fiparso – Sociedade Imobiliária Lda.	Full(5)	Portugal	Real estate company	100.0%
Fundo de Investimento Imobiliário Imosotto Acumulação	Full(1)	Portugal	Real estate investment fund	100.0%
Fundo de Investimento Imobiliário Gestão Imobiliária	Full(1)	Portugal	Real estate investment fund	100.0%
Fundo de Investimento Imobiliário Imorenda	Full(1)	Portugal	Real estate investment fund	100.0%
Fundo Especial de Investimento Imobiliário Oceânico II	Full(1)	Portugal	Real estate investment fund	100.0%
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Full(1)	Portugal	Real estate investment fund	100.0%
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full(1)	Portugal	Real estate investment fund	100.0%
Fundo de Investimento Imobiliário Fechado Gestimo	Full(1)	Portugal	Real estate investment fund	100.0%
M Inovação – Fundo de Capital de Risco BCP Capital	Full(1)	Portugal	Venture capital fund	60.6%
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Full(1)	Portugal	Real estate investment fund	100.0%
Millennium Fundo de Capitalização – Fundo de Capital de Risco	Full(1)	Portugal	Venture capital fund	100.0%
Funsita – Fundo Especial de Investimento Imobiliário Fechado	Full(1)	Portugal	Real estate investment fund	100.0%
Imoport – Fundo de Investimento Imobiliário Fechado	Full(1)	Portugal	Real estate investment fund	100.0%
Multiusos Oriente – Fundo Especial de Investimento Imobiliário Fechado	Full(1)	Portugal	Real estate investment fund	100.0%
Grand Urban Investment Fund – Fundo Especial de Investimento Imobiliário Fechado	Full(1)	Portugal	Real estate investment fund	100.0%

(Continues)

(Continuation)

	31 December 2016			
	Accounting Consolidation method	Head office	Economic activity	% control
Fundial – Fundo Especial de Investimento Imobiliário Fechado	Full[1]	Portugal	Real estate investment fund	100.0%
DP Invest – Fundo Especial de Investimento Imobiliário Fechado	Full[1]	Portugal	Real estate investment fund	54.0%
Fundipar – Fundo Especial de Investimento Imobiliário Fechado	Full[1]	Portugal	Real estate investment fund	100.0%
MR – Fundo Especial de Investimento Imobiliário Fechado	Full[1]	Portugal	Real estate investment fund	100.0%
Banco Millennium Atlântico, S.A.	Equity method[3]	Angola	Banking	22.5%
Banque BCP, S.A.S.	Equity method[3]	France	Banking	19.9%
Banque BCP, S.A.	Equity method[3]	Luxembourg	Banking	3.6%
ACT-C – Indústria de Cortiças, S.A.	Equity method[2]	Portugal	Extractive industry	20.0%
Baía de Luanda – Promoção, Montagem e Gestão de Negócios, S.A.	Equity method[2]	Angola	Services	10.0%
Beiranave Estaleiros Navais Beira SARL	Equity method[2]	Mozambique	Naval shipyards	13.7%
Constellation, S.A.	Equity method[2]	Mozambique	Property management	12.0%
Imbondeiro Development Corporation	Equity method[3]	Cayman Islands	Financial services	39.0%
Luanda Waterfront Corporation	Equity method[2]	Cayman Islands	Services	10.0%
Lubuskie Fabryki Mebli S.A.	Equity method[2]	Poland	Furniture manufacturer	25.1%
Nanium, S.A.	Equity method[2]	Portugal	Electronic equipments	41.1%
Mundotêxtil – Indústrias Têxteis, S.A.	Equity method[2]	Portugal	Textile products, except clothing	25.1%
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%
Webspectator Corporation	Equity method[2]	USA	Digital advertising services	25.1%
S&P Reinsurance Limited	Full[3]	Ireland	Life reinsurance	100.0%
SIM – Seguradora Internacional de Moçambique, S.A.R.L.	Full[3]	Mozambique	Insurance	60.0%
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity method[3]	Portugal	Holding company	49.0%
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%

[1] Entity excluded from the consolidation for prudential purposes, whose impact on solvency indicators results from the assessment of capital requirements of the participation units held in the investment fund.
[2] Entity excluded from the consolidation for prudential purposes, whose impact on solvency indicators results from the assessment of capital requirements of the equity amount recorded on the balance sheet assets.
[3] Entity excluded from the consolidation for prudential purposes, which are subject to deduction from own funds under the CRR.
[4] Entity excluded from the consolidation for prudential purposes, since they belong to investment funds identified in (1).
[5] Entity excluded from the consolidation for prudential purposes, since they do not belong to the banking sector.

On 31 December 2016, the full and the financial balance sheets, that translate the consolidation perimeter of the Group's accounts and for prudential purposes on that date, as well as the respective differences, are described in Table 3.

(Thousand euros)

TABLE 3 - RECONCILIATION BETWEEN ACCOUNTING AND REGULATORY SCOPE BALANCE SHEETS AS AT 31 DECEMBER 2016

	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	1,573,912	-2	1,573,910
Repayable on demand	448,225	-28	448,198
Other loans and advances to credit institutions	1,056,701	-193	1,056,508
Loans and advances to customers	48,017,602	39,911	48,057,513
Financial assets held for trading	1,048,797	-6,781	1,042,016
Other financial assets held for trading at fair value through profit or loss	146,664		146,664
Financial assets available for sale	10,596,273	687,710	11,283,983
Assets with repurchase agreement	20,525		20,525
Hedging derivatives	57,038		57,038
Financial assets held to maturity	511,181	-20,886	490,296
Investments in associated companies	598,866	18,593	617,459
Non current assets held for sale	2,250,159	-455,966	1,794,193
Investment property	12,692	-8,249	4,443
Property and equipment	473,866	-153,060	320,806
Intangible assets	162,106	-4,627	157,479
Current tax assets	17,465	-824	16,641
Deferred tax assets	3,184,925	-770	3,184,155
Other assets	1,087,815	-13,079	1,074,736
	71,264,812	81,750	71,346,562
LIABILITIES			
Amounts owed to central banks	5,170,098		5,170,098
Amounts owed to credit institutions	4,768,297	-3,163	4,765,134
Amounts owed to customers	48,797,647	156,225	48,953,873
Debt securities	3,512,820		3,512,820
Financial liabilities held for trading	547,587		547,587
Other financial liabilities held for trading at fair value through profit or loss			
Hedging derivatives	383,992		383,992
Non current liabilities held for sale			
Provisions for liabilities and charges	321,050	-62,476	258,574
Subordinated debt	1,544,555	0	1,544,555
Current income tax liabilities	35,367	-1,001	34,366
Deferred income tax liabilities	2,689	-253	2,436
Other liabilities	915,530	-13,199	902,330
	65,999,632	76,132	66,075,764
EQUITY			
Share capital	4,268,818		4,268,818
Treasury stock	-2,880		-2,880
Share premium	16,471		16,471
Preference shares	59,910		59,910
Other capital instruments	2,922		2,922
Fair value reserves	-130,632		-130,632
Reserves and retained earnings	143,569		143,569
Net income for the period attributable to Shareholders	23,938	0	23,938
	4,382,115	0	4,382,115
Non-controlling interests	883,065	5,617	888,682
TOTAL OF LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS	71,264,812	81,750	71,346,562

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 Group accounting policies", 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 investment funds 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, revenues 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 2016, the Group did not consolidate any entity by the proportional method.

EQUITY CONSOLIDATION

Investments in associated companies are consolidated by the equity method from the date that the Group acquires significant influence until the 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

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

The financial conglomerates are those groups that are headed by, or part of, an authorised regulated entity in the European Union of a relevant size, as defined in accordance with its balance sheet, which, cumulatively, include 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 being below the previously mentioned 10% level, the National Council of Financial Supervisors also considered that the Group did 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 sheet 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 risk management of the Group's several companies complies with the control and report principles, methodologies and procedures which are 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 the pension fund – inherent to the Group's activities. These can be defined as follows:

- Credit risk – credit risk reflects the potential losses and the degree of uncertainty regarding the future returns to be generated by the loan portfolio, due to the inability of borrowers (and of their guarantors, if any), issuers of securities or counterparties to agreements, to fulfil their obligations;
- Market risk – market risk consists of the potential losses that might occur in a given portfolio, as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering 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.

Credit, market and operational risks were object of own funds requirements calculation within the scope of the regulatory information on capital adequacy of Basel's Pillar I, while liquidity risk is quantified through the ratios defined by the CRR/CRD IV. All of these risks and the pension fund risk are addressed within the scope of the stress testing included in the Group's Funding and Capital Plan.

The following highlights should be made, within the prudential activities/risk management in 2016:

- Improvement of the reliability and controls of the financial and prudential reporting systems (FINREP and COREP);
- Review and fine-tuning of the Internal Capital Adequacy Assessment Process (ICAAP) and of the Internal Liquidity Adequacy Assessment Process (ILAAP), materialised in the improvement of the risk quantification models and in the respective reports;
- Implementation of the risk appetite metrics in Poland and Mozambique;
- Launching of the IFRS9 Project, including the quantitative and qualitative analysis concerning the adoption of these standards and the estimates concerning the potential impacts over own funds (with results transmitted to the European banking Authority – EBA) and the implementation of the gap analysis; the Bank also initiated the next stage, of detailed analysis and design, still in 2016, aiming at the implementation of the new accounting standards;
- Participation in the Single Supervisory Mechanism (SSM) stress-testing exercise.

3.2. RISK MANAGEMENT GOVERNANCE

The corporate bodies are the Board of Directors – composed of non-executive and executive directors, the latter being an Executive Committee –, an Audit Committee, composed of non--executive directors, and a Statutory Auditor. The Bank also has 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, the Executive Committee being responsible for carrying out that policy and for the executive decision regarding measures and actions related to risk management.

The Audit Committee stems from the BoD and 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 BoD also designated a Commission for Risk Assessment which is responsible for advising the Board on issues related with the definition of the risk strategy and the management of capital, liquidity and risk.

The Executive Committee appointed a Risk Committee 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.

The Bank also has three specialised Commissions: the Credit at Risk Commission, the Pension Fund Risk Monitoring Committee and the Internal Control and Operational Risk Monitoring Commission.

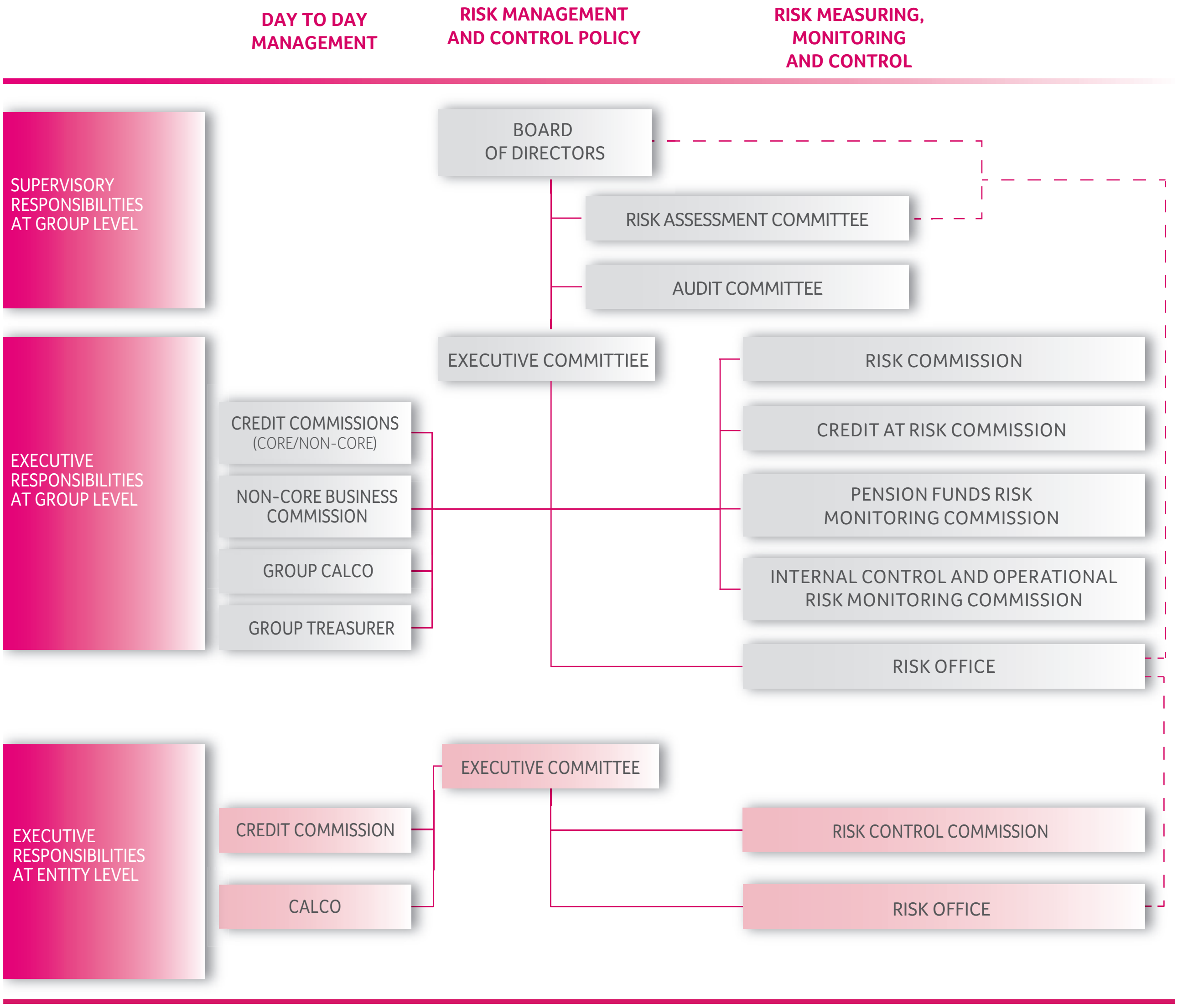
The Risk Office gives support to the Risk Committee, informing this body on the general level of risk and proposing measures to improve its respective control, implementing the approved limits. The responsible for the Risk Office also has the power to veto any decision that is not subject to the approval of the Board of Directors or of the Executive Committee and that may have an impact on the Group's risk level.

All entities included in the Bank's consolidation perimeter guide their activities by the principles and guidelines established centrally by the Risk Committee 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 Committee (or Commission) responsible for controlling risk locally. The responsible for the Risk Office 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.

The next diagram illustrates the risk management governance framework, which includes the above referred bodies, as well as the Credit Commissions (for core and non-core business) – responsible for the assessment and decision on credit granting applications from the Bank's clients – and the Non-Core Business Commission, responsible for the analysis, monitoring and planning of the activities to be developed for the various non-core segments, and the definition of the main commercial strategy guidelines to be adopted for those segments' clients, as well as for the monitoring of the main non-core transactions.

TABLE 4 – RISK MANAGEMENT MODEL



3.3. RISK ASSESSEMENT

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 prudential scope, 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 collateral efficiency 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 the 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. Effective from 31 December 2013, Banco de Portugal has approved, for the Group activities in Portugal, the use of own LGD estimates for the Corporates risk class (IRB Advanced), as well as internal rating models with own LGD estimates 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 particular, the following actions and developments in 2016 should be highlighted:

- Implementation of enhancements concerning the credit Risk Weighted Assets (RWA) calculation process;
- Launching of a non-performing exposures (NPE) reduction plan in Portugal, involving several areas of the bank;
- Answer to the ECB's TRIM survey (Targeted Review of Internal Models), in which the Models Validation and Monitoring Office, Internal Audit and the Credit and Rating Divisions were also involved;
- Participation in the EBA's Benchmarking exercise, concerning the internal models authorised for the capital requirements calculation for Retail and Corporate SME portfolios credit risk and for market risks;
- Conclusion of the collective impairment model and introduction of several improvements within the respective process and calculation;
- Changes to the impairment analysis process for cases considered as individually significant, with implementation of a process support workflow.

3.3.2. MARKET RISK

For the purpose of profitability analysis and of the quantification and control of market risks, the Trading Book portfolio comprises the positions held with the aim of obtaining short-term gains, through sale or revaluation. These positions are actively managed, 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 risk 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 of the previously defined risk limits, 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 risk 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 which performance is directly related with the securities' value. With the necessary adjustments, this model follows the standard methodology defined in the applicable regulation in force, stemming from the Basel Agreement.

Other complementary methods are also applied 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 a standardised approach for the commodities risk. These measures are integrated in the market risk indicator, with the conservative assumption of perfect correlation between the several risk types (worst-case scenario).

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

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

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

This analysis considers the financial characteristics of the contracts available at the Group management 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.

In the context of market risk management, in 2016, the Group continued its efforts to continually improve the market risk management framework, leading to the reinforcement of the control mechanisms of the assumptions of the internal model used (VaR – Value-at-risk), the update of Risk Appetite for market risk, namely the revision of the limits established for the different areas, and to the revision and formalisation of internal manuals that define the operationalisation of market risks' control in consonance.

3.3.3. OPERATIONAL RISK

For the management and control of operational 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 conduct; the implementation of KRI (Key Risk Indicators)[(1)]; the access controls, physical and logical; the reconciliation activities; the exception reports; the new products' structured approval process; 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, providing a broader perception of the risks and of the measures implemented so 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.

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 pre-defined updating criteria.

The process owners play a relevant role in promoting the data collection on losses occurring within the context of their processes, which are identified through the systematic monitoring of their activities, through notifications of any employee or through communications from organisational units, following costs authorisations concerning operational flaws. The Risk Office ensures the completeness of the database, notifying process owners about events that are not yet registered in the database by using information made available by other areas.

[(1)] The monitoring of the KRI metrics enables the identification of changes in the risk profile or in the efficiency of the controls, providing the detection of opportunities for the launching of corrective actions to prevent effective losses. This management tool is already used in the most important geographical areas where the Group operates.

The main objective of data collection 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 2016 were:

- Continued development of the operational risk management system, with a highlight on the consolidation of the changes introduced for a better definition of responsibilities of the intervenients (3 Lines of Defence model);
- Implementation of the actions for the resolution of the Supervision recommendations stemming from the Group's operational risk management system inspection;
- Reinforcement of the reporting to the management bodies, in order to ensure a wider and more systematic monitoring of the activities, providing a better visibility over the actions of all risk management;
- Deployment of a scenario analysis exercise aiming at the quantitative impact of extreme events, the results of which were incorporated in the statistical model developed and were the support of the economic capital assessment within the scope of the ICAAP.

3.3.4. LIQUIDITY RISK

Liquidity risk is the potential inability of the Group to meet its liabilities concerning funding repayment without incurring in significant losses, whether due to the deterioration of funding conditions (funding risk) or due to the sale of assets for amounts below market value (market liquidity risk).

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

The evolution of the Group's liquidity situations 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 given their dimension are mandatorily listed by the Trading Room. To the value thus estimated one adds the amount of assets considered highly liquid that are in the Bank's securities portfolio, determining the accumulated liquidity gap in each one of the days of the timeframe under analysis.

At the same time, the Bank regularly monitors the evolution of 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 of 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 necessity of unplanned contributions. The Pension Fund Risk Monitoring Commission is responsible for the regular monitoring and follow-up of this risk.

4. CAPITAL ADEQUACY

4.1. REGULATORY FRAMEWORK

On 26 June 2013, the European Parliament and the Council approved the Directive 2013/36/EU and the Regulation (EU) no. 575/2013 (Capital Requirements Directive IV/Capital Requirements Regulation – CRD IV/CRR), which established new and stricter capital requirements to credit institutions, with effects from 1 January 2014.

These stricter requirements result from a narrower definition of own funds and risk weighted assets, together with the establishment of minimum ratios, including a capital conservation buffer, of 7% for Common Equity Tier 1 (CET1), 8.5% for Tier 1 (T1) and 10.5% for Total Capital, which also includes Tier 2 (T2) own funds.

Additionally, supervisory authorities may impose a capital buffer to systemically important institutions given their dimension, importance to the economy, business complexity or degree of interconnection with other institutions of the financial sector and, in the event of insolvency, the potential contagion of these institutions to the rest of the non-financial and financial sectors. The Group has been considered an O-SII (other systemically important institutions), and is obliged to comply with an additional buffer of 0.375% from 1 January 2018 and of 0.75% from 1 January 2019.

It is also predicted a countercyclical buffer, which aims to ensure that the banking sector has enough capital to absorb the losses generated in macroeconomic downturn conjectures, especially after periods of excess credit expansion, and to moderate these movements, given that this buffer depends on a discretionary decision of the competent authorities, based on their assessment regarding the underlying risks of the evolution of credit aggregates. This buffer may vary between zero and 2.5% for each institution and the need to achieve the defined goals may also impose restrictions in terms of distributions that go against an adequate capital conservation level. Pursuant to a decision of the Board of Directors of 27 September 2016, Banco de Portugal, in the exercise of its powers as national macro-prudential authority, decided that the countercyclical buffer rate to be in force in the fourth quarter of 2016 would remain unchanged at 0% of the total risk exposure amount.

The CRD IV/CRR also predicts the possibility of institutions to gradually accommodate the new requirements, both in terms of own funds and compliance with minimum capital ratios, over determined maximum transition periods.

The consolidated capital ratios, as of 31 December 2015 and 2016, were calculated applying methodologies based on Internal Rating Based models (IRB) for the calculation of capital requirements for credit and counterparty risks, covering a substantial part of both its retail portfolio in Portugal and Poland, and its corporate portfolio in Portugal. The advanced method (internal model) was used for the coverage of trading portfolio's general market risk and for exchange rate risks generated in exposures in the perimeter centrally managed from Portugal, and the standard method was used for the purposes of operating risk coverage. The capital requirements of the other portfolios/geographies were calculated using the standardised approach.

4.2. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER 2016 AND 2015

Own funds, calculated according to the applicable regulatory norms, include tier 1 and tier 2. Tier 1 comprises common equity tier 1 and additional tier 1.

Common equity tier 1 includes: (i) paid-up capital, share premium, hybrid instruments fully subscribed by the Portuguese State within the scope of the Bank's recapitalisation process and still not reimbursed, reserves and retained earnings and non-controlling interests; ii) and deductions related to own shares and loans given to finance the acquisition of Bank's shares, the shortfall of value adjustments and provisions to expected losses concerning exposures whose capital requirements for credit risk are calculated under the IRB approach and goodwill and other intangible assets. Reserves and retained earnings are adjusted by the reversal of unrealised gains and losses on cash-flow hedge transactions and on financial liabilities valued at fair value through profits and losses, to the extent related to own credit risk. The minority interests are only eligible up to the amount of the capital requirements attributable to the minorities. In addition, the deferred tax assets arising from unused tax losses are deducted, as well as the deferred tax assets arising from temporary differences relying on the future profitability and the interests held in financial institutions and insurers of at least 10%, in this case only in the amount that exceeds the thresholds of 10% and 15% of the common equity tier 1, when analysed on an individual and aggregated basis, respectively.

Additional tier 1 comprises preference shares and other hybrid instruments that are compliant with CRR requirements and the minority interests related to minimum additional capital requirements of institutions that are not totally owned by the Group.

Tier 2 includes the subordinated debt that is compliant with the CRR requirements and the minority interests related to minimum total capital requirements of institutions that are not totally owned by the Group.

The legislation in force stipulates a transitional period between the own funds calculated under national law until 31 December 2013, and the own funds estimated according to the EU law, in order to exclude some elements previously considered (phase-out) and to include new elements (phase-in). The transitional period for the majority of the elements will last until the end of 2017, with the exception of the deferred tax assets already recorded on the balance sheet of 1 January 2014, and the subordinated debt and all the hybrid instruments not eligible to the own funds, that have a longer period (until the end of 2023 and 2021, respectively). The applicable percentages during the transitional period in analysis are presented in Table 5-A.

TABLE 5-A – PHASE-IN PROGRESSION

	2015	**2016**
Goodwill and other intangible assets	40%	**60%**
Shortfall of impairment to expected loss	40%	**60%**
Investments in financial and insurance entities	40%	**60%**
Deferred tax assets existing as of 01.01.2014	10%	**20%**
Deferred tax assets created after 01.01.2014	40%	**60%**
Fair value reserves on public debt securities	0%	**60%**
Fair value reserves on other securities	40%	**60%**
National filters and deductions	40%	**60%**

The BCP's Extraordinary General Meeting of Shareholders that took place on 15 October 2014 approved the adhesion of the Bank to the special scheme applicable to deferred tax assets, as provided for in Law no. 61/2014 of 26 August 2014, applicable to expenses and negative changes of the net worth of assets accounted for tax periods beginning on or after 1 January 2015 as well as the deferred tax assets recorded in the annual accounts concerning the last tax period prior to that date and part of the expenses and negative changes of the net worth of assets that are associated with them.

This approval had a favourable impact in the capital ratios estimated in accordance with the CRD IV/CRR since 1 January 2015, since it allowed reducing the deductions related to deferred taxes in CET1, associated with loan impairment losses and post-employment or long term benefits of employees, despite an increase of the risk weighted assets.

The main aggregates of the consolidated own funds and own funds requirements, as of 31 December 2016 and 2015 as well as the respective capital ratios are shown in Table 5-B.

(Thousand euros)

TABLE 5-B – CAPITAL RATIOS AND SUMMARY OF THE MAIN AGGREGATES

	31 Dec.16	31 Dec.15
OWN FUNDS		
Tier I	**4,874,199**	5,774,760
of which: Common Equity Tier I	**4,874,199**	5,774,760
Tier II	**383,268**	431,981
Total capital	**5,257,467**	6,206,741
CAPITAL REQUIREMENTS		
Credit risk and counterparty credit risk	**2,800,631**	3,096,619
Market risk	**54,040**	90,915
Operational risk	**260,853**	259,175
Credit Valuation Adjustments (CVA)	**17,260**	18,525
TOTAL	**3,132,783**	3,465,234
CAPITAL RATIOS		
Common Equity Tier I	**12.4%**	13.3%
Tier I	**12.4%**	13.3%
Total capital	**13.4%**	14.3%

The phased-in CET1 ratio, calculated according to our interpretation of the CRD IV/CRR and the current applicable prudential regulatory framework, stood at 12.4% as at 31 December 2016 and 13.3% as at 31 December 2015, both above the respective minimum required thresholds.

(Thousand euros)

TABLE 5-C – IMPACTS

	CET1 31 Dec.15	Phase-in	BMA Merger	Mozambique risk weights	Actuarial losses	Public Debt FVR	Cap. incr. and CoCo's reimb.	Activity 2016	CET1 31 Dec.16
CET1	5,774,760	-282,793	-236,727		-269,476	-117,187	124,140	-118,518	4,874,199
RWA	43,315,421	-90,283	-2,727,621	700,000	-95,285	-37,071	44,812	-1,950,182	39,159,791
Ratio	13.3%	-63 b.p.	31 b.p.	-21 b.p.	-59 b.p.	-26 b.p.	27 b.p.	22 b.p.	12.4%

The performance of the CET1 phased-in ratio in 2016 mainly reflects the following impacts:

- The regulatory adjustments related to the phase-in progression as at 1 January 2016, that determined a decrease of 283 million euros in CET1 and 90 million in risk weighted assets (-63 basis points in the CET1 phased-in ratio);
- Accomplishment of the merger between Banco Millennium Angola and Banco Privado Atlântico in May 2016. This operation, including the impact of the kwanza devaluation recorded between the beginning of 2016 and its accounting recognition, determined a decrease of 237 million euros in CET1 and 2,728 million euros in risk weighted assets (+31 basis points in the CET1 phased-in ratio);
- Mozambique's Central Government and Central Bank risk weights worsening reflected an increase of approximately 700 million euros in risk weighted assets (-21 basis points in CET1 phased-in ratio);
- The actuarial losses of the Pension Fund recognised in reserves, after tax, led to reductions of 269 million euros in CET1 and 95 million euros in risk weighted assets (-59 basis points in the CET1 phased-in ratio);
- The entry into force, in the fourth quarter of 2016, of the transitional period for the fair value reserves on public debt securities on the available for sale portfolio, determined a decrease of 117 million euros and 37 million euros in CET1 and risk weighted assets, respectively (-26 basis points in the CET1 phased-in ratio);
- The investment of Fosun in the Bank's share capital increase, through a private placement amounting to 174 million euros, net of transaction expenses, along with the reimbursement of 50 million euros of CoCo's, benefited the CET1 in 124 million euros and determined a 45 million euros increase in risk weighted assets (+27 basis points in the CET1 phased-in ratio);

The unfavourable evolution of other reserves, namely influenced by the metical exchange differences, the minority interests in the Mozambican subsidiary and the remaining impacts arising from the Group's activity, despite the positive net income, caused a decrease of 119 million euros in CET1, whose impact on capital ratios was more than offset, however, by the reduction of 1,950 million euros of the risk weighted assets related to the current business. This reduction namely reflects the decreases of the portfolios of loans to customers and available for sale securities, the effect of the metical devaluation and the decrease of market risk weighted assets, despite the increase of the amount required to cover the operational risk (+22 basis points in the CET1 phased-in ratio).

Table 6 shows the reconciliation between the accounting and regulatory capital as at 31 December 2016 and 2015.

(Thousand euros)

TABLE 6 - RECONCILIATION BETWEEN ACCOUNTING AND REGULATORY CAPITAL

		31 Dec.16	31 Dec.15
1	Share capital	4,268,818	4,094,235
2	Own shares	-2,880	-1,187
3	Share premium	16,471	16,471
4	Preference shares	59,910	59,910
5	Other capital instruments	2,922	2,922
6	Reserves and retained earnings	12,937	215,474
7	Net income for the period attributable to Shareholders	23,938	235,344
	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	4,382,115	4,623,169
8	Non-controlling interests (minority interests)	888,682	1,061,076
	TOTAL EQUITY	5,270,798	5,684,245
9	Own shares of CET1 not elegible instruments		-7,515
10	Preference shares not elegible for CET1	-59,910	-59,910
11	Other capital instruments not elegible for CET1	-2,922	-2,922
12	Subordinated debt fully subscribed by the Portuguese State eligible for CET1	700,000	750,000
13	Non-controlling interests not eligible for CET1	-234,195	-194,909
14	Other regulatory adjustments	-799,572	-394,229
	COMMON EQUITY TIER 1 (CET1)	4,874,199	5,774,760
15	Subordinated debt	10,629	22,628
16	CET1 transferred adjustments	157,263	231,819
17	T2 transferred adjustments	-11,760	-17,640
18	Other Adjustments	-156,132	-236,807
	Of which: Intangible assets	-107,012	-126,225
	Of which: Shortfall of impairment to expected loss	-24,073	-106,385
	Of which: Residual amounts of CET1 instruments of financial entities in which the institution has a significant investment	-20,788	-4,196
	Of which: Other	-4,258	
	TIER 1 (T1)	4,874,199	5,774,760
19	Subordinated debt	403,491	517,792
20	Non-controlling interests elegible for T2	126,963	134,987
21	Preference shares elegible for T2		
22	Adjustments with impact in T2, including national filters	-147,186	-220,797
23	Adjustments that are transferred for T1 for insufficient T2 instruments		
	TIER 2 (T2)	383,268	431,981
	OWN FUNDS	5,257,467	6,206,741

Notes:
The sum of headings 1, 2, 3 and 9 is equivalent to heading 1 of the transitional model of disclosure of own funds, as set out in the annex.
The sum of headings 6 and 7 is equivalent to the sum of headings 2 and 3 of the transitional model of disclosure of own funds, as set out in the annex.
The heading 12 is equivalent to heading 4 of the transitional model of disclosure of own funds, as set out in the annex.
The sum of headings 8 and 13 is equivalent to heading 5 of the transitional model of disclosure of own funds, as set out in the annex.
The heading 14 is equivalent to heading 28 of the transitional model of disclosure of own funds, as set out in the annex.
The heading 15 is equivalent to heading 33 of the transitional model of disclosure of own funds, as set out in the annex.
The heading 16 is equivalent to headings 34 and 41 of the transitional model of disclosure of own funds, as set out in the annex.
The heading 17 is equivalent to heading 41b of the transitional model of disclosure of own funds, as set out in the annex.
The heading 18 is equivalent to heading 41a and 41c of the transitional model of disclosure of own funds, as set out in the annex.
The heading 19 is equivalent to heading 46 and 47 of the transitional model of disclosure of own funds, as set out in the annex.
The heading 20 is equivalent to heading 48 of the transitional model of disclosure of own funds, as set out in the annex.
The heading 22 is equivalent to heading 57 of the transitional model of disclosure of own funds, as set out in the annex.

Table 7 shows BCP Group capital requirements as at 31 December 2016 and 2015.

(Thousand euros)

TABLE 7 – OWN FUNDS REQUIREMENTS

	31 Dec.16	31 Dec.15
2. OWN FUNDS REQUIREMENTS	**3,132,783**	3,465,234
2.1. FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**2,766,088**	3,068,958
2.1.1 Standardised approach	**879,156**	1,504,959
2.1.1.1 Standardised Approach exposure classes, excluding securitisation positions	**879,156**	1,504,959
2.1.1.1.1 Claims or contingent claims on central governments or central banks	**82,366**	158,403
2.1.1.1.2 Claims or contingent claims on regional governments or local authorities	**9,579**	7,954
2.1.1.1.3 Claims or contingent claims on Public Sector Entities	**32,886**	24,086
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	**56,050**	67,309
2.1.1.1.7 Claims or contingent claims on corporates	**312,337**	350,450
2.1.1.1.8 Retail claims or contingent retail claims	**105,356**	107,329
2.1.1.1.9 Claims or contingent claims secured on real estate property	**32,535**	47,676
2.1.1.1.10 Past due items	**43,289**	38,505
2.1.1.1.11 Items belonging to regulatory high-risk categories	**133,618**	163,554
2.1.1.1.12 Claims on covered bonds	**824**	821
2.1.1.1.13 Claims on institutions and companies with short-term credit assessment		
2.1.1.1.14 Claims on collective investment undertakings (CIUs)	**65,232**	64,362
2.1.1.1.15 Equity positions	**5,083**	68,544
2.1.1.1.16 Other items		405,965
2.1.1.2 Securitisation positions under the Standardised Approach		
2.1.2 IRB approach	**1,886,931**	1,563,999
2.1.2.1 Not using own estimations of LGD and/or credit conversion factors	**114,834**	124,434
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	**114,834**	124,434
2.1.2.2 Using own estimations of LGD and/or credit conversion factors	**1,193,690**	1,360,475
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 corporate claims	**714,340**	840,591
2.1.2.2.4 Retail claims or contingent retail claims	**479,350**	519,884
2.1.2.3 Equity positions	**128,220**	46,500
2.1.2.4 Securitisation positions	**32,494**	31,899
2.1.2.5 Other assets not related to bond loans	**417,694**	690
2.2. SETTLEMENT RISK		
2.3. OWN FUNDS REQUIREMENTS FOR POSITION, FOREIGN-EXCHANGE AND COMMODITIES RISK	**54,040**	90,915
2.3.1 Standardised approach	**2,910**	13,065
2.3.1.1 Traded debt instruments	**2,080**	4,532
2.3.1.2 Equity	**97**	127
2.3.1.3 Foreign exchange risks	**445**	8,173
2.3.1.4 Commodities risks	**288**	233
2.3.2 Internal models approach	**51,130**	77,850
2.4. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK	**260,853**	259,175
2.4.1 Basic indicator approach		
2.4.2 Standard method	**260,853**	259,175
2.5. OWN FUNDS REQUIREMENTS – FIXED OVERHEAD		
2.6. OWN FUNDS REQUIREMENTS ON UNILATERAL ADJUSTMENT OF CREDIT EVALUATION	**17,260**	18,525
2.6.1 Advanced method		
2.6.2 Standard method	**17,260**	18,525
2.6.3 OEM method		
2.7. OTHER OWN FUNDS REQUIREMENTS	**34,543**	27,661

Note: The heading 2 is equivalent to 8% of heading 60 of the transitional model of own funds, as set out in the annex.

By the end of 2016 and 2015, the Group had an own funds surplus, comparing with the respective own funds requirements, of 2,125 million euros and 2,742 million euros, respectively, as referred to in Table 8. As previously mentioned the Group is no longer considered financial conglomerate, and therefore the respective capital requirements were not calculated.

(Thousand euros)

TABLE 8 – CAPITAL ADEQUACY

	31 Dec. 16	31 Dec. 15
CET1 RATIO (%)	**12.4%**	13.3%
SURPLUS (+) / DEFICIT (-) OF CET1	**3,111,843**	3,825,566
T1 RATIO (%)	**12.4%**	13.3%
SURPLUS (+) / DEFICIT (-) OF T1	**2,524,446**	3,175,834
TOTAL RATIO (%)	**13.4%**	14.3%
SURPLUS (+) / DEFICIT (-) OF OWN FUNDS	**2,124,553**	2,741,507

4.3. LEVERAGE RATIO ON 31 DECEMBER 2016 AND 2015

The calculation of the regulatory leverage ratio is specified in article 429 of the CRR, modified by the Delegated Act no. 62/2015 of 10 October 2014.

An observation period has been introduced for this ratio, running from 1 January 2014 to 31 December 2017, in order to monitor the evolution of its components and its behaviour relative to the requirements based on each exposure type. A Pillar I requirement for the leverage ratio must be maintained from 1 January 2018 onwards.

The leverage ratio is defined as the proportion of tier 1 capital (either in a phased-in or fully implemented mode) divided by the exposure measure, i.e. balance sheet and off-balance sheet assets after certain value adjustments, related namely to intragroup exposures, to securities financing transactions (SFT's), to items deducted from the total capital ratio's numerator and off-balance sheet items, to account for different risk profiles of each type of exposure (in SFT's and derivatives add-ons for future risks are considered while in off-balance sheet items different CCFs are considered according to the risk of the exposure).

The following table shows the Group's leverage ratio, on a phased-in basis, as of 31 December 2016:

(Thousand euros)

TABLE 9 – LEVERAGE RATIO ON 31 DECEMBER 2016

	Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amount
1	Total assets as per published financial statements	71,264,812
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	396,097
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013	
4	Adjustments for derivative financial instruments	94,091
5	Adjustment for securities financing transactions (SFTs)	1,275
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	4,745,829
EU-6a	Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013	
EU-6b	Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No. 575/2013	
7	Other adjustments	-1,400,927
8	**Leverage ratio total exposure measure**	**75,101,178**

(Thousand euros)

Leverage ratio common disclosure		CRR leverage ratio exposures
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND STF)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	70,420,226
2	Asset amounts deducted in determining Tier 1 capital	-808,561
3	TOTAL	69,611,665
	DERIVATIVES EXPOSURE	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	489,326
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	485,477
EU-5a	Exposure determined under the Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	-278,020
8	Exempted CCP leg of client-cleared trade exposures	
9	Adjusted effective notional amount of written credit derivatives	25,100
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	
11	TOTAL	721,883
	SFT EXPOSURES	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	20,525
13	Netted amounts of cash payables and cash receivables of gross SFT assets	
14	Counterparty credit risk exposure for SFT assets	1,275
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	Exempted CCP leg of client-cleared SFT exposure	
16	TOTAL	21,800
	OTHER OFF-BALANCE SHEET EXPOSURES	
17	Off-balance sheet exposures at gross notional amount	15,111,953
18	Adjustments for conversion to credit equivalent amounts	-10,366,123
19	TOTAL	4,745,829
	EXEMPTED EXPOSURES IN ACCORDANCE WITH ARTICLE 429 (7) AND (14) OF REGULATION (EU) No 575/2013 (ON AND OFF BALANCE SHEET)	
EU-19a	Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19b	Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)	
20	TIER 1 CAPITAL	4,874,199
21	LEVERAGE RATIO TOTAL EXPOSURE MEASURE	75,101,178
	LEVERAGE RATIO	
22	Leverage ratio	6.5%
	CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNISED FIDUCIARY ITEMS	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	

	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	70,420,226
EU-2	Trading book exposures	824,943
EU-3	Banking book exposures, of which:	71,245,169
EU-4	Covered bonds	51,527
EU-5	Exposures treated as sovereigns	11,159,249
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	985,541
EU-7	Institutions	383,998
EU-8	Secured by mortgages of immovable properties	24,699,381
EU-9	Retail exposures	5,598,001
EU-10	Corporate	8,880,553
EU-11	Exposures in default	8,915,078
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	10,571,842

4.4. EVENTS WITH A MATERIAL IMPACT ON OWN FUNDS AND CAPITAL REQUIREMENTS IN 2017

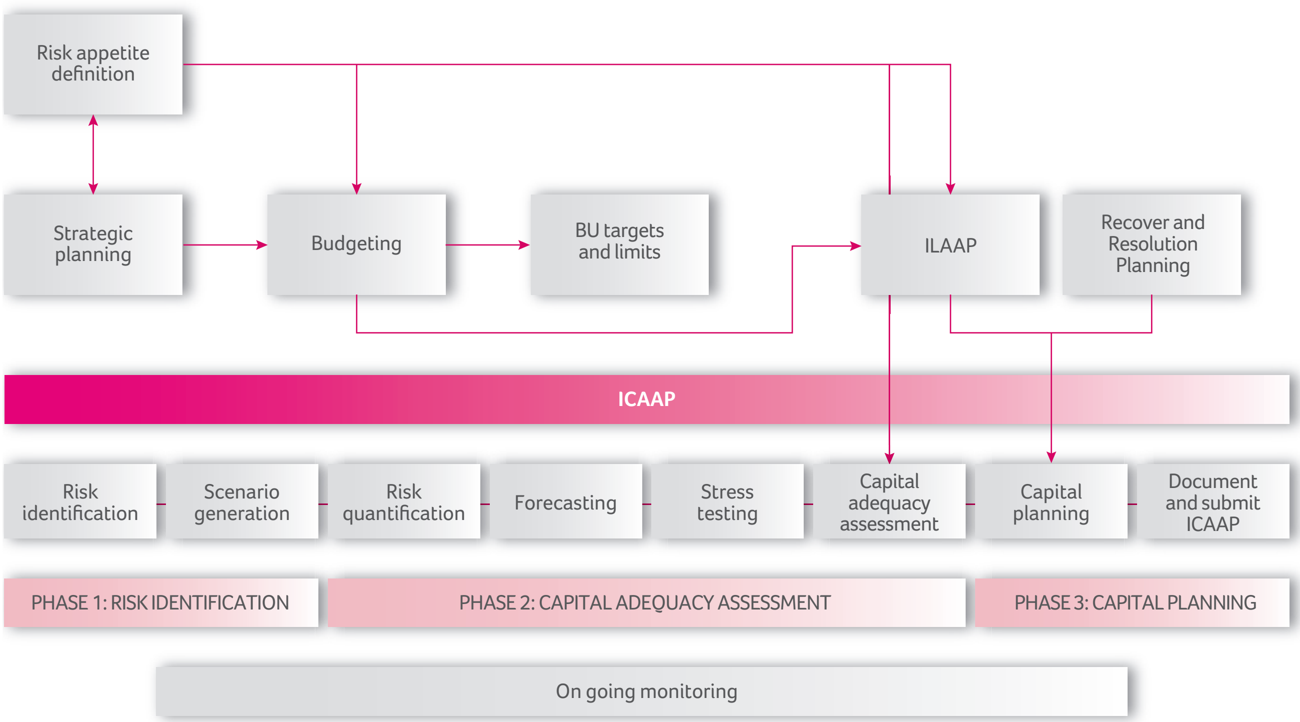
The main events with recognised or possible material impact on own funds and capital requirements in 2017 are related with:

I) SHARE CAPITAL INCREASE OF BANCO COMERCIAL PORTUGUÊS, S.A. AND REIMBURSMENT OF THE OUTSTANDING AMOUNT OF COCO'S:

On 9 January 2017, the Board of Directors approved a 1,332 million euros share capital increase, through a Public Offering of shares to all shareholders in the exercise of their pre-emptive subscription rights. The financial settlement of the ordinary shares subscribed occurred on 7 February 2017 and, on the same date, the Bank reimbursed the outstanding amount of CoCo's (700 million euros). The pro forma CET1 ratio of 31 December 2016, considering the estimated impacts related to the phase-in progression as at 1 January 2017, the proceeds of the rights offering net of expenses and the full reimbursement of CoCo's, stood at 12.8% phased-in and 11.1% fully implemented.

4.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) is a key component of the Group's risk management. It is an exercise aimed at identifying the capital needed by the Group to appropriately cover the risks in which it incurs by developing its business strategy – both current and projected for the medium term. The chart below illustrates synthetically the process at stake:



The ICAAP benefits from an internal governance model that ensures the involvement of the BoD and its Risk Assessment Committee, of the EC, of the Risk Commission and of the top management, along the various stages of the process.

The results of the ICAAP allow the Bank's management bodies – namely, the Board of Directors and the Executive Committee – to test if the Group's capitalisation is appropriate for the risks stemming from its activities and if the strategic plan and budget are sustainable in the medium term and comply with the risk limits defined in the Risk Appetite Statement (RAS) approved for the Group.

The ICAAP is based on a prospective vision of the impact estimates concerning the occurrence of risks over the Bank's capital, considering their scale or dimension, complexity, frequency, probability and materiality, against a background consisting of the medium term (three years) projection for the developments of the Group's activities, considering a base scenario and a stress scenario; the latest, with a severely negative evolution of macroeconomic indicators in order to test the Group's resilience and the adequacy of the capital levels to cover the risks to which its activity may become subject.

The ICAAP's first stage is the identification of the material risks to which the Group's activity is subject. For this purpose, the Group uses a methodological approach based on an internal list of risks, covering more than 60 different risks, considering the relevancy of each one by taking into consideration its probability of occurrence and the magnitude of the impacts of its occurrence – either before or after the implementation of risk mitigation measures.

Beyond all risks considered to be material, the Group integrates in the ICAAP all of Basel's Pillar I risks, even if these do not attain levels that are considered to be material, at Group level.

The result of this stage is the list of risks to be incorporated in the ICAAP, which will also be helpful in defining the variables to be considered for the establishment of the base and the stressed scenarios, mentioned below. The approval of the results of the risks identification process is a capacity attributed to the Risk Assessment Committee.

In a second stage, the base and stressed scenarios that make the ICAAP's framework are defined. While the base scenario represents the Group's vision on the most probable evolution of the business constraints in the medium term, the stressed scenario incorporates extreme conditions, with low probability of occurrence but with severe impact over the Group's activity. The approval of the scenarios to be considered in the ICAAP is also a responsibility of the Risk Assessment Committee.

In the third stage of the ICAAP, the impact of the main risks is modelled for the reference date and the capital requirements are calculated for that date. This uses a set of methodologies and internal models, formally approved and audited, considering a significance level in line with the regulatory requirements (CRR or Solvency 2) and a time horizon of 1 year (which is lower for the trading portfolios, due to their nature).

For the prospective component, two scenarios are considered for the projection of the Group activity in a medium-term time horizon (three years): a base scenario corresponding to the current vision of the Group's management and an adverse scenario that is extremely penalizing in terms of the macroeconomic indicators, in order to test the Group's resilience under extreme scenarios and if it has adequate capital levels to cover the risks to which its activity may be subject to.

Some risks are incorporated in this framework as a capital add-on (in particular those considered to be non-material), while other are considered in terms of their P&L impacts.

Within the ICAAP for 2016, the Group has considered the following risks (as materially relevant ones, after mitigation effects, or considered within the scope of Pillar I):

Risks incorporated in the scenario models

Credit risk	Counterparty risk
	Default risk
	Issuer risk
	Sovereign risk
	Transfer risk
Concentration risk	Sectorial concentration
	Single name concentration
Liquidity risk	Assets illiquidity risk
Market risks	CVA risk
	FX risk of the banking book
	Interest rate risk of the banking book (IRRBB)
	Martket risks of the trading book
Business risks	Economic risk
	Strategy risk
	Financial holdings risk
Model risk	Regulatory risk
Operational risk	
Employment practices and safety at the workplace risk	
Processes risk of execution delivery and management	
Internal and external frauds risk	
Reputation risk	Reputation risk of the banking sector
Other risks	FX risk in Poland
	Reputation risk from insurance selling
	Exposure to the insurance sector risk
	Litigation risk
	Pension Fund risk
	Real estate market risk

These risks are modelled or incorporated within the Group's stress testing methodology, producing estimated impacts over the capital levels, either through the impact on the P&L or through changes in RWA.

After the estimation of impacts of the risks over P&L and the Group's balance sheet – especially, in what concerns own funds – the adequacy of the Group's Risk Taking Capacity (RTC) can be assessed, vis-à-vis the expected profile for its activity.

The Group adopts a RTC level that is in line with the regulatory capital ratios defined by the CRD IV (Directive 2013/36/EU), the CRR (Regulation (EU) 575/2013) and Banco de Portugal's regulation Notice no. 6/2013, complemented with other capital instruments, this ensuring adequate conservatism levels in what concerns the approach to the projections of consolidated own funds (tier 1 and tier 2).

The ICAAP results show that the current capitalisation levels are appropriate for a three year horizon, either under the base scenario or the stressed scenario.

Quarterly, the Bank updates the quantification of the ICAAP's main materially relevant risks, reporting these results to the management bodies. In case of significant changes in the Group's risk profile, the ICAAP model is fully deployed.

5. CREDIT RISK

5.1. DEFINITIONS AND POLICIES FOR ASSESSMENT OF LOSSES AND PROVISIONING

Credit risk is associated with the potential losses and with the uncertainty concerning the expected returns due to the failure of the borrower – and of its guarantor, if there is one – or 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, all the credits (capital) that have not been settled 30 days after their maturity date are accounted in past due loans.

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.

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 per client segment are defined for the monitoring of credit risk.

The credit impairment assessment process includes the general principles defined by IAS 39 and the orientations stemming from Banco de Portugal's regulatory letter no. 2/2014/DSP.

Within the impairment assessment, three components must be distinguished, depending on the risk, the clients' exposures and on the existence/non-existence of objective evidence of impairment:

- Individual analysis for clients with large exposure and high risk;
- Collective analysis for high risk clients that are not covered by the individual analysis;
- Collective analysis for clients that are not considered to be of high risk, for which no impairment signs were verified (the IBNR component – Incurred But Not Reported)

The individual analysis clients' are subject to a regular process for the allocation of a recovery expectation concerning all of their exposures, as well as of a term expected for the recovery. The impairment amount for each client is based, essentially, in the prospects of repayment and repayment term, concerning monetary, financial or physical assets. This periodic process is based on the elements that are relevant for the impairment assessment, namely:

- Financial and economic data, based on the client's most recent accounting statements;
- Qualitative data that characterise the client's situation in what concerns the economic viability of the business;
- Projected cash-flows for clients that are analysed in a "going concern" perspective;
- Credit worthiness track-record of the Client within the Bank and the financial system.

Collateral and guarantees data is of particular importance, especially in real estate companies and in cases for which economic viability is reduced.

The Bank has a conservative approach towards the treatment of collateral, materialised in the use of haircuts, aiming at incorporating the assets' devaluation risk, the costs inherent to their selling and the maintenance costs and term that occur until the sale.

For each client, impairment is calculated as the difference between the respective exposure and the total of expected cash-flows for the various operations, discounted at the effective interest rate of each operation.

Collective impairment losses' assessment is based on the Probability of Default (PD), on a loss recognition horizon of 1 year and on the Loss Given Default (LGD), taking into account the time in default. Both PD and LGD are estimated from the Bank's historical data and are subject to periodical updates.

The results of the impairment assessment process are duly registered in accounting terms. In accordance with Banco de Portugal's regulatory letter no.15/2009, the accounting cancellation of credits should be effected when there are no realistic recovery prospects 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. Hence, when a credit reaches an impairment of 100%, its classification as unrecoverable should be envisaged. However, even if a credit the impairment has not reached 100%, it still may be classified as unrecoverable if there are no recovery expectations. It is important to point out that all procedures and methodologies described are defined through internal regulations approved by top management and dedicated to the impairment process, as well as to credit granting, monitoring and recovery and to the treatment of non-performing credit.

On each balance date, an evaluation of the objective evidence of impairment is made. A financial asset or 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, or group of financial assets, 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 continued 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 assets 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 2016 and 2015 are shown in Table 10.

(Thousand euros)

TABLE 10 – IMPACT OF IMPAIRMENT AND PROVISION CHARGES AND RECOVERIES ON RESULTS

Impairment and provisions	2016	2015
Charges net of reversions and annulments	**1,535,451**	973,461
Recoveries	**-33,866**	-29,726
CHARGES NET OF RECOVERIES	**1,501,585**	943,735

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. CONCENTRATION RISK MANAGEMENT

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" include: 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 previously mentioned is made based on the better judgement of the Risk Office, 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 itself (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. 5/2011, namely:

- Two types of "major exposures" are considered, at Group level or at the level of each Group entity;
- The basis used to define major exposures and to estimate the limit-values of the concentration are the own funds levels (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 also defined.

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

Thus, the quantification of the concentration risk in credit exposures (direct and indirect) involves, firstly, the identification of specific concentration and major exposure cases and the comparison of the exposure values in question versus the own funds levels expressed in percentages that are compared with the pre-defined concentration limits. For such, the Risk Office uses 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).

The control and management of concentration risk represent 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.

It should also be noted 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 by increasing the collaterals provided in the credit operations. Moreover, it must be emphasised the reinforcement of the prudential criteria in the analysis and decision-making of financing proposals, particularly in what concerns the mitigation of sectorial concentration.

5.3. CHARACTERISATION OF THE EXPOSURES

The exposures taken into consideration for the calculation 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 are considered.

The total of original exposures, corresponding to the respective gross value of impairments and amortisations attained a value of 88,199 million euros, as at 31 December 2016, and 91,494 million euros as at 31 December 2015, including securitisations. Table 11 presents a breakdown of this amount in accordance with the risk types defined in the Basel Accord.

(Thousand euros)

TABLE 11 – EXPOSURES BY RISK CLASS

Risk classes	Original exposure		Original exposure (average)	
	31 Dec.16	31 Dec.15	**2016**	2015
STANDARDISED APPROACH	**28,239,467**	36,079,123	**30,651,468**	37,847,117
STANDARDISED APPROACH RISK CLASSES	**28,239,467**	36,079,123	**30,651,468**	37,847,117
Central governments or central banks	**10,349,723**	9,493,898	**11,077,879**	9,985,733
Regional governments or local authorities	**763,620**	689,819	**744,606**	688,079
Public Sector Entities	**765,626**	800,075	**793,684**	800,258
Multilateral development banks	**17,968**	47,987		67,460
International organizations				
Institutions	**2,912,398**	3,144,562	**3,331,658**	3,641,036
Corporates	**7,019,934**	7,925,777	**6,996,900**	8,546,122
Retail portfolio	**2,134,148**	2,157,351	**2,116,068**	2,301,672
Positions guaranteed by real estate	**830,303**	1,196,654	**887,404**	1,358,262
Past due items	**913,304**	970,363	**890,509**	1,045,324
High-risk regulatory categories items	**1,675,428**	1,707,993	**1,690,025**	1,585,888
Covered bonds	**51,527**	51,337	**50,702**	51,244
Institutions and companies with short-term credit assessment				
Exposures on collective investment undertakings (CIUs)	**761,696**	763,157	**802,946**	777,692
Shares	**43,793**	380,768	**125,524**	394,233
Other items		6,749,382	**1,143,562**	6,604,115
SECURITISATION POSITIONS ON STANDARDISED APPROACH				
IRB APPROACH	**59,959,401**	55,414,615	**59,344,351**	55,967,851
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	**1,663,965**	1,784,072	**1,724,948**	1,912,545
Claims or contingent claims on central governments or central banks				
Claims or contingent claims on institutions				
Claims or contingent claims on corporates	**1,663,965**	1,784,072	**1,724,948**	1,912,545
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	**46,804,516**	49,708,852	**47,852,472**	50,166,507
Claims or contingent claims on central governments or central banks				
Claims or contingent claims on institutions				
Claims or contingent claims on corporates	**16,168,805**	17,654,096	**16,656,228**	17,621,535
Retail claims or contingent retail claims	**30,635,711**	32,054,756	**31,196,244**	32,544,971
EQUITY POSITIONS	**629,383**	230,527	**475,325**	177,161
SECURITISATION POSITIONS	**3,624,637**	3,660,404	**3,638,713**	3,676,006
OTHER ASSETS NOT RELATED TO BOND LOANS	**7,236,901**	30,761	**5,652,893**	35,632
TOTAL	**88,198,868**	91,493,739	**89,995,819**	93,814,968

The geographical distribution of the Group's original risk positions at the end of 2016 and 2015 is provided in Table 12.

(Thousand euros)

TABLE 12 – DISTRIBUTION OF EXPOSURES BY GEOGRAPHICAL AREA

Risk classes	Portugal		Poland		Other	
	31 Dec.16	31 Dec.15	**31 Dec.16**	31 Dec.15	**31 Dec.16**	31 Dec.15
STANDARDISED APPROACH	**12,827,100**	16,724,828	**9,897,549**	9,873,569	**5,514,819**	9,480,726
RISK CLASSES	**12,827,100**	16,724,828	**9,897,549**	9,873,569	**5,514,819**	9,480,726
Central governments or central banks	**5,535,573**	3,979,771	**4,060,807**	3,505,415	**753,343**	2,008,712
Regional governments or local authorities	**663,346**	563,321	**100,125**	125,309	**149**	1,189
Public Sector Entities	**370,189**	419,763	**6,709**	16,244	**388,727**	364,068
Multilateral development banks					**17,968**	47,987
International organisations						
Institutions	**1,060,998**	928,294	**66,171**	70,884	**1,785,228**	2,145,384
Corporates	**2,898,962**	2,507,826	**2,945,760**	2,819,265	**1,175,212**	2,598,686
Retail portfolio	**223,971**	184,119	**1,591,090**	1,491,149	**319,086**	482,084
Positions guaranteed by real estate	**96,084**	106,221	**700,199**	902,932	**34,019**	187,501
Past due items	**258,119**	331,116	**426,438**	457,843	**228,747**	181,404
High-risk regulatory categories items	**944,306**	959,219			**731,122**	748,774
Covered bonds					**51,527**	51,337
Institutions and companies with short-term credit assessment						
Exposures on collective investment undertakings (CIUs)	**754,659**	756,558	**45**		**6,992**	6,600
Shares	**20,892**	294,077	**204**	531	**22,696**	86,159
Other items		5,694,544		483,996		570,842
SECURITISATION POSITIONS ON STANDARDISED APPROACH						
IRB APPROACH	**43,044,190**	45,230,812	**6,832,953**	7,093,243	**10,082,257**	3,090,560
NOT USING OWN ESTIMATIONS OF LGD/OR CREDIT CONVERSION FACTORS	**1,491,796**	1,605,580			**172,169**	178,491
Claims or contingent claims on central governments or central banks						
Claims or contingent claims on institutions						
Claims or contingent claims on corporates	**1,491,796**	1,605,580			**172,169**	178,491
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	**37,448,341**	39,806,061	**6,832,313**	7,092,259	**2,523,862**	2,810,531
Claims or contingent claims on central governments or central banks						
Claims or contingent claims on institutions						
Claims or contingent claims on corporates	**15,123,555**	16,298,325	**1,252**	4,079	**1,043,999**	1,351,691
Retail claims or contingent retail claims	**22,324,786**	23,507,736	**6,831,061**	7,088,180	**1,479,863**	1,458,840
EQUITY POSITIONS	**479,417**	129,069	**641**	984	**149,326**	100,473
SECURITISATION POSITIONS ON STANDARDISED APPROACH	**3,624,637**	3,660,404				
OTHER ASSETS NOT RELATED TO BOND LOANS		29,698			**7,236,901**	1,064
TOTAL	**55,871,290**	61,955,641	**16,730,503**	16,966,812	**15,597,076**	12,571,286

The sectorial distribution of the Group's original risk positions at the end of 2016 and 2015 is provided in Table 13.

(Thousand euros)

TABLE 13 – DISTRIBUTION OF EXPOSURES BY ECONOMIC SECTOR

Risk classes	31 December 2016							
	Mortgage credit	Services	Consumer credit	Construction	Other activ.- national	Other activ. - international	Wholesale business	Other
STANDARDISED APPROACH	9,641	5,008,852	1,653,030	606,263	12,187,662	7,165	1,414,826	7,352,028
RISK CLASSES	9,641	5,008,852	1,653,030	606,263	12,187,662	7,165	1,414,826	7,352,028
Central governments or central banks		1,471,384		6,300	8,351,269	210		520,560
Regional governments or local authorities		9,322			741,596			12,702
Public Sector Entities		362,677		2	257,884		89,745	55,317
Multilateral development banks					17,968			
International organisations								
Institutions		2,051,150			861,248			
Corporates		773,426		365,784	1,452,225	4,050	996,313	3,428,137
Retail portfolio		80,326	1,428,107	43,993	228,153	98	93,922	259,549
Positions guaranteed by real estate	5,755	138,523	5,020	65,420	57,387	2,806	160,011	395,380
Past due items	3,886	70,517	219,902	124,764	219,931	2	74,835	199,467
High-risk regulatory categories items								1,675,428
Covered bonds		51,527						
Institutions and companies with short-term credit assessment								
Exposures on collective investment undertakings (CIUs)								761,696
Shares								43,793 (1)
Other items								(2)
SECURITISATION POSITIONS								
IRB APPROACH	24,598,411	8,141,141	4,339,532	3,591,961	1,909,093	64	1,512,291	15,866,910
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS		111,089		131,991	81,394			1,339,490
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates		111,089		131,991	81,394			1,339,490
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	24,598,411	7,166,391	4,339,532	3,213,454	1,416,942	14	1,082,818	4,986,953
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates		6,879,060		2,974,263	1,274,753		827,224	4,213,504
Retail claims or contingent retail claims	24,598,411	287,331	4,339,532	239,191	142,189	14	255,594	773,449
EQUITY POSITIONS								629,383 (2)
SECURITISATION POSITIONS		854,693		243,663	369,687	48	425,963	1,730,583
OTHER ASSETS NOT RELATED TO BOND LOANS		8,968		2,853	41,069	1	3,510	7,180,500 (1)
TOTAL	24,608,052	13,149,992	5,992,561	4,198,224	14,096,755	7,229	2,927,117	23,218,937

(Thousand euros)

Risk classes	31 December 2015							
	Mortgage credit	Services	Consumer credit	Construction	Other activ.- national	Other activ. - international	Wholesale business	Other
STANDARDISED APPROACH	17,569	5,053,841	1,752,230	639,543	13,737,357	555	1,048,227	13,829,800
RISK CLASSES	17,569	5,053,841	1,752,230	639,543	13,737,357	555	1,048,227	13,829,800
Central governments or central banks		1,506,017			7,654,861	223		332,798
Regional governments or local authorities		1,414			686,888			1,517
Public Sector Entities		405,069		2	366,873			28,131
Multilateral development banks		47,987						
International organisations								
Institutions		2,093,286			1,051,276			
Corporates		651,402		364,923	3,157,809	105	741,530	3,010,007
Retail portfolio		74,465	1,489,246	48,444	217,841	124	75,320	251,910
Positions guaranteed by real estate	13,897	160,147	5,860	84,525	298,058	104	164,172	469,892
Past due items	3,672	62,718	215,915	141,648	303,752		67,206	175,453
High-risk regulatory categories items								1,707,993
Covered bonds		51,337						
Institutions and companies with short-term credit assessment								
Exposures on collective investment undertakings (CIUs)								763,157
Shares								380,768 [1]
Other items			41,210					6,708,172 [2]
SECURITISATION POSITIONS								
IRB APPROACH	25,722,345	8,669,875	4,613,764	4,116,417	2,189,113	76	1,501,716	8,601,309
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS		110,301		135,189	91,504			1,447,077
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates		110,301		135,189	91,504			1,447,077
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	25,722,345	7,643,441	4,613,764	3,704,398	1,712,699	65	1,078,388	5,233,750
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates		7,346,594		3,445,515	1,581,235	0	840,205	4,440,547
Retail claims or contingent retail claims	25,722,345	296,847	4,613,764	258,883	131,464	65	238,184	793,203
EQUITY POSITIONS								230,527 [1]
SECURITISATION POSITIONS		912,258		276,006	367,791	10	421,866	1,682,472
OTHER ASSETS NOT RELATED TO BOND LOANS		3,875		823	17,119		1,462	7,483 [2]
TOTAL	25,739,914	13,723,716	6,365,994	4,755,960	15,926,470	631	2,549,943	22,431,109

[1] The significant reduction of the exposure in the standardised approach reflects the implementation of the BdP recommendations that implied the exit of positions from the standardised approach to the IRB approach, namely in what concerns significant investments held in financial institutions which are not deducted to own funds.
[2] All positions regarding other items treated under the standardised approach were transferred to the IRB approach by recommendation of the BdP.

The distribution of the Group's original risk positions by residual maturity term at the end of 2016 and 2015 is provided in Table 14.

(Thousand euros)

TABLE 14 – DISTRIBUTION OF EXPOSURES BY RESIDUAL MATURITY

Risk classes	RM < 1 year		1 year < RM < 5 years		5 years < RM < 10 years		RM > 10 years	
	31 Dec.16	31 Dec.15	**31 Dec.16**	31 Dec.15	**31 Dec.16**	31 Dec.15	**31 Dec.16**	31 Dec.15
STANDARDISED APPROACH	**11,998,380**	12,066,642	**9,578,687**	10,633,423	**4,947,060**	7,287,158	**1,715,340**	6,091,900
RISK CLASSES	**11,998,380**	12,066,642	**9,578,687**	10,633,423	**4,947,060**	7,287,158	**1,715,340**	6,091,900
Central governments or central banks	**3,853,804**	3,876,406	**3,996,964**	2,801,354	**2,495,520**	2,783,455	**3,434**	32,683
Regional governments or local authorities	**158,370**	153,555	**71,605**	81,848	**233,496**	151,101	**300,150**	303,315
Public Sector Entities	**328,086**	131,370	**250,540**	299,236	**5,554**	183,581	**181,447**	185,888
Multilateral development banks		8	**17,968**			47,980		
International organisations								
Institutions	**1,693,537**	1,788,885	**295,390**	388,341	**874,831**	893,414	**48,639**	73,922
Corporates	**4,453,448**	3,943,652	**1,911,255**	2,187,599	**522,909**	733,828	**132,322**	1,060,698
Retail portfolio	**480,969**	390,711	**873,947**	925,289	**621,845**	627,984	**157,387**	213,367
Positions guaranteed by real estate	**409,037**	338,313	**248,854**	398,523	**128,910**	279,787	**43,502**	180,031
Past due items	**569,603**	665,759	**236,736**	150,512	**63,996**	83,354	**42,970**	70,739
High-risk regulatory categories items			**1,675,428**	1,707,993				
Covered bonds	**51,527**			51,337				
Institutions and companies with short-term credit assessment								
Exposures on collective investment undertakings (CIUs)							**761,696**	763,157
Shares							**43,793**	380,768
Other items		777,984		1,641,391		1,502,674		2,827,333
SECURITISATION POSITIONS								
IRB APPROACHES	**12,026,952**	11,561,403	**8,567,042**	7,753,412	**8,565,245**	7,507,655	**30,800,161**	28,592,145
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	**1,590**	13,031	**142,337**	136,745	**785,847**	792,823	**734,191**	841,472
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates	**1,590**	13,031	**142,337**	136,745	**785,847**	792,823	**734,191**	841,472
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	**9,942,847**	10,242,781	**5,381,181**	6,389,408	**5,604,613**	5,981,627	**25,875,875**	27,095,037
Claims or contingent claims on central governments or central banks								
Claims or contingent claims on institutions								
Claims or contingent claims on corporates	**7,005,428**	7,924,862	**3,084,727**	3,644,506	**3,338,509**	3,751,820	**2,740,141**	2,332,908
Retail claims or contingent retail claims	**2,937,419**	2,317,919	**2,296,454**	2,744,902	**2,266,104**	2,229,806	**23,135,734**	24,762,129
EQUITY POSITIONS							**629,383**	230,527
SECURITISATION POSITIONS	**1,125,277**	1,304,195	**1,151,468**	1,219,929	**860,508**	724,401	**487,384**	411,879
OTHER ASSETS NOT RELATED TO BOND LOANS	**957,239**	1,396	**1,892,056**	7,330	**1,314,278**	8,805	**3,073,328**	13,230
TOTAL	**24,025,333**	23,628,045	**18,145,729**	18,386,836	**13,512,305**	14,794,813	**32,515,501**	34,684,045

The exposures due and those object of an impairment analysis, together with the balance of impairments and provisions made, as of 31 December 2016 and 2015, are presented in Table 15, detailing the main economic sectors and geographical areas to which the Group is exposed.

(Thousand euros)

TABLE 15 – BREAKDOWN OF PAST DUE AND IMPAIRED EXPOSURES

Risk classes	Past due exposures		Exposures with impairment		Impairment and provisions	
	31 Dec.16	31 Dec.15	**31 Dec.16**	31 Dec.15	**31 Dec.16**	31 Dec.15
TOTAL EXPOSURES	**10,019,768**	10,927,648	**10,364,504**	12,011,861	**4,922,317**	4,360,145
BREAKDOWN BY MAIN ECONOMIC SECTORS						
Mortgage credit	**2,110,781**	2,291,514	**2,167,714**	2,442,184	**365,965**	362,193
Services	**3,064,184**	2,987,935	**3,182,838**	3,393,415	**1,459,149**	1,059,419
Consumer credit	**815,294**	922,411	**823,282**	991,214	**499,251**	482,016
Construction	**1,817,331**	2,200,016	**1,820,892**	2,193,723	**667,147**	586,060
Other activ. - national	**772,314**	843,448	**830,300**	1,135,707	**352,609**	405,629
Other activ. - international	**2**		**1**		**121**	1
Wholesale business	**245,111**	246,726	**211,293**	248,302	**112,795**	134,262
Other	**1,194,751**	1,435,598	**1,328,184**	1,607,316	**1,465,281**	1,330,563
BREAKDOWN BY MAIN GEOGRAPHIC AREAS						
Portugal	**9,266,642**	10,097,046	**9,638,176**	10,919,901	**4,264,049**	3,795,663
Poland	**636,643**	649,046	**569,505**	608,673	**308,238**	339,456
Other	**116,484**	181,557	**156,822**	483,286	**350,029**	225,026

Table 16 shows the evolution, from 2015 to 2016, 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 in these balances is explained by allocations, utilisations, reversions, annulments and other adjustments.

(Thousand euros)

TABLE 16 – IMPAIRMENT, PROVISIONS AND AMORTISATIONS

	2016		Total	
	Impairment and provisions	Amortisations	2016	2015
OPENING BALANCE ON 1 JANUARY	**4,360,145**	**1,116,027**	**5,476,172**	5,471,155
Charges	**1,775,853**	**38,094**	**1,813,947**	1,683,349
Uses	**-904,901**		**-904,901**	-1,001,205
Re-adjustments/Cancellations	**-240,402**	**-54,107**	**-294,509**	-696,654
Other adjustments:	**-68,378**	**-61,912**	**-130,290**	19,527
- Adjustment for exchange rate differences	**-34,542**	**-29,146**	**-63,688**	35,285
- Transfers of provisions	**7,203**	**-32,766**	**-25,563**	-15,750
- Business combinations				
- Acquisitions and disposals of subsidiaries	**-41,039**		**-41,039**	-8
- Other				
CLOSING BALANCE ON 31 DECEMBER	**4,922,317**	**1,038,102**	**5,960,419**	5,476,172

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 in the calculation of the capital requirements.

5.4. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

5.4.1. FRAMEWORK OF THE APPROACHES USED

As at 31 December 2015 and 2016, the Group determined the own funds requirements for credit risk in accordance with the 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 regulatory weights are applied after carrying out some adjustments – such as the ones related with provisions and value corrections, the ones due to the application of 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.

In the capital requirements calculation based on the standardised approach, the exposures are weighted according to the provisions of the CRR. 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), for the purpose of determining the respective risk quality levels, as per which the corresponding risk weights are applied as defined by the CRR (no. 2 of article 114, Section 2, Chapter 2, Title II, Part III). Whenever the same issuer or issue 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. Exposures of unrated clients are treated in accordance with no. 1 of article 114, Section 2, Chapter 2, Title II, Part III of the CRR.

Regarding the "Institutions" risk class, the risk weight of the exposures results from the existence of specific ratings and the exposures' terms-to-maturity or from the existence of the sovereign rating at stake and the exposures original term, as defined by articles 119 to 121 of the CRR.

Concerning the risk classes "Central Government and Central Banks" and "Institutions", in Portugal, the Group uses the standardised approach, pursuant to the conditions for permanent partial use of such approach, defined by article 150, Section 1, Chapter 3, Title II, Part III of the CRR.

On 31 December 2015 and 2016, 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 the exposure classes " Corporates" and "Retail Exposures" (in both cases, with own LGD estimates), "Equity exposures" and "Items representing securitisation positions". Regarding the Corporates exposure class, the exposures treated under the simplified rating system were weighted using the standardised approach. From 31 December 2012, 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 "Retail Exposures" (with own LGD estimates), regarding the positions of individual clients guaranteed by residential real estate collateral and the retail renewable positions (QRRE – Qualified Retail Renewable Exposures).

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2015 and 2016 were estimated following the standardised approach.

Also, in Portugal:

- Risk weighted assets as at 31 December 2015 and 2016 for exposures to Customers that exceptionally did not receive an internal risk level were computed according to the standardised approach, considering a PD corresponding to risk grade 12 of the Group Master Scale;
- Within the Corporates risk class, the Bank used the standardised approach for a set of exposures to 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 Customer segment/sub-segment.

In addition, in this approach, the computation of the risk weighted assets also uses the internally estimated LGD as well as CCF factors 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 the risk weighted assets through the LGD parameters.

The internal ratings are given based on the Rating Master Scale, common to all the rating systems and models used, presented in Table 17.

TABLE 17 – 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, being applied the observed PD.

The risk ratings attributed by the rating 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 Division 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 exposures 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, which was carried out in 2016 by the validation unit of the Models Monitoring and Validation Office (GAVM), which is independent from the units that are responsible for the development and maintenance of rating models. In addition, GAVM's validation unit is also responsible for ensuring that the Group's Rating Master Scale is up-to-date and correct.

The conclusions of GAVM'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 Committee.

Besides its responsibilities regarding the PD models and the Rating Master Scale, GAVM 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.

It should be underlined 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 the adequacy of the model's documentation, including the development documentation, development samples and all the documents regarding changes to the model;
- Being the senior responsible 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 GAVM pursuant to the model validation work.

In addition, regarding the rating systems in which rating models are integrated, there is also a rating system owner, who is responsible for:
- Ensuring the necessary support to the GAVM 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 the risk ratings given by the Real Estate Promotion and the Corporates rating system.

In the first case, the Bank uses the Project Finance rating model, i.e. the mapping between the scoring of a specific questionnaire 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 risk weighted assets in accordance with no. 5 of article 153, Sub-Section 2, Section 2, Chapter 3, Title II, Part III of the CRR.

In the second case, the Bank uses several rating models to grant risk scores (and the respective PD used to compute the 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 not frequent.

Table 18 summarises these rating models and systems.

TABLE 18 – CORPORATES RATING MODELS AND SYSTEMS

Rating system for Projects	Rating model for Project Finance: scoring of specific questionnaire on the financial strength, the politic and regulatory frameworks, other features of the operation, the ability of sponsors/shareholders and the package of collaterals 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 ratios, financial 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) + Group adjustments 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) + Group adjustments
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 (including those arising from the identification of "imminent risk" evidence) + Group adjustments Small and Mid Corporate Models: quantitative component (economic/financial grade based on accounting data and taking into consideration the Client's activity sector) + qualitative component (based on information gathered by the commercial area on specific templates for that purpose) + adjustments stemming from pre-defined situations (including those arising from the identification of imminent risk evidence) + Group adjustments Business Model for Real Estate Development/Model for Investment Companies/Real Estate income: quantitative component (specific ratios, financial 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) + Group adjustments. 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 risk weighted assets calculation by 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 19.

TABLE 19 – RETAIL PORTFOLIO RATING MODELS AND SYSTEMS

Rating system for Small Business	TRIAD model – automatic decision based on Client 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 Clients)
Rating system for Individuals	TRIAD model – Automatic decision based on Client 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 Client

Own fund requirements for credit risk and counterparty credit risk originated by portfolios subject to the standardised approach, as at 31 December 2016 and 2015, are presented in Table 20.

(Thousand euros)

TABLE 20 – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)

	31 December 2016									
	Risk weights									Total
	0%	10%	20%	35%	50%	75%	100%	150%	Other	
1. ORIGINAL EXPOSURE										
Central governments or central banks	9,594,204				30		232,717	522,771		10,349,723
Regional governments or local authorities			763,201		114		8	149	148	763,620
Public Sector Entities	357,916		31,081		6,602		12,378	357,647	2	765,626
Multilateral development banks	17,968									17,968
International organisations										
Institutions			1,410,239		443,141		994,910	64,107		2,912,398
Corporates			18,082		36,480	1,006	6,049,550	844,594	70,224	7,019,934
Retail portfolio						2,134,148				2,134,148
Positions guaranteed by real estate			19,514		420,223	2,675	369,745	9,736	8,410	830,303
Past due items							561,533	351,771		913,304
High-risk regulatory categories items								1,459,025	216,403	1,675,428
Covered bonds			51,527							51,527
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							624,686	122,778	14,233	761,696
Shares							22,834		20,959	43,793
Other items										
TOTAL ORIGINAL EXPOSURES	9,970,089		2,293,643		906,590	2,137,828	8,868,360	3,732,579	330,378	28,239,467

(Continues)

(Continuation)

(Thousand euros)

	31 December 2016									Total
	Risk weights									
	0%	10%	20%	35%	50%	75%	100%	150%	Other	
2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)										
Central governments or central banks	10,228,577		4,346		2		234,254	529,633		10,996,811
Regional governments or local authorities			597,414		114		8	105	148	597,790
Public Sector Entities	357,861		30,452		1,314		12,294	261,358	2	663,280
Multilateral development banks	17,968									17,968
International organisations										
Institutions			1,562,813		352,623		162,874	32,588		2,110,897
Corporates			18,082		36,480	981	3,085,332	667,550	70,224	3,878,649
Retail portfolio						1,877,293				1,877,293
Positions guaranteed by real estate			19,176		416,142	1,699	202,381	9,506	8,152	657,056
Past due items							248,260	195,239		443,499
High-risk regulatory categories items								1,113,483		1,113,483
Covered bonds			51,527							51,527
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							621,420	122,291	9,588	753,298
Shares							11,137		20,959	32,096
Other items										
TOTAL EXPOSURES	10,604,406		2,283,810		806,674	1,879,974	4,577,959	2,931,753	109,072	23,193,648
3. TOTAL CAPITAL REQUIREMENTS										
Central governments or central banks			70		0		18,740	63,556		82,366
Regional governments or local authorities			9,559		5		1	13	2	9,579
Public Sector Entities			487		53		983	31,363	0	32,886
Multilateral development banks										
International organisations										
Institutions			25,005		14,105		13,030	3,911		56,050
Corporates			281		1,305	59	234,086	75,203	1,403	312,337
Retail portfolio						105,356				105,356
Positions guaranteed by real estate			307		15,515	101	15,436	991	186	32,535
Past due items							19,861	23,429		43,289
High-risk regulatory categories items								133,618		133,618
Covered bonds			824							824
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							49,714	14,675	844	65,232
Shares							891		4,192	5,083
Other items										
TOTAL CAPITAL REQUIREMENTS			36,532		30,982	105,516	352,741	346,758	6,627	879,157

(Thousand euros)

TABLE 20 – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)

	31 December 2015									Total
	Risk weights									
	0%	10%	20%	35%	50%	75%	100%	150%	Other	
1. ORIGINAL EXPOSURE										
Central governments or central banks	7,584,464				30		1,909,402	0	1	9,493,898
Regional governments or local authorities			688,347		7		1,201		264	689,819
Public Sector Entities	401,472		24,185		16,174		358,240		4	800,075
Multilateral development banks	47,987									47,987
International organisations										
Institutions			1,568,240		556,764		995,711	23,836	12	3,144,562
Corporates			6,487		26,279		7,764,271	43,417	85,322	7,925,777
Retail portfolio						2,156,616	735			2,157,351
Positions guaranteed by real estate					631,031	3,910	502,986		58,728	1,196,654
Past due items							686,535	283,828		970,363
High-risk regulatory categories items								1,497,443	210,550	1,707,993
Covered bonds			51,337							51,337
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							654,298	93,969	14,890	763,157
Shares							52,069		328,699	380,768
Other items	1,049,101		101,138		8,254		4,987,932	7,385	595,573	6,749,382
TOTAL ORIGINAL EXPOSURE	9,083,024		2,439,734		1,238,539	2,160,526	17,913,380	1,949,879	1,294,042	36,079,123
2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)										
Central governments or central banks	8,206,114		4,120		2		1,979,214	0	1	10,189,452
Regional governments or local authorities			492,141		7		934		264	493,346
Public Sector Entities	401,071		23,662		6,169		293,263		4	724,169
Multilateral development banks	47,987									47,987
International organisations										
Institutions			1,673,657		520,552		244,502	1,231	12	2,439,953
Corporates			6,487		26,279		4,511,922	23,413	85,322	4,653,424
Retail portfolio						1,908,762	452			1,909,214
Positions guaranteed by real estate					630,110	1,714	289,682		58,442	979,948
Past due items							334,461	97,897		432,358
High-risk regulatory categories items								1,362,954		1,362,954
Covered bonds			51,337							51,337
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							653,457	93,715	9,545	756,717
Shares							35,047		328,699	363,746
Other items	1,049,101		101,138		8,254		3,582,529	7,385	595,573	5,343,979
TOTAL EXPOSURES	9,704,274		2,352,542		1,191,373	1,910,476	11,925,465	1,586,595	1,077,861	29,748,586

(Continues)

(Continuation) (Thousand euros)

	31 December 2015									Total
	Risk weights									
	0%	10%	20%	35%	50%	75%	100%	150%	Other	
3. TOTAL CAPITAL REQUIREMENTS										
Central governments or central banks			66		0		158,337	0	0	158,403
Regional governments or local authorities			7,874		0		75		5	7,954
Public Sector Entities			379		247		23,461		0	24,086
Multilateral development banks										
International organisations										
Institutions			26,779		20,822		19,560	148	0	67,309
Corporates			97		941		345,080	2,810	1,522	350,450
Retail portfolio						107,301	28			107,329
Positions guaranteed by real estate					23,857	96	22,131		1,592	47,676
Past due items							26,757	11,748		38,505
High-risk regulatory categories items								163,554		163,554
Covered bonds			821							821
Institutions and companies with short-term credit assessment										
Exposures on collective investment undertakings (CIUs)							52,277	11,246	840	64,362
Shares							2,804		65,740	68,544
Other items			1,612		252		286,390	886	116,826	405,965
TOTAL CAPITAL REQUIREMENTS			37,627		46,120	107,397	936,899	190,391	186,525	1,504,959

Own funds requirements for credit risk and counterparty credit risk originated by portfolios subject to the IRB approach, as at 31 December 2016 and 2015, are presented in Tables 21–A, B, C and D, which reflect the different portfolios (Retail, Corporates, Specialised Lending and Equity positions).

(Thousand euros)

TABLE 21-A – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH) – RETAIL

Retail Portfolio	Internal ratings based system		Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Own funds requirements		Memorandum items	
		PD buckets of customer risk grades (%)				31 Dec.16	31 Dec.15	Expected losses	Corrections and provisions
1. TOTAL EXPOSURES			30,635,711	28,918,254		**479,350**	519,884	1,016,993	-994,055
1.1 – Exposures related to customers risk grades: Total									
Breakdown of exposures related to customers risk grades[a]:	Risk grade: 1	0.01% to 0.05%							
	2	0.05% to 0.07%	178,930	62,050	30.75%	**132**	149	10	-34
	3	0.07% to 0.14%	6,975,004	6,760,701	28.50%	**31,126**	30,365	1,645	-5,698
	4	0.14% to 0.28%	6,554,911	6,145,726	21.65%	**41,144**	42,778	2,644	-2,471
	5	0.28% to 0.53%	4,199,662	3,973,318	23.44%	**46,411**	47,019	3,705	-3,126
	6	0.53% to 0.95%	2,590,571	2,452,969	24.71%	**43,700**	47,298	4,253	-2,573
	7	0.95% to 1.73%	2,177,009	2,069,542	26.49%	**59,359**	52,442	7,855	-2,725
	8	1.73% to 2.92%	1,001,242	930,983	22.16%	**30,801**	47,440	4,742	-1,085
	9	2.92% to 4.67%	984,161	966,662	24.54%	**44,966**	50,131	8,825	-2,267
	10	4.67% to 7.00%	866,901	764,440	23.65%	**44,078**	50,929	10,732	-1,436
	11	7.00% to 9.77%	471,266	413,038	24.55%	**29,318**	33,067	8,749	-919
	12	9.77% to 13.61%	1,075,539	870,488	22.49%	**59,434**	79,313	22,512	-4,527
	13 to 15	13.61% to 100.00%	3,560,512	3,508,338	29.33%	**48,881**	38,952	941,323	-967,195

[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 does not include information related to especialised lending, that is presented in Table 21-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 Master Scale.

(Thousand euros)

TABLE 21-B – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH) – CORPORATE

Corporates		Internal ratings based system: PD buckets of customer risk grades (%)	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Own funds requirements		Memorandum items	
						31 Dec.16	31 Dec.15	Expected losses	Corrections and provisions
1. TOTAL EXPOSURES			16,011,986	13,485,505		**711,485**	838,121	2,672,625	-2,497,031
1.1 – Exposures related to customers risk grades: Total									
Breakdown of exposures related to customers risk grades[a]:	Risk grade: 1	0.01% to 0.05%							
	2	0.05% to 0.07%	459	48	42.26%	**1**		0	0
	3	0.07% to 0.14%	44,943	34,148	41.12%	**512**	99	14	-12
	4	0.14% to 0.28%	1,261,118	1,034,949	42.00%	**34,485**	26,522	869	-186
	5	0.28% to 0.53%	744,059	553,751	41.10%	**19,089**	23,345	911	-439
	6	0.53% to 0.95%	1,065,361	875,761	38.74%	**40,642**	28,329	2,369	-643
	7	0.95% to 1.73%	725,763	549,977	36.89%	**31,796**	47,987	2,631	-500
	8	1.73% to 2.92%	1,061,666	780,250	36.33%	**52,347**	51,968	6,503	-613
	9	2.92% to 4.67%	1,138,451	880,020	36.06%	**72,862**	89,565	11,721	-1,393
	10	4.67% to 7.00%	1,109,485	911,081	27.37%	**66,571**	58,137	14,682	-4,880
	11	7.00% to 9.77%	435,312	357,801	39.50%	**41,546**	42,802	11,721	-1,672
	12	9.77% to 13.61%	2,488,912	2,012,687	32.43%	**238,796**	353,109	74,851	-27,780
	13 to 15	13.61% to 100.00%	5,936,455	5,495,031	54.33%	**112,838**	116,258	2,546,353	-2,458,915

[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 does not include information related to especialised lending, that is presented in Table 21-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 Master Scale.
Note 3: This detail does not contain the exposures in which RWA estimation does not depend on the PD/LGD (e.g: Slotting Criteria or residual Leasing).

(Thousand euros)

TABLE 21-C – OWN FUNDS REQUIREMENTS FOR SPECIALISED LENDING (IRB APPROACH)

Risk weights	Original exposure		Own Funds requirements	
	31 Dec.16	31 Dec.15	**31 Dec.16**	31 Dec.15
0%	**135,243**	144,003		
50%				
70%	**71,454**	86,555	**4,001**	4,757
of which: Grade 1				
90%	**1,189,816**	1,219,406	**83,058**	85,360
115%	**231,530**	294,164	**20,915**	26,503
250%	**35,920**	39,945	**6,859**	7,814
TOTAL	**1,663,965**	1,784,072	**114,834**	124,434

(Thousand euros)

TABLE 21-D – OWN FUNDS REQUIREMENTS FOR EQUITY POSITIONS (IRB APPROACH)

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) (%)	Own Funds requirements 31 Dec.16	Own Funds requirements 31 Dec.15	Memorandum items Expected losses
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		266,935	192,265		**55,730**	46,500	4,319
Breakdown of exposures per risk weight:	Risk weight: 190%						
	290%	52,041	18,442		**4,279**	5,656	148
	370%	214,894	173,823		**51,452**	40,844	4,172
3. IRB APPROACH							
4. EQUITY EXPOSURES SUBJECT TO WEIGHTNING					**72,490**		

[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: The Own Funds requirements identified in this table are identified in the point 2.1.2.3. of Table 7 - Own Funds requirements.

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

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

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

In addition, an ISDA Master Agreement may frame the creation of collateral using an annex or ISDA Credit Support Document. As a template for the Credit Support Document, the Bank chose the Credit Support Annexes (CSA) contracts to guarantee the constitution, by the entity with net values payable in the future, of financial collaterals from the other party to guarantee the payment of these contractual obligations. In these contracts, the Bank (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 2016 and in 2015, for the purposes of reducing counterparty credit risk, the Group used the financial collateral comprehensive method, as established in article 223, Section 4, Chapter 4, Title II, Part III of the CRR, and the mark-to-market method to calculate the future exposure in the relevant positions with credit risk, as defined in article 274, Section 3, Chapter 6, Title II, Part III of the CRR.

After estimating the exposures as at 2015 and 2016, the own funds requirements were computed, on one hand, according to Chapter 2, Title II, Part III of the CRR, for risk scores and portfolios that followed the standardised approach, and, on the other hand, according to Chapter 3, Title II, Part III of the CRR, for the portfolios for which Banco de Portugal has authorised the IRB Approach.

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

The market values of the operations are collected directly from the Bank's front-end application (namely Kondor+), in which the management and evaluation of the operations is carried out, whilst the add-on values to be applied are directly identifiable in table I of paragraph c) of article 274, Section 3, Chapter 6, Title II, Part III of the CRR.

Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories – commonly referred to as EMIR (European Markets Infrastructure Regulation) – has introduced legal obligations with the aim of improving post--trade transparency and reducing the risks associated with the derivatives market, in particular through the need to bring in a central counterparty or the adoption of risk mitigation techniques for derivatives not centrally cleared.

In this context, it should be noted that in December 2015 the European Commission published the final version of the EMIR, defining the mandatory clearing of derivatives with a qualified central counterparty (QCCP) and a phased implementation according to the categorisation of the institutions and, additionally, by product types.

Taking into account the regulations applicable to its category, the Group became obliged to carry out the clearing of the OTC derivatives portfolio within the criteria defined by the EMIR, with a qualified CCP, still in the 2016 financial year. This clearing obligation is, in a first stage, applicable to the simpler derivatives, namely, those relating to interest rate (IRS and FRA) and in the most common currencies (EUR, GBP, JPY, USD). Afterwards, there will be a phased extension of these obligations to a broader set of derivatives.

The so-called "frontloading period", during which all new derivative operations eligible under the EMIR criteria are subject to the central clearing requirements, through a qualified central counterparty (QCCP), elapsed between May and December 2016. After this date, the process will be continuous for all operations that meet the eligibility criteria.

Hence, in view of the significant universe of derivatives that have been cleared against a qualified central counterparty, there has been a significant reduction in the exposure to counterparty credit risk in 2016. This tendency should increase, taking into account that as the stock of derivatives prior to the onset of the frontloading period matures its unwinding occurs (essentially, for interest rate), the subsequent new derivatives will be centrally cleared.

Table 22 shows own funds requirements for counterparty credit risk for exposures subject to the standardised approach, computed as at the end of 2016 and 2015.

(Thousand euros)

TABLE 22 – OWN FUNDS REQUIREMENTS FOR COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)

	Original net exposure	Credit risk mitigation techniques with substitution effects on the original net exposure[a]	Credit risk mitigation techniques with effect on the net exposure amount[b]	Fully adjusted exposure	Own Funds requirements	
					31 Dec.16	31 Dec.15
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions						
Derivatives	832,347			725,336	**23,946**	29,468
Contractual cross-product netting						

[a] Substitution effect 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 emphasised within the scope of item 2.1.1 of Table 7 – Own Funds requirements.

Own funds requirements for counterparty credit risk for exposures subject to the IRB approach, computed as at the end of 2016 and 2015 are broken down in Table 23.

(Thousand euros)

TABLE 23 – OWN FUNDS REQUIREMENTS FOR COUNTERPARTY CREDIT RISK (IRB APPROACH)

	Original net exposure	Credit risk mitigation techniques with substitution effects on the original net exposure[a]	Credit risk mitigation techniques with effect on the net exposure amount[b]	Fully adjusted exposure	Own Funds requirements	
					31 Dec.16	31 Dec.15
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions						
Derivatives	33,175			33,175	**2,500**	13,483
Contractual cross-product netting						

[(a] Substitution effect 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 emphasised within the scope of item 2.1.2 of Table 7 – Own Funds requirements.

As at 31 December 2016, the Group did not have any formal credit risk coverage operation in force.

The exposures to credit derivative instruments by the end of 2016 and 2015 are presented in the following table:

(Thousand euros)

TABLE 24 – CREDIT DERIVATIVES

Credit derivatives transactions	Long positions		Short positions	
	31 Dec.16	31 Dec.15	**31 Dec.16**	31 Dec.15
I. CREDIT PORTFOLIO (TOTAL):	**319,000**	327,432	**19,510**	
a) Credit default swaps	**319,000**	327,432	**19,510**	
b) Total return swaps				
c) Credit linked notes				
d) Other credit derivatives				
II. INTERMEDIATION ACTIVITIES (TOTAL):	**817,050**	1,386,900	**657,300**	1,224,750
a) Credit default swaps	**666,700**	1,248,200	**657,300**	1,224,750
b) Total return swaps				
c) Credit linked notes	**150,350**	138,700		
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 22 and 23 – Own funds requirements for counterparty credit risk (standardised and IRB approaches, respectively).

7. CREDIT RISK MITIGATION TECHNIQUES

7.1. ELIGIBILITY AND TYPE OF MITIGATION INSTRUMENTS

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

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

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

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

Regarding guarantees and credit derivatives, the substitution principle is applied by replacing the Risk Grade of the client by the Risk Grade of the guarantor, if the Risk Grade of the guarantor is better than the client's, when:

- State, Financial Institutions or Mutual Guarantee Societies guarantees exist;
- Personal guarantees (or, in the case of Leasing, an adhering contracting party);
- The mitigation is effective through credit derivatives.

7.2. PROTECTION LEVELS

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

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

7.3. COLLATERAL VALUATION

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

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

There is always a written report, in a standardised digital format, based on a group of predefined methods that are aligned with the sector practices – income, replacement cost and/or market comparative – mentioning the obtained value, for both the market value and for purposes of the mortgage guarantee, depending on the type of the real estate. The evaluations have a declaration/certification of an expert valuer since 2008, as requested by the applicable regulation and are ratified by the Appraisals Unit.

Regarding residential real estate, after the initial valuation and in accordance with the CRR, the Bank monitors the respective values through market indexes. If the index is lower than 0.9, the Bank revaluates choosing one of the following three methods:

(i) Depreciation of the property by direct application of the index, if the amount owed does not exceed 70% of the revised collateral;

(ii) Review based on recent reviews, geographically close, certified by internal expert;

(iii) Review of the property value by external valuators, depending on the value of the credit operation, and in accordance with established standards.

For all non-residential real estate, the Bank also monitors its values through market indexes and revaluates properties through regular reviews in accordance with the CRR, in the case of offices, warehouses and industrial premises. For all real estate (residential or non-residential) for which the monitoring results in significant devaluation of the real estate value (more than 10%), a valuation review is subsequently carried out by an expert valuer.

For the remaining real estate (land, commercial real estate or countryside buildings, for example) there are no market indexes available for the monitoring of appraisal values, after the initial valuations. Therefore, for these cases and in accordance with the minimum periodicity established by the regulation for the monitoring and reviewing of the value of this type of real estate, valuation reviews are carried out by expert valuers.

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

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

7.4. WRONG WAY RISK

The Wrong Way risk corresponds to the risk of a given exposure being adversely correlated with the counterparty's credit risk. Within credit granting this risk stems from the correlation between the collateral value and the creditworthiness of the borrower, i.e., when the deterioration of the credit risk of the last leads to a devaluation of the collateral.

Similarly, in the case of derivative and repo transactions, this translates to the risk associated with the fact that the exposure at risk is adversely impacted by the credit quality of the counterparty.

Overall, the Bank considers this risk as immaterial, taking into account the composition of financial collateral. In terms of credit granted, the borrower's own securities (shares or bonds) represents a very small percentage of the total amount of credit, corresponding mainly to structured finance, including Project Finance, where the usual pledge of shares from the companies or vehicles is part of a comprehensive guarantees' package. Indeed, almost all of the credits that have a securities' pledge have additional collateral to secure the exposure.

In the case of derivative and repos operations, in which the Bank mitigates counterparty credit risk through ISDA contracts with CSA, the coverage of market receivables is exclusively made through deposits at the Group itself; hence, wrong-way risk does not apply. In terms of credit default derivatives (CDS or TRS) or other guarantees provided by counterparties, the Bank is also not subject to material wrong way risk, as the risk covered is not positively correlated with the protection provider.

It should be noted that this risk was not considered as material within the scope of the ICAAP exercise carried out in 2016.

Table 25 summarises the impact, as at 31 December 2016, 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.

(Thousand euros)

TABLE 25 – CREDIT RISK MITIGATION TECHNIQUES – STANDARDISED APPROACH

		Credit risk mitigation techniques with substitution effects on the original net exposure					Credit risk mitigation techniques with effect on the net exposure amount: funded credit protection[a]	
	Net exposure	Personal credit protection: fully adjusted value of the protection (GA)		Funded credit protection		Substitution effect on the exposure (net of outflows and inflows)	Volatility adjustment to the exposure amount	Financial collateral: amounts adjusted by volatility and any discrepancy between expiration periods (Cvam) (-)
		Guarantees	Credit derivatives	Simple method: financial collaterals	Other forms of funded credit protection			
TOTAL EXPOSURES	27,263,267	-818,812				150,766		-465,721
Central governments or central banks	10,347,555	-3,928				682,373		
Regional governments or local authorities	762,696	-259,607				-138,808		
Public Sector Entities	760,349	-10,955				-10,955		-2,732
Multilateral development banks	17,968							
International organisations								
Institutions	2,912,306	-1,676				158,948		-57,878
Corporates	6,976,870	-540,719				-540,719		-355,195
Retail portfolio	2,107,785	-72				-72		-44,129
Positions guaranteed by real estate	826,842							-4,530
Past due items	600,491	-1,854						-1,257
High-risk regulatory categories items	1,113,483							
Covered bonds	51,527							
Institutions and companies with short-term credit assessment								
Exposures on collective investment undertakings (CIUs)	753,298							
Shares	32,096							
Other items								

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

Tables 26-A and 26-B summarise the impact, with reference to 31 December 2016, 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.

(Thousand euros)

TABLE 26-A – CREDIT RISK MITIGATION TECHNIQUES -TOTAL EXPOSURES – IRB APPROACH

	Original exposures	Credit risk mitigation techniques with substitution effects on the original 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
		Garantias	Credit derivatives			Guarantees	Credit derivatives	Using own estimations of LGD: other	Eligible financial collateral	Other eligible collateral [a]	
TOTAL EXPOSURES	48,468,480	-1,461,049			-150,766				869,845	25,524,634	
Claims or contingent claims on corporates	17,832,770	-213,564			-122,034				502,819	2,929,121	
Retail claims or contingent retail claims	30,635,711	-1,247,485			-28,732				367,026	22,595,513	

[a] Other eligible collateral include real-estate, other tangible guarantees and amounts due for collection.

(Thousand euros)

TABLE 26-B – CREDIT RISK MITIGATION TECHNIQUES – EQUITY POSITIONS – IRB APPROACH

	Original exposuresl	Credit risk mitigation techniques with substitution effects on the original net exposure		
		Personal credit protection		Substitution effect on the exposure (net of outflows and inflows)
		Garantees	Credit dirivatives	
PD/LGD based approach (total)				
Simple weight based approach (total)	266,935			
Internal ratings based approach (total)				

Credit risk mitigation techniques (personal and real credit protection), with reference to 31 December 2016 and 2015, are analysed in Table 27, considering the main sectors of activity applicable.

(Thousand euros)

TABLE 27 – CONCENTRATION ANALYSIS: PERSONAL AND FUNDED CREDIT PROTECTION

	31 December 2016							
	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	2,237,021			1,220,758	25,899,601			
Mortgage loans	963,741			30,662	22,439,999			
Services	115,125			248,855	1,227,201			
Consumer credit	60,531			236,922	88,576			
Construction	51,022			46,568	792,542			
Other domestic activities	398,992			513,083	188,868			
Other foreign activities				31	40			
Wholesale business	58,150			35,852	117,922			
Other	589,461			108,786	1,044,453			

(Thousand euros)

	31 December 2015							
	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	2,282,282			1,486,911	27,844,841			
Mortgage loans	1,023,935			27,823	23,534,424			
Services	105,143			255,290	1,327,479			
Consumer credit	60,479			257,262	96,843			
Construction	55,551			22,417	1,046,140			
Other domestic activities	408,252			710,957	539,180			
Other foreign activities	47			47	103			
Wholesale business	48,932			49,934	128,085			
Other	579,943			163,181	1,172,587			

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, or 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, which include 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 appreciation potential;
- Making entities with the capacity to recover viable, including namely shares received as payment or by converting credits into capital.

The equity exposures 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 and 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 income statement. The treatment associated with the recognition and reversion of these assets' impairment losses is described in chapter "5.1. Definitions and policies for assessment of losses and provisioning". Dividends are recognised under earnings when the rights to receiving them are attributed.

The equity exposures in the banking book are analysed in Table 28, as follows:

(Thousand euros)

TABLE 28 – EQUITY EXPOSURES IN THE BANKING BOOK

	Listed shares		Unlisted shares – Private equity		Unlisted shares – Other capital instruments(*)		Total	
	31 Dec.16	31 Dec.15	**31 Dec.16**	31 Dec.15	**31 Dec.16**	31 Dec.15	**31 Dec.16**	31 Dec.15
Acquisition cost/Notional amount	**44,445**	55,676	**84,392**	167,773		24,076	**128,837**	247,525
Fair value	**18,442**	24,582	**34,844**	136,418		32,179	**53,286**	193,179
Market price	**18,442**	24,582						
Balance sheet value	**18,442**	24,582	**34,844**	136,418		32,179	**53,286**	193,179
Gains or losses arising from sales and settlements in the period							**97,440**	5,790(1)
Total unrealised gains or losses							**11,027**	47,697(2)
Total latent revaluation gains or losses							**-75,551**	-54,346 (3)

Note: Equity issued by the Bank as well as derivatives indexed to those instruments are not included.
(*) Venture capital funds, similar to equity according to Banco de Portugal.
(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 and, therefore, it does not 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 risk weight method to compute own funds requirements for the equity in the banking book held by Group entities headquartered in Portugal, with effects as from 31 December 2011, having extended the use of this method to exposures held by Bank Millennium entities in Poland, with effects as from 31 December 2012. Own funds requirements for other operations and countries are still determined using the standardised approach.

The simple risk weight method applies 290% and 370% weights to exposures to listed and unlisted stocks, respectively, and may apply a lower 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 these risk weights until 31 December 2017, and are subject to a single 100% weight during this period of time, identical to the standardised approach.

The own funds requirements for equity exposures in the banking book are presented in Table 29.

(Thousand euros)

TABLE 29 – OWN FUNDS REQUIREMENTS FOR EQUITY EXPOSURES

	Risk weights	Risk positions		Own Funds requirements	
		31 Dec. 16	31 Dec. 15	**31 Dec. 16**	31 Dec. 15
STANDARDISED APPROACH	100%	**9,850**	32,190	**788**	2,575
IRB APPROACH [(1)]		**43,435**	160,989	**11,677**	46,092
Listed shares	290%	**18,442**	24,380	**4,279**	5,656
Unlisted shares	370%	**24,993**	136,609	**7,398**	40,436
TOTAL		**53,286**	193,179	**12,465**	48,668

[(1)] Based on the simple risk 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.

Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.1.1.15 and 2.1.2.3 of Table 7 – Own Funds requirements.

9. SECURITISATION OPERATIONS

9.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2016, the Group had six ongoing credit securitisation operations originated by the operation in Portugal. Four operations are traditional securitisation operations and the other two are synthetic securitisation operations.

Since 1998, the Group has regularly carried out securitisation operations supported on portfolios of different types of assets and pursuing different goals, based on market conditions and opportunities and on the Group's interests and needs at each moment.

It should be noted 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 the financing of the Group's business and, under certain circumstances, to promote a more efficient management of the Bank's balance sheet, particularly its equity. The type of investors that participated in these operations has revealed to be diverse and supplementary for the base of investors resulting from the Bank's direct funding operations in the money markets.

After 2007, market conditions to place this kind of transactions deteriorated significantly or even ceased to exist. Consequently, 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 used the senior tranche of each operation carried out as an eligible asset for refinancing operations with the Eurosystem. The securitisations carried out in this context have been liquidated as the Bank's liquidity position was improving. In December 2016, the Bank held in its portfolio only portions of little relevance of market transactions, which were placed on the market and were still underway.

Taking advantage of the market conditions and in particular the appetite for risk originated in Portugal, the Bank carried out, in 2013 and 2014, two synthetic securitisations, which embodied the hedge of a significant portion of its short, medium and long-term corporate loan portfolio (Caravela SME No. 3) and of its leasing portfolio (Caravela SME No. 4). These transactions were aimed at reducing the risk weighted assets associated with those portfolios, which was achieved through an effective transfer of risk to specialised institutional investors.

As an investor, the Group does not hold any significant position in credit securitisation operations. Therefore, neither any monitoring process on the change of risk on these exposures was implemented, nor exists any policy in the Group concerning coverage use and personal protection aimed at reducing the risk on these exposures, under the terms of article 449, Title II, Part VIII of the CRR.

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

The main features of the securitisation operations of assets originated by the Group, namely in terms of its goal, form and level of involvement, the existence or not of a significant risk transfer in each transaction and of the securitised values and in debt, for active operations as at 31 December 2016, are summarised in Table 30.

TABLE 30 – 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
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	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 (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	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 [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	30 June 2005
Legal maturity	15 May 2058
Step-up clause (date)	15 August 2012
Revolving (years)	N.A
Securitised assets (in million 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 million of euros)	1,500.0
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

	CARAVELA SME No.4
Identification of the securitisation operation	Caravela SME No. 4
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	5 June 2014
Legal maturity	25 September 2043
Step-up clause (date)	N.A.
Revolving (years)	5 years
Securitised assets (in millions of euros)	1,000.0
Significant credit risk transfer[(1)]	Yes

[(1)] For regulatory purposes.

[(2)] The Class A Notes of this operation, in December 31 2016, 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 2016 and 2015 are summarised in Table 31.

TABLE 31 – MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS

	Traditional							
	Magellan 1		Magellan 2		Magellan 3		Magellan 4	
	31 Dec. 16	31 Dec. 15	**31 Dec. 16**	31 Dec. 15	**31 Dec. 16**	31 Dec. 15	**31 Dec. 16**	31 Dec. 15
INFORMATION ON THE TRANSACTIONS								
Amounts in debt (in millions of euros)	**129**	141	**158**	169	**432**	451	**474**	497
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.
Assets assigned (per institution)/ Securitised assets (total) (%)	**3%**	3%	**4%**	4%	**10%**	10%	**11%**	11%
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			
	Caravela SME 3		Caravela SME 4	
	31 Dec.16	31 Dec.15	**31 Dec.16**	31 Dec.15
INFORMATION ON THE TRANSACTIONS				
Amounts in debt (in millions of euros)	**2,295**	2,260	**963**	988
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION				
Implicit support situations	**N.A.**	N.A.	**N.A.**	N.A.
Assets assigned (per institution)/ Securitised assets (total) (%)	**52%**	50%	**22%**	22%
Initial gains/Value of first loss positions held	**N.A.**	N.A.	**N.A.**	N.A.

N.A.– Not Applicable
* During 2010, the bank repurchased 82.4% of Magellan No. 3 residual note. This transaction 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 Special Purpose Entities (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 operation of 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.

In order to determine if an SPE is controlled, it is assessed 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 SPE resulting from the securitisation operations Magellan no. 2 and 3. On the other hand, the Group did not consolidate into its accounts the SPEs that also resulted from the securitisation operations Magellan no. 1 and 4.

Regarding these SPE, not recognised in the balance sheet, it was verified 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.

Banco Comercial Português, S.A. completed in June 2014, the execution of a new synthetic securitisation transaction ("Caravela SME No. 4") concerning a pool of leasing contracts to companies and sole-partnerships, amounting to 1,000 million euros.

Regarding the SPE included in the consolidation perimeter, if it is 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, their registry in the off-balance sheet will be maintained.

At the moment of 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 sale value 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 sells part or all the securities held, it will register a gain or loss that: (i) if the need to consolidate the SPE remains, it will be associated with the sale of the securities issued, being incorporated in liabilities as a premium or discount and accrued according to the effective rate until maturity or, (ii) if the SPE is not consolidated with due grounds, will result from the sale of the assets, which will be derecognised, and the sale will be recognised in the consolidated income statements.

9.3. OWN FUNDS REQUIREMENTS

On 31 December 2016, the Group held securitisation positions both 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 the CRR, articles 243 and 244, Section 2, Chapter 5, Title II, Part III and, therefore, the own funds requirements were determined as if these securitisations had not occurred.

The computation of own funds requirements of the securitisation operations by the end of 2016 was made according to Section 3, Chapter 5, Title II, Part III of the CRR.

For the securitisation positions held as an investor, with an external rating attributed by an ECAI, a ratings based method was used, in accordance to article 261, Sub-Section 4, Section 3, Chapter 5, Title II, Part III of the CRR and using the mapping between external ratings and credit quality grades from Annex III of Banco de Portugal Instruction no. 10/2007. The exposures without external rating were subject to a 1,250% weight.

The ECAI used in 2016 to compute the own funds requirements for securitisation operations were Standard & Poor's, Moody's and Fitch Ratings.

For the securitisation positions held as an originator, the supervisory formula method was used, in accordance to article 262, Sub-Section 4, Section 3, Chapter 5, Title II, Part III of the CRR.

The own funds requirements for securitisation operations computed according to the IRB approach, at the end of 2016 and 2015, are shown in Tables 32-A and 32-B.

(Thousand euros)

TABLE 32-A – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS: IRB APPROACH (TRADITIONAL)

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%							
			Amounts deducted from own funds (-)	Internal ratings approach		1250%		Regulatory formula approach	Internal evaluation approach	Own Funds requirements	
				12% - 18%	100%	Position subject to notation	Position not subject to notation	Average risk weight (%)	Average risk weight (%)	**31 Dec.16**	31 Dec.15
TOTAL EXPOSURES (=A+B+C)		6,140			6,040		101			**1,381**	1,463
A – LENDER ENTITY: TOTAL EXPOSURES											
A.1 – Balance sheet items											
Most senior											
Mezzanine											
First loss											
A.2 – Off-balance sheet items and derivatives											
A.3 – Early amortisation											
B – INVESTOR: TOTAL EXPOSURES		6,140			6,040		101			**1,381**	1,463
B.1 – Balance sheet items		6,140			6,040		101			**1,381**	1,463
Most senior		6,040			6,040					**1,280**	1,463
Mezzanine											
First loss		101					101			**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 emphasised in the scope of item 2.1.2.4 of Table 7 – Own Funds requirements.

(Thousand euros)

TABLE 32-B – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS: IRB APPROACH (SYNTHETIC)

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%								Own Funds requirements	
			Amounts deducted from own funds (-)	Internal ratings approach		1250%		Regulatory formula approach		Internal evaluation approach		
				20% - 35%	100%	Position subject to notation	Position not subject to notation		Average risk weight (%)	Average risk weight (%)	31 Dec.16	31 Dec.15
TOTAL EXPOSURES (=A+B+C)	3,618,496	3,328,560						388,916	12%		**31,113**	30,435
A – LENDER ENTITY: TOTAL EXPOSURES	3,618,496	3,328,560						388,916	12%		**31,113**	30,435
A.1 – Balance sheet items	3,328,560	3,038,623						330,929	11%		**26,474**	25,509
Most senior	3,029,112	3,029,112						212,038	7%		**16,963**	16,963
Mezzanine	287,559											
First loss	11,889	9,511						118,891	1250%		**9,511**	8,545
A.2 – Off-balance sheet items and derivatives	289,936	289,936						57,987	20%		**4,639**	4,927
A.3 – Early amortisation												
B – INVESTOR: TOTAL EXPOSURES												
B.1 – Balance sheet items												
Most senior												
Mezzanine												
First loss												
B.2 – Off-balance sheet items and derivatives												
C – SPONSOR: TOTAL EXPOSURES												
C.1 – Balance sheet items												
C.2 – Off-balance sheet items and derivatives												

Note: Own funds requirements shown in this table are emphasised in the scope of item 2.1.2.4 of Table 7 - Own Funds requirements.

On 31 December 2016 and 2015 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.

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. These positions are 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 market 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 2016 and 2015, 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. Regarding specific risk, the standardised approach was used for all eligible positions.

Table 33 shows own funds requirements associated with the Group's trading book as at 31 December 2016 and 2015, by type of risk.

(Thousand euros)

TABLE 33 – OWN FUNDS REQUIREMENTS FOR THE TRADING BOOK

	31 Dec.16	31 Dec.15
TOTAL TRADING BOOK RISKS	**79,753**	125,460
1. EXPOSURE RISK	**53,307**	82,509
1.1. Standardised approach for the trading book	**2,177**	4,659
1.1.1. Debt instruments	**2,080**	4,532
1.1.1.1. Specific risk	**1,284**	2,288
1.1.1.2. General risk	**796**	2,216
1.1.1.3. Nonlinear risk		29
1.1.2. Equity securities	**97**	127
1.1.2.1. Specific risk	**90**	96
1.1.2.2. General risk	**7**	31
1.1.1.3. Nonlinear 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	**51,130**	77,850
2. COUNTERPARTY CREDIT RISK	**26,446**	42,951
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	**26,446**	42,951
2.3. Contractual cross-product netting		
3. SETTLEMENT RISK		

Note: Own funds requirements shown in this table are emphasised in the scope of items 2.2., 2.3.1.1 e 2.3.1.2, and 2.3.2 of Table 7 – Own Funds requirements.

10.1. CALCULATION METHODOLOGIES

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

- Debt instruments: in this portfolio, own funds requirements for generic market risk were calculated in accordance with the duration-based approach, as defined by article 340, Section 2, Chapter 2, Title IV, Part III of the CRR. These positions have been treated in accordance to the provisions of Section 1 of the same chapter.
- Capital instruments: for this portfolio, own funds requirements for generic market risk were calculated in accordance with the methodology described in Section 3, Chapter 2, Title IV, Part III of the CRR.

In addition, for the application purposes of the internal models approach, the Group applies a VaR methodology to measure generic market risk – including interest rate risk, foreign exchange risk and equity risk – for all sub-portfolios covered by the previously mentioned authorisation for internal modelling.

Table 34 presents the main generic risk VaR statistics, computed according to the internal models approved by Banco de Portugal, exclusively for the group of entities centrally managed from Portugal, in 2016 and 2015:

(Thousand euros)

TABLE 34 – HISTORICAL RECORD OF GENERIC RISK IN THE TRADING BOOK (PORTUGAL)

	2016	2015
Maximum	**6,393**	10,009
Average	**1,975**	4,060
Minimum	**866**	856
Amount 31/12	**3,943**	1,555

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 all the positions of the Group's trading book, pursuant to Sub-Section 1, Section 2, Chapter 2, Title IV, Part III and article 342 of Section 3, Chapter 2, Title IV, Part III of the CRR, according to the type of financial instruments at stake (debt instruments or capital instruments, respectively).

10.2. STRESS TESTS ON THE TRADING BOOK

Besides calculating the VaR, and aiming at identifying 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 35 summarises the results of these tests on the Group's global trading book on 31 December 2016, indicating that the exposure to the various risk factors is limited and that the main risk to take into account, under the standard scenarios tested, is an increase in interest rates, especially when accompanied by an increase in the slope of the yield curve.

(Thousand euros)

TABLE 35 - STRESS TESTS OVER THE TRADING BOOK

Standard tested scenarios with reference to 31 December 2016	Negative results scenarios	Result
Parallel shift of the yield curve by +/- 100 b.p.	-100 b.p.	-15.7
Change in the scope of the yield curve (for maturities from 2 to 10 years) by +/- 25 b.p.	-25 b.p.	-3.3
4 possible combinations of the previous 2 scenarios	-100 b.p. and + 25 b.p.	-12.2
	-100 b.p. and - 25 b.p.	-19.3
Variation in the main stock market indices by +/- 30%	+30%	-0.2
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	-10%, -25%	-1.7
Variation in the swap spreads by +/- 20 b.p.	-20 b.p.	-0.3

(Thousand euros)

Non-standard tested scenarios with reference to 31 December 2016	Negative results scenarios	Result
Widening/Narrowing of the Bid-Ask Spread	Narrowing	-3.7
Customised scenario [1]		-5.5
Historical scenarios [2]	07/04/2011	1.5
	22/09/2011	-4.9

[1] The main historical risk factors (within a 3 year horizon) are applied as a simulation over the current portfolio, so that the potential impacts of those factors are measured.
[2] In these scenarios, past crises market changes are applied over the current portfolio; in the cases at stake, there was great volatility of the portuguese public debt yields.

10.3. BACKTESTING THE INTERNAL MODELS APPROACH

The Group carries out backtests of the internal models approach results, in relation to the theoretical results obtained by the target portfolio of the calculation, unchanged between two consecutive working days and revaluated at market prices of the second day. In parallel, the Group has a complementary process to verify the results of the model in relation to the actual results obtained, excluding the effects of operations carried out via intermediation (at prices different from 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 was assured, in 2016, by the Models Audit and Validation 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 global process involving the management, evaluation, settlement and accounting of operations.

In what concerns the ex-post verification of the model's results, the number of excesses registered between 2014 and 2016, relative to the global trading book of companies centrally managed from Portugal, for which Banco de Portugal has approved the use of the internal models approach to compute generic risk capital requirements, is shown in Table 36.

TABLE 36 – BACKTESTING OF THE VaR APPROACH APPLIED IN MARKET RISK CALCULATION

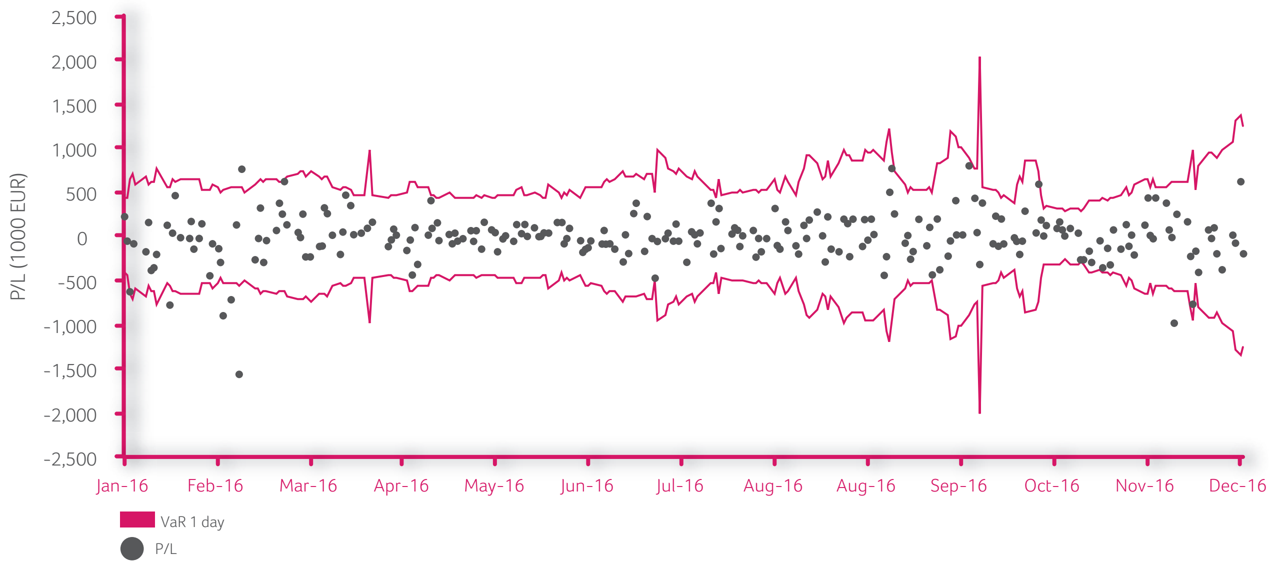
Year	Result
2014	1
2015	5(*)
2016	5(*)

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).
(*) Negative excesses.

The adequacy of the model used to estimate generic risk is monitored on a daily basis by the backtesting 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.

The following chart shows this hypothetical backtesting, for the trading book centrally managed from Portugal, in 2016.

GRAPH 1 – VaR BACK TESTING (TRADING BOOK)



As illustrated by Graph 1, there were six excesses in 2016 (one positive and five negative) over the hypothetical results of the model, representing a frequency of 2.3% in 257 daily observations. Although this result is slightly above the maximum theoretical value of the expected bilateral excesses, the model is still adequate, even because the excesses at stake resulted from highly atypical markets behaviour, with extreme volatility concentrated in a short timeframe: four of the six excesses registered in 2016 occurred between 5th and 11th of February.

In addition, Table 37 presents the detailed results of the daily backtesting of the trading book centrally managed from Portugal in 2016. An excess occurs when the return registered for the portfolio is higher (in absolute value) than the theoretical result of the VaR model.

(Thousand euros)

TABLE 37 – HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2016

Date	VaR	Hypothetical result
04/01/2016	421	233
05/01/2016	434	-55
06/01/2016	645	-629
07/01/2016	716	-84
08/01/2016	593	-71
11/01/2016	685	-172
12/01/2016	571	156
13/01/2016	614	-369
14/01/2016	611	-354
15/01/2016	773	-190
18/01/2016	543	137
19/01/2016	547	-781 (1)
20/01/2016	633	44
21/01/2016	627	474
22/01/2016	637	-24
25/01/2016	651	-7
26/01/2016	639	168
27/01/2016	651	-131
28/01/2016	650	-24
29/01/2016	519	119
01/02/2016	538	-447
02/02/2016	583	-75
03/02/2016	545	-146
04/02/2016	485	-284
05/02/2016	530	-891 (2)
08/02/2016	541	-711 (3)
09/02/2016	544	123
10/02/2016	554	-1,547 (4)
11/02/2016	541	763
12/02/2016	499	441
15/02/2016	592	-264
16/02/2016	605	-13
17/02/2016	645	308
18/02/2016	630	-282
19/02/2016	632	-49
22/02/2016	652	72
23/02/2016	629	381
24/02/2016	626	242
25/02/2016	636	628
26/02/2016	685	146
29/02/2016	708	55
01/03/2016	724	-14
02/03/2016	726	262
03/03/2016	684	-219
04/03/2016	752	-232
07/03/2016	662	-98
08/03/2016	661	-102
09/03/2016	664	314
10/03/2016	686	256
11/03/2016	552	5
14/03/2016	517	-205
15/03/2016	548	40
16/03/2016	553	462
17/03/2016	520	351
18/03/2016	472	-3
21/03/2016	460	54
22/03/2016	466	41
23/03/2016	988	138
24/03/2016	459	168
29/03/2016	447	-98
30/03/2016	454	-3
31/03/2016	477	64
01/04/2016	475	19
04/04/2016	489	-154
05/04/2016	611	-55
06/04/2016	622	-450
07/04/2016	601	94
08/04/2016	566	-326
11/04/2016	548	20
12/04/2016	457	418
13/04/2016	472	104
14/04/2016	446	146
15/04/2016	444	-43
18/04/2016	500	23
19/04/2016	471	-71
20/04/2016	446	39
21/04/2016	431	-40
22/04/2016	426	-31
25/04/2016	430	87
26/04/2016	438	-35
27/04/2016	457	70
28/04/2016	445	-132
29/04/2016	450	157
02/05/2016	449	66
03/05/2016	437	35
04/05/2016	459	-169
05/05/2016	472	-20
06/05/2016	477	19
09/05/2016	464	-52
10/05/2016	524	134
11/05/2016	545	47
12/05/2016	478	122
13/05/2016	475	17
16/05/2016	484	114
17/05/2016	463	-1
18/05/2016	448	-1
19/05/2016	434	37
20/05/2016	593	56
23/05/2016	509	177
24/05/2016	424	163
25/05/2016	504	-92
26/05/2016	469	-21
27/05/2016	513	95
30/05/2016	444	-59
31/05/2016	493	-168
01/06/2016	557	-154
02/06/2016	566	-104
03/06/2016	543	-59
06/06/2016	547	-91
07/06/2016	630	78
08/06/2016	660	-77
09/06/2016	626	-78
10/06/2016	635	-138
13/06/2016	740	-275
14/06/2016	686	9
15/06/2016	682	-197
16/06/2016	686	260
17/06/2016	694	374
20/06/2016	660	-159
21/06/2016	704	209
22/06/2016	705	-17
23/06/2016	496	-482
24/06/2016	966	-60
27/06/2016	884	-4
28/06/2016	772	33
29/06/2016	736	-36
30/06/2016	692	141
01/07/2016	760	-51
04/07/2016	685	-299
05/07/2016	643	32
06/07/2016	738	2
07/07/2016	675	-65
08/07/2016	647	39
11/07/2016	538	371
12/07/2016	523	-202

(Continues)

(Continuation) (Thousand euros)

Date	VaR	Hypothetical result	Date	VaR	Hypothetical result	Date	VaR	Hypothetical result
13/07/2016	420	159	14/09/2016	565	-267	16/11/2016	418	-150
14/07/2016	646	300	15/09/2016	535	-172	17/11/2016	447	-307
15/07/2016	480	-128	16/09/2016	524	207	18/11/2016	423	75
18/07/2016	502	42	19/09/2016	522	-96	21/11/2016	454	-137
19/07/2016	488	105	20/09/2016	542	115	22/11/2016	564	146
20/07/2016	503	80	21/09/2016	505	-453	23/11/2016	476	-121
21/07/2016	513	-102	22/09/2016	818	187	24/11/2016	487	10
22/07/2016	503	10	23/09/2016	825	-372	25/11/2016	583	-187
25/07/2016	525	74	26/09/2016	892	-233	28/11/2016	658	140
26/07/2016	517	-214	27/09/2016	1,176	-45	29/11/2016	659	439
27/07/2016	507	-22	28/09/2016	1,141	410	30/11/2016	541	20
28/07/2016	534	-157	29/09/2016	1,011	6	01/12/2016	661	-24
29/07/2016	532	-31	30/09/2016	1,017	17	02/12/2016	554	428
01/08/2016	645	326	03/10/2016	887	800	05/12/2016	556	389
02/08/2016	518	-112	04/10/2016	780	442	06/12/2016	579	76
03/08/2016	482	-148	05/10/2016	756	44	07/12/2016	603	-27
04/08/2016	666	177	06/10/2016	2,022	-319	08/12/2016	612	-977 [5]
05/08/2016	610	76	07/10/2016	557	381	09/12/2016	625	244
08/08/2016	457	-101	10/10/2016	528	-71	12/12/2016	614	165
09/08/2016	607	-200	11/10/2016	528	210	13/12/2016	808	-220
10/08/2016	769	128	12/10/2016	501	-111	14/12/2016	964	-758
11/08/2016	907	-17	13/10/2016	421	201	15/12/2016	519	-161
12/08/2016	913	195	14/10/2016	466	-87	16/12/2016	801	-417
15/08/2016	837	286	17/10/2016	367	-20	19/12/2016	936	82
16/08/2016	659	23	18/10/2016	582	-39	20/12/2016	936	-11
17/08/2016	690	-279	19/10/2016	691	-210	21/12/2016	933	100
18/08/2016	844	228	20/10/2016	623	-62	22/12/2016	874	-208
19/08/2016	683	-145	21/10/2016	854	289	23/12/2016	986	-387
22/08/2016	815	-175	24/10/2016	847	38	27/12/2016	1,060	10
23/08/2016	990	208	25/10/2016	736	582	28/12/2016	1,299	-88
24/08/2016	913	177	26/10/2016	479	206	29/12/2016	1,358	602
25/08/2016	904	-221	27/10/2016	311	5	30/12/2016	1,247	-193
26/08/2016	862	181	28/10/2016	333	126			
29/08/2016	857	-96	31/10/2016	328	112			
30/08/2016	964	196	01/11/2016	310	158			
31/08/2016	953	-49	02/11/2016	302	81			
01/09/2016	953	203	03/11/2016	274	2			
02/09/2016	966	4	04/11/2016	313	93			
05/09/2016	845	-442	07/11/2016	314	47			
06/09/2016	1,084	-240	08/11/2016	289	-268			
07/09/2016	1,207	506	09/11/2016	322	-248			
08/09/2016	941	753	10/11/2016	397	-157			
09/09/2016	727	251	11/11/2016	410	-299			
12/09/2016	587	-65	14/11/2016	395	-51			
13/09/2016	493	22	15/11/2016	424	-336			

[1] Increase of up to 18 b.p. in the interest rate of Portugese bonds of 5-years-term and decrease of 7 b.p. in the interest rates of 9/10-years-term German bonds.
[2] Increase between 14 and 26 b.p. in the interest rate of Portuguese bonds and decrease of 8 b.p. in the interest rates of 9/10-years-term German bonds.
[3] Increase between 13 and 30 b.p. in the interest rate of Portuguese bonds and devaluation of the USD (1.2%) and of the AUD (2.2%).
[4] Increase between 28 and 53 b.p. in the interest rate of Portuguese bonds and decrease of 5 b.p. in the interest rates of 9/10-years-term German bonds.
[5] Appreciation of the USD in 1.9%.
Note: VaR for 10 days with 99% unilateral confidence level; hypothetical result obtained by an ex-post validation procedure over the VaR model (daily result scaled for 10 days divided by the square root of time).

11. OWN FUNDS REQUIREMENTS FOR FOREIGN EXCHANGE AND COMMODITIES RISKS

As at 31 December 2016 and 2015, own funds requirements for exchange rate risks were determined by using the internal models approach, authorised by Banco de Portugal for the exposures managed centrally from Portugal, simultaneously and in the same conditions as for the generic market risk of the trading book, previously mentioned. Own funds requirements for all other exposures have been calculated in accordance with the standardised approach.

Own funds requirements for commodities risk, in the Group's banking and trading books, were calculated in accordance with the standardised approach for this risk type, at the end of 2016 and of 2015.

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 assessed in accordance with the provisions of Chapter 3, Title 4, Part III of the CRR.

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, in accordance with the provisions of Chapter 4, Title 4, Part III of the CRR.

Own funds requirements for exchange rate risks and commodities risks calculated by the Group, with reference to 31 December 2016 and 2015, are shown in Table 38.

(Thousand euros)

TABLE 38 – OWN FUNDS REQUIREMENTS FOR EXCHANGE RATE AND COMMODITIES RISKS

	31 Dec.16	31 Dec.15
1. EXCHANGE RATE RISK	**445**	8,173
1.1. Standardised approach	**445**	8,173
1.2. Internal models approach		
2. COMMODITIES RISK	**288**	233
2.1. Standardised approach	**288**	233
2.1.1. Maturity ladder approach or simplified approach	**288**	233
2.1.2. Futures and commodity options traded on the stock-exchange		
2.1.3. Futures and commodity options traded in OTC markets		
2.1.4. Other		
2.2. Internal models approach		

Note: The own funds requirements shown in this table correspond to those in items 2.3.1.3, 2.3.1.4 and in item 2.3.2 of Table 7 - Own Funds requirements.

12. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

As at 31 December 2016 and 2015, the Group calculated the own funds requirements for operational risk in accordance with the standard approach, pursuant to the authorisation granted by Banco de Portugal, as previously mentioned.

The computation of the 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 the gross income breaks down, according to the regulatory definitions.

The framework for this calculation is provided by Title III of the CRR, in addition to additional clarifications received from 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 the 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, is recorded in the reversions of impairment losses item, is also added to the gross income.

Yet, neither the compensations received as a result of insurance contracts nor the revenues from the insurance activity are added to the value of the gross income. Finally, the 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

The 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 the article no. 317 of CRR, 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 private Customers 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 activity segments is negative, the value to consider in the numerator will be zero.

The gross income by activity segments, 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 homogeneous criteria and common to all geographies.

The gross income by activity segments for Portugal and Poland 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 the subsidiary in Poland, the entire calculation process was conducted locally, taking into consideration that it is an operation with a diversified activity, which requires 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 gross income segmentation of the activity in Portugal and Poland was based 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, 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 its 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. On 31 December 2016, this calculation was carried out for the operations of Switzerland, 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 2016, the Group reported 261 million euros of own funds requirements for operational risk, having reported 259 million euros as at 31 December 2015, computed based on the information presented in Table 39. It should be noted that, for purposes of determining capital requirements for 2016 and 2015, the amounts of 2013-2014 exclude the contributions of the operation in Romania, due to its sale in 2014.

(Thousand euros)

TABLE 39 – GROSS INCOME FOR OPERATIONAL RISK

Segments	Gross Income 2016			Memorandum items: Advanced measurement method – reduction of own funds requirements (2016)	
	2014	2015	**2016**	Expected losses captured in business practices	Risk transfer mechanisms
1. BASIC INDICATOR APPROACH					
2. STANDARD APPROACH	1,803,587	2,012,239	**2,067,059**		
- Corporate finance	21,396	25,732	**26,571**		
- Trading and sales	-158,204	59,008	**110,694**		
- Retail brokerage	23,485	15,605	**22,259**		
- Commercial banking	659,978	595,195	**528,726**		
- Retail banking	1,115,567	1,171,260	**1,242,620**		
- Payment and settlement	85,994	82,552	**81,657**		
- Agency services	32,850	37,370	**28,827**		
- Asset management	22,521	25,517	**25,705**		
ADVANCED MEASUREMENT APPROACH[a]					

(Thousand euros)

Segments	Gross Income 2015			Memorandum items: Advanced measurement method – reduction of own funds requirements (2015)	
	2013	2014	2015	Expected losses captured in business practices	Risk transfer mechanisms
1. BASIC INDICATOR APPROACH					
2. STANDARD APPROACH	1,754,697	1,954,589	2,217,743		
- Corporate finance	19,977	21,396	25,732		
- Trading and sales	-381,172	-129,281	116,801		
- Retail brokerage	21,691	23,485	15,605		
- Commercial banking	902,527	659,978	595,195		
- Retail banking	1,034,429	1,224,564	1,309,684		
- Payment and settlement	111,570	99,077	91,839		
- Agency services	29,562	32,850	37,370		
- Asset management	16,114	22,521	25,517		
ADVANCED MEASUREMENT APPROACH[a]					

[a] Information on the gross income for activities subject to the advanced measurement approach.

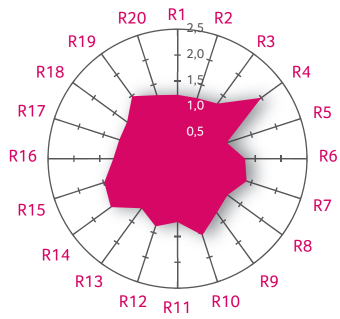
12.3. OPERATIONAL RISK MANAGEMENT

Operational risk management is based on an end-to-end process structure, defined for all the Group's subsidiaries, and the responsibility for their management was given to process owners, who must: characterise 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).

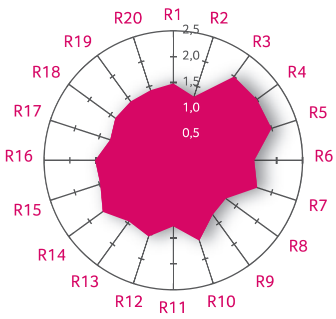
The following graphs show the results of the latest RSA made in Portugal, Poland and Mozambique in terms of the average score of each of the 20 risk sub-types defined for operational risk within the set of processes assessed. The outside border represents a 2.5 score on a scale of 1 (less serious) to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

GRAPH 2- RISK SELF-ASSESSMENT RESULTS

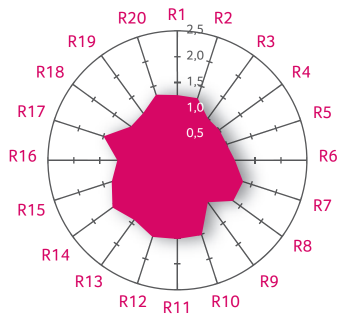
PORTUGAL



POLAND



MOZAMBIQUE



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

The operational losses identified are registered in the Group's operational risk application and connected with the respective process, being assessed and characterised in accordance to their nature. When applicable, a mitigation action is associated with each loss event.

The following graphs feature the profile of accumulated operational losses until 31 December 2016.

A set of KRI is used by the Group's various operations to monitor the processes risks. These KRI are management instruments represented by metrics that aim at the identification of changes in risk profiles and in controls effectiveness, so as to act preventively and avoid turning potential risk situations into actual losses. Within the processes management, a set of performance and control indicators is also used (Key Performance Indicators and Key Control Indicators) contributing to the detection of risks, even though it is more oriented towards the assessment of operating efficiency.

Scenario Analysis is an exercise in which all of the macro process owners participate, as well as the top managers of selected Divisions, aiming at the impact assessment of extreme and relevant events – potential risks of high severity (low frequency/high impact) – even if this type of events has never occurred at the Bank. The results of this exercise were integrated in the statistical model that was developed for the ICAAP and this data was also used for risk management and mitigation, thus contributing to the reinforcement of the internal control environment.

At the same time, the Group continued to strengthen and perfect its business continuity management along 2016, with a focus on the update of strategies, procedures and existing documentation, as well as on the regular exercises of business recovery, technological recovery and crisis management, in order to improve its response capability to incidents, articulating all teams involved at different stages of the exercises.

Within the Group, this matter is aimed at ensuring the continuity of the main business (or business support) activities, in the face of a catastrophic event or of a serious contingency, and is handled through two distinct – but complementary – plans:

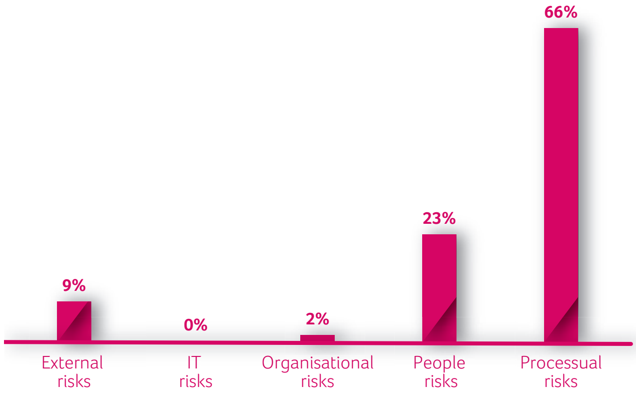
- The Disaster Recovery Plan, for communication systems and infrastructures; and
- The Business Continuity Plan, for people, premises and equipment required for the minimum support of selected processes, deemed critical.

It should be noted that the management of this specific operational risk area is designed, promoted and coordinated across the Group by a specific structure unit.

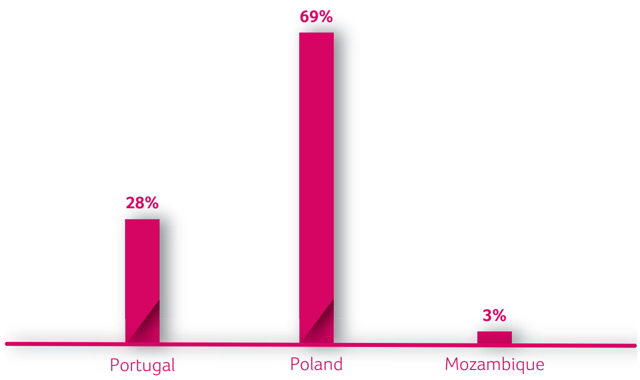
In addition, the Group maintains an insurance contracting policy as an instrument to mitigate potential financial impacts associated with the occurrence of operational risks, by transferring, partially or in full, the risks pertaining to assets, people or liabilities before third parties.

The proposals for new insurances are submitted by the process owners, within the scope of the operational risk management powers regarding their processes, or presented by the heads of areas or structure units, being analysed by the Risk Commission and subjected to a decision by the EC. Within the scope of insurance contracts in Portugal, the specialised technical and commercial functions involved are attributed to the Insurances 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.

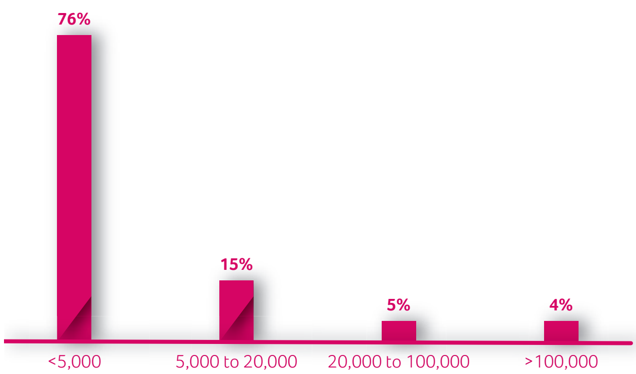
GRAPH 3 – LOSS AMOUNT DISTRIBUTION, BY CAUSE



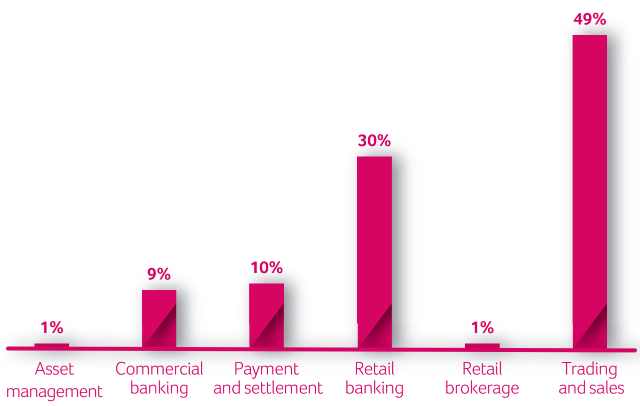
GRAPH 4 – LOSS AMOUNT DISTRIBUTION, BY GEOGRAPHY



GRAPH 5 – LOSS AMOUNT DISTRIBUTION, BY AMOUNT RANGE (IN EUROS)



GRAPH 6 - LOSS AMOUNT DISTRIBUTION, BY BUSINESS LINE



13. INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk derived from the Banking Book operations is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated balance sheet, reflecting the potential economical value loss that may occur as a result of adverse changes to interest rates.

The banking book includes all the positions not included in the trading book, namely, the positions resulting from institutional funding operations and from money markets, commercial and structural operations and the securities of the investment portfolio.

The changes in market interest rates have an impact over the Group's net interest income, both in a short-term and in a medium/long-term perspective. The main risk factors are the repricing mismatch of the portfolio positions (repricing risk) and the changes in the level of the market interest rates (yield curve risk). In addition – although with less relevant impacts – there is the risk of having unequal variations in different indexes with the same repricing period (basis risk).

In order 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 systems' databases and the respective expected cash flows are projected in accordance with their repricing dates. Hence, this provides an assessment of the impact on the Group's economic value that would result from several alternative scenarios involving changes in market interest rate curves.

The commercial and structural areas' risk positions that are not specifically hedged against the market are transferred, through internal operations, to the market areas and, from then on, they are considered to be incorporated in the respective portfolios. As such, they are daily evaluated through the VaR methodology.

The fundamental assumptions used in this analysis are documented in internal regulations and consist, essentially, on one hand, in definitions about interest rate repricing maturities (for items for which there is no defined repricing date) and, on the other hand, in certain expected behaviours concerning early repayments.

In 2016, for items for which there are no defined repricing dates, the following assumptions of repricing terms were applied:

- 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 and overdrafts: assumption of 40% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 15% in 60 months;
- Roll-over credit/Credit cards: assumption of 50% repricing in 12 months, 15% in 24 months, 15% in 36 months, 10% in 48 months and 10% in 60 months;
- Roll-over credit/Factoring: assumption of 45% repricing in 12 months, 15% in 24 months, 15% in 36 months, 15% in 48 months and 10% in 60 months;
- Non-interest bearing demand deposits and other deposits (in Euros): assumption of 15% repricing in 12 months, 10% in 24 months, 10% in 36 months, 10% in 48 months and 55% in 60 months;
- Non-interest bearing demand deposits and other deposits (in other currencies): assumption of 20% repricing in 12 months, 20% in 24 months, 10% in 36 months, 10% in 48 months and 40% in 60 months;
- 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 of the yield curve. Also, stress tests are carried out for all Group positions for which interest rate risk is a relevant component, by considering different macroeconomic scenarios that contemplate several variables of analysis.

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

The macroeconomic scenarios are designed based on the economic situation and on the impact that may result from changes in the main risk analysis variables – namely, on traded assets prices, interest rates, exchange rates, default probabilities and the recovery rates of non-performing loans.

Table 40 illustrates the impacts on the shareholders' equity of the Group, as at 31 December 2016 and 2015, in value and percentage, as a result of +200 and –200 basis points shocks in interest rates.

(Thousand euros)

TABLE 40 – SENSITIVITY ANALYSIS TO THE INTEREST RATE RISK IN THE BANKING BOOK

		31 Dec.16	31 Dec.15
Value	+200 b.p.	**191,306**	30,135
	-200 b.p.	**43,514**	111,214
% Shareholders equity[1]	+200 b.p.	**3.7%**	0.5%
	-200 b.p.	**0.8%**	2.0%

[1] Shareholders' equity exclude hybrid products accounted in equity but not eligible for CET1 capital.

On 31 December 2016, the range of shocks considered in this analysis (parallel variations of interest rate curves of +/- 200 bps) resulted, as in previous years, in a relevant asymmetry of impacts over the economic value of the Group, leading to gains in both scenarios. This is due to the assumption of a minimum of 0 (zero) interest rate and due to the different impacts verified over the portfolio for the several repricing terms (resulting in different effective impacts occurring under the two scenarios) and, also, due to the reduction of exposures with terms greater than 1 year, in line with the hedging policy followed in 2016.

14. LIQUIDITY RISK

14.1. LIQUIDITY RISK MANAGEMENT AND ASSESSMENT

LIQUIDITY MANAGEMENT

The BCP Group liquidity management is globally accompanied and the supervision is coordinated at a consolidated level in accordance with the principles and methodologies defined at a Group level.

The management of liquidity needs is decentralised by geography, given that each subsidiary is self-sufficient and responsible for ensuring the coverage of its liquidity needs, either through its deposits basis, or through the market mechanisms available in each geography.

The Group's subsidiaries present adequate liquidity buffers to the funding needs, with conservative loan-to-deposit ratios.

The BCP Group has been developing a solid business model in retail banking, benefitting from a stable liquidity position, even in financial markets contingency situations, as seen in 2011, after the approval of the rescue program for Portugal.

Since then, strategic priorities were redefined, either through the selling of non-strategic assets in a first stage, or through the management of the deleveraging process, allowing to develop the resiliency of the Bank's funding structure.

The deleveraging process allowed to narrow the commercial gap and to reinforce the stable sources of funding, proving that it could be an alternative to the debt markets, given the difficulties in accessing them.

The BCP Group assures the adoption of the liquidity prudential requirements under the new regulatory framework at both consolidated and individual level.

LIQUIDITY RISK ASSESSMENT

The Group's liquidity risk assessment is based on the calculation and analysis of regulatory indicators defined by the supervisory authorities and on other internal metrics for which exposure limits are also defined.

The evolution of the Group's liquidity situation for short--term time horizons (up to three months) is reviewed daily on the basis of two indicators defined in-house: immediate liquidity and quarterly liquidity. These indicators measure the maximum fund--taking requirements that could arise on a single day, considering the cash flow projections for periods of three days and of three months, respectively.

The calculation of these indicators involves adding to the liquidity position of the day under analysis the estimated future cash flows for each day of the respective time horizon (three days or three months) for the set of transactions brokered by the markets areas, including the transactions with Clients of the Corporate and Private networks that, due to its dimension, have to be quoted by the Trading Room. The amount of assets in the Bank's securities portfolio considered highly liquid is added to the calculated amount, determining the accumulated liquidity gap for each day of the period under review.

In parallel, the evolution of the Group's liquidity position is calculated on a regular basis identifying all the factors that justify the variations occurred. This analysis is submitted to CALCO for appraisal, in order to enable the decision making that leads to the maintenance of adequate financing conditions to business continuity. Complementarily, the Risk Committee is responsible for controlling the liquidity risk.

In order to prevent the occurrence of a liquidity crisis or to trigger an immediate action in the case it materialises, the result of the Early Warning Signals system of the Liquidity Contigency Plan, which synthesises in a single notation the evaluation of a series of indicators that track the evolution of the liquidity risk drivers, is presented to CALCO on a monthly basis.

This control is reinforced with the periodical execution of stress tests, in order to evaluate the Bank's risk profile and to ensure that the Group and each of its subsidiaries fulfil their immediate obligations in a liquidity crisis scenario. These tests are also used to support the liquidity contingency plan and management decisions on this subject.

14.2. MANAGEMENT MODEL

The Group´s liquidity management is coordinated at the BCP Group level, under the responsibility of CALCO, consolidating a broad view of the Group's liquidity position in both short-run and structural management, promoting conditions of efficient access to financial markets. The execution is ensured by the Treasury Department.

The BCP Group consolidates the individual liquidity plans for the main entities of the Group, ensuring that the expected evolution of the inflows and outflows of the assets and liabilities arising from the commercial and corporate goals is aligned with a prudential treasury management and adequate liquidity ratios.

The liquidity of each Group entity is supervised at a global level, with liquidity needs' management autonomy, but assuring that there are internal mechanisms to maximize the efficiency of its management on a consolidated basis, namely in higher tension conjectures.

LIQUIDITY AND FUNDING RISK MANAGEMENT:

Defines the procedures, responsibilities, methodologies and rules employed by the Group to address liquidity and funding risk management as well as its relation to the ILAAP.

FUNDING STRATEGY:

Aims to evaluate the Group's policies and procedures in regard to its ability to finance its liquidity needs.

LIQUIDITY BUFFER AND COLLATERAL MANAGEMENT:

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

COST BENEFIT ALLOCATION MECHANISM:
Assesses the Bank's approach on liquidity transfer pricing.

INTRADAY LIQUIDITY RISK MANAGEMENT:
Presents the Bank's methodology for managing intraday liquidity risk, allowing to obtain support information and to explain registered incidents relating to obligations that were not met in a timely manner.

REGULATORY INDICATORS MONITORING:
Alignment of the regulatory requirements defined by the supervision with the Group's current liquidity management requirements and monitoring its adequacy, by defining minimum internal limits developed based on common and transversal concepts to the Group.

LIQUIDITY STRESS TESTING:
Presents the liquidity stress tests performed by the Group on a regular basis.

CONTINGENCY FUNDING PLAN:
Presents lines of responsibility for designing, monitoring and executing the Contingency Funding Plan along with the methodologies to detect tension situations early and an assessment of the plan's feasibility.

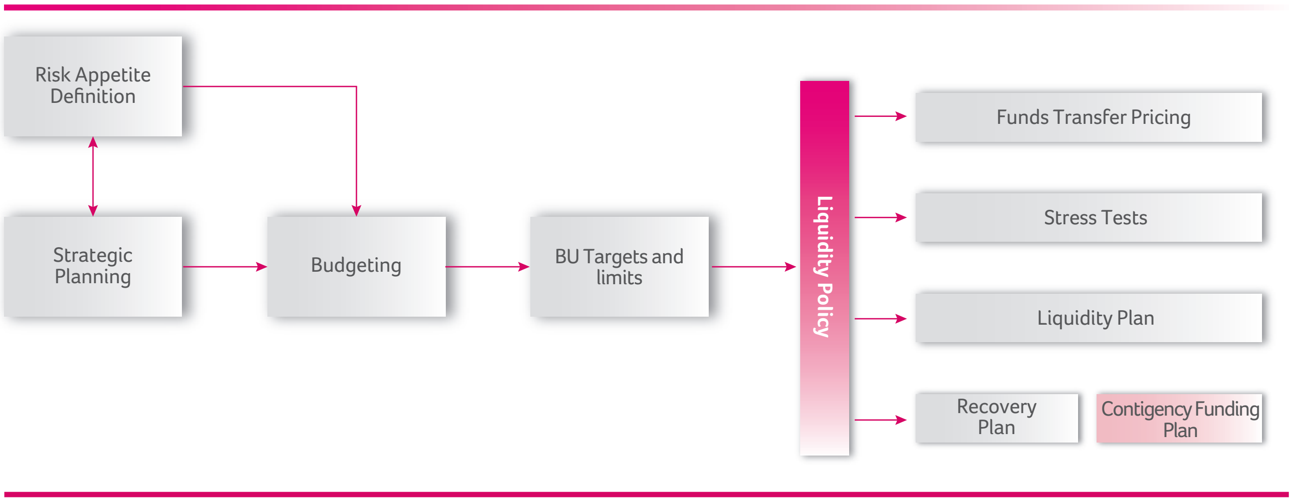
14.3. NEW REGULATORY REQUIREMENTS

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

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

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

In the scope of the ILAAP carried out in 2016, a qualitative and quantitative information analysis was performed, with the goal of defining a liquidity risk management framework of the Group in accordance with the respective profile and aligned with the European Banking Authority guidelines and with the Single Supervisory Mechanism expectations. The ILAAP methodology is shared, to a large extent, with the liquidity risk management that the Group has been developing over the last years. In this context, the ILAAP exercise considered own characteristics of the Group, such as business model, governance, implemented controls and its monitoring, dimension, complexity, market constraints, and local regulatory duties for each geography.



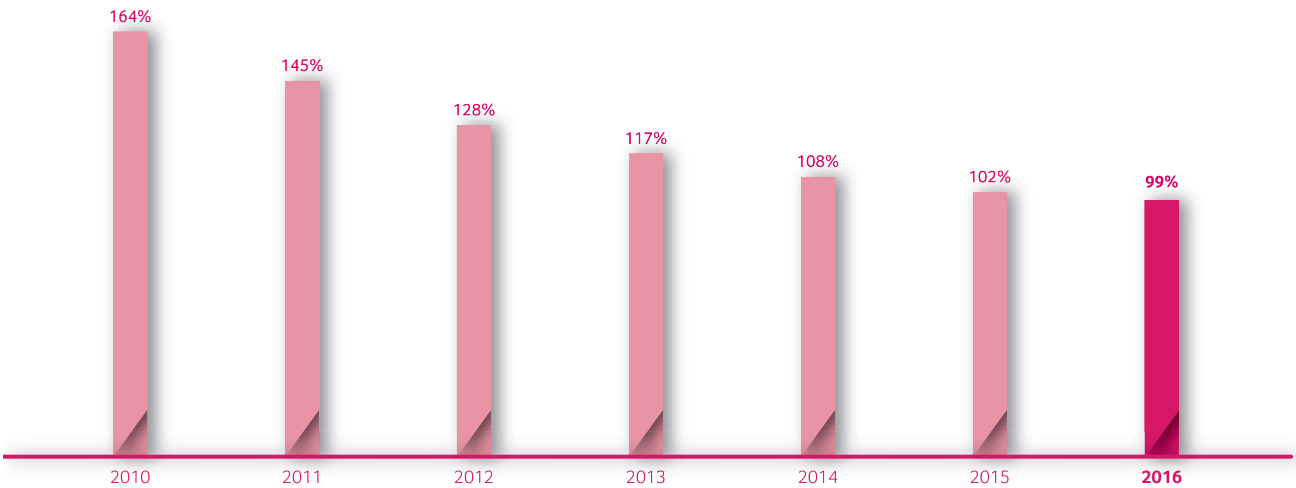
14.4. BALANCE SHEET INDICATORS

The main evolutions regarding the Group's liquidity situation in 2016 were the following:

- Commercial gap narrowed 1.2 billion euros from end-2015;
- Loans to deposit ratio (according to the instruction no. 16/2004 of the Banco de Portugal) stood at 99%, 95% if all balance sheet Customer funds are included. As at 31 December 2015, the first ratio stood at 102%;
- Debt repayments (medium-long term) significantly lower than in previous years and with a declining trend for future years;
- Net usage of the ECB funding at 4.4 billion euros, compared to 5.3 billion euros year-end 2015;
- 12.1 billion euros (net of haircut) of eligible assets available for financing operations with the ECB, with an available assets buffer of 7.6 billion euros, as at December 2016. As at December 2015, this amount rose to 8.6 billion euros;
- Customer deposits account for 79% of the Group's funding structure in the end of 2016, comparing with the value of 80% recorded in the end of 2015.

BCP Group has structurally improved its liquidity profile, recording a loan to deposit transformation ratio of 99% in the end of 2016 (>150 % in 2010), keeping a comfortable liquidity buffer of 7,614 million euros of eligible assets to guarantee Eurosystem operations.

GRAPH 7 – TRANSFORMATION RATIO EVOLUTION



In the end of December 2016, customer deposits stood at 48,798 million euros, recording a 5.3% decrease vis-à-vis 31 December 2015, with the Clients' balance sheet resources amounting to 50,434 million euros, having credit reached 51,758 million euros, which represents a 7% decrease comparing to the end of 2015.

At the same time, there was an increase of the wholesale funding amounting to 5,429 million euros vis-à-vis 31 December 2015.

As at 31 December 2016, the balance of the net funding with the ECB reached 4,436 million euros, representing a decrease of 866 million euros facing the amount registered in the same period of 2015.

The reduction of the net funding with the ECB (from 866 million euros, to 4,436 million euros), and the evolution of the eligible assets available for discount at the Eurosystem, allowed the value of the liquidity buffer to reach 7,614 million euros, less 1,026 million euros than in 2015 (8,640 million euros).

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

(Thousand euros)

TABLE 41 – LIQUID ASSETS INTEGRATED IN COLLATERAL POOLS

	31 Dec.16	31 Dec.15
European Central Bank	**8,592,234**	11,955,411
Other Central Banks	**3,204,850**	2,561,391
TOTAL	**11,797,084**	14,516,802

As at 31 December 2016, the amount discounted in the European Central Bank amounted to 4,870 million euros (31 December 2015: 5,483 million euros). As at 31 December 2016 and 2015, no amounts were discounted in Other Central Banks. The amount of eligible assets for funding operations in the European Central Bank includes securities issued by SPEs concerning securitisation operations in which the assets were not derecognised at a consolidated level. Therefore, the respective securities are not recognised in the consolidated securities portfolio. Until 31 December 2016, the evolution of the ECB's Monetary Policy Pool, the net borrows at the ECB and liquidity buffer is analysed as follows:

(Thousand euros)

TABLE 42 – LIQUIDITY BUFFER OF THE ECB

	31 Dec.16	31 Dec.15
Collateral eligible for ECB, afer haircuts:		
The pool of ECB monetary policy[i]	**8,592,234**	11,955,411
Outside the pool of ECB monetary policy	**3,457,859**	1,986,808
	12,050,093	13,942,219
Net borrowing at the ECB[ii]	**4,436,292**	5,302,393
LIQUIDITY BUFFER[iii]	**7,613,801**	8,639,826

[i] Corresponds to the amount reported in COLMS (Bank of Portugal application).
[ii] Includes, as at December 2016, the value of funding with the ECB net of deposits at the Bank of Portugal and other liquidity of the Eurosystem, plus the minimum cash reserve and the accrued interest.
[iii] Collateral eligible for the ECB, after haircuts, less net borrowing at the ECB.

Thus, as at 31 December 2016, the liquidity obtainable through available collateral, plus deposits with the Banco de Portugal deducted from the minimum cash reserves and accrued interest, amounted to 7,614 million euros, comparing to 8,640 million euros in 31 December 2015.

14.5. REGULATORY INDICATORS

The main liquidity ratios of the Group, calculated according to the definitions of the Instruction no. 13/2009 of the Banco de Portugal, are as follows:

TABLE 43 – LIQUIDITY INDICATORS

	Reference value	31 Dec.16	31 Dec.15
Accumulated net cash flows up to 1 year as % of total accounting liabilities	Not less than (-6%)	**-9.2%**	-4.1%
Liquidity cap as a % of illiquid assets	Not less than (-20%)	**4.8%**	6.6%
Transformation ratio (Credit/Deposits) [1]		**99.4%**	101.6%
Coverage ratio of Wholesale funding by HLA [2]			
(up to 1 month)		**590.0%**	353.8%
(up to 3 months)		**319.9%**	279.5%
(up to 1 year)		**207.5%**	238.2%

[1] Transformation ratio computed according to the instruction no. 16/2014 of the Bank of Portugal, in the currently applicable version.
[2] HLA – Highly Liquid Assets.

14.5.1. LIQUIDITY COVERAGE RATIO

The definition of the Liquidity Coverage Ratio (LCR) was published by the Basel Committee in 2014. In the beginning of October 2015, the European Commission's Delegated Act has been adopted, introducing, in relation to the CRD IV/CRR, new metrics and calculation criteria implemented in the European Union. The adoption of the new framework defines a minimum requirement of 70% for this ratio until the end of 2016, which will gradually increase until 100% in 2018. The BCP Group's LCR ratio was comfortably above 100% in 31 December 2016, supported by portfolios of highly liquid assets compatible with the Group's short-term liquidity prudential management.

14.5.2. NET STABLE FUNDING RATIO

The definition of the Net Stable Funding Ratio (NSFR) was approved by the Basel Committee in October 2014. The regulatory requirement will take effect from January 2018. In what concerns this ratio, BCP Group has a stable financing base, obtained by the high weight of customer deposits in the funding structure, by collateralised financing and by medium and long-term instruments, which allowed the financing relation level in 2016 to surpass 100%.

14.5.3. ENCUMBERED AND UNENCUMBERED ASSETS

According to the notice no. 28/2014 of Banco de Portugal, which focuses on the guidance of the EBA on disclosure of encumbered and unencumbered assets (EBA/GL/2014/3), and taking into account the recommendation made by the European Systemic Risk Board, the following information regarding the assets and collaterals is presented:

(Thousand euros)

TABLE 44 – ENCUMBERED ASSETS

Assets	31 Dec. 2016				31 Dec. 2015			
	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**14,164,516**	**n/a**	**57,496,393**	**n/a**	12,072,341	n/a	63,192,569	n/a
Equity instruments	**-**	**-**	**1,920,821**	**1,920,821**	-	-	2,313,431	2,313,431
Debt securities	**1,894,589**	**1,894,589**	**10,402,545**	**10,385,168**	2,422,960	2,422,960	9,567,174	9,563,536
Other assets	**-**	**n/a**	**8,950,882**	**n/a**	-	n/a	8,012,360	n/a

(Thousand euros)

Collateral received	31 Dec. 2016			31 Dec. 2015		
	Fair value of encumbered collateral received or own debt securities issued		**Fair value of collateral received or own debt securities issued available for encumbrance**	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**-**	**-**	**-**	-	-	-
Equity instruments	**-**	**-**	**-**	-	-	-
Debt securities	**179,046**	**-**	**21,280**	-	-	-
Other collateral received	**-**	**-**	**-**	-	-	-
Own debt securities issued other than own covered bonds or ABS	**-**	**-**	**-**	-	-	-

(Thousand euros)

Encumbered assets, encumbered collateral received and matching liabilities	31 Dec. 2016	31 Dec. 2015
	Carrying amount of selected financial liabilities	Carrying amount of selected financial liabilities
Matching liabilities, contingent liabilities and securities lent	**9,591,662**	9,023,274
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	**13,752,482**	11,825,051

In the end of 2016, total encumbered assets in funding operations represented 20% of the Group's balance sheet total assets, comparing with the value of 16% recorded in the end of 2015. This evolution was due to the improvement of the commercial gap, translating on a decrease of the funding needs, namely of the obtained with the ECB, and respective collateral exoneration.

The encumbered assets are mostly related with the Group's funding operations, in particular the ECB, in repo transactions, through the issuance of mortgage bonds and securitisation programs. The type of assets used as collateral for these financing transactions are divided into portfolios of loans to Clients, supporting securitisation programs and mortgage bonds issues, whether placed outside the Group, whether to improve the pool of collateral with the ECB, and Portuguese debt, which collateralise repo transactions in the money market. The funding raised from the IEB is collateralised by Portuguese public debt and bonds issues of the public sector entities.

The other assets in the amount of 8,951 million euros, although unencumbered, are mostly related to the Group's activity, namely: investments in associated companies and subsidiaries, tangible assets and investment properties, intangible assets, assets associated with derivatives and current and deferred taxes.

The amounts presented in table 44 reflect the high level of collateralisation of the wholesale funding of the Group.

ANNEXES

APP M 2020

Millennium bcp's digital footprint is increasing at a steady rate, aligning our products and services with the changing needs of our Customer base. With apps and online banking for Retail Customers, as well as purpose-built applications for corporate and small-business Customers, we strengthen our commitment to providing innovative, modern applications that stand out and distinguish us in a competitive market.

(Thousand euros)

ANNEX 1 – EQUITY IN 31 DECEMBER 2016 (TRANSITIONAL MODEL OF DISCLOSURE OF OWN FUNDS)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium accounts	4,282,408	26 (1). 27. 28. 29. list EBA 26 (3)		
	of which: ordinary shares	4,265,938	EBA (3) of EBA list		Excludes own shares/not eligible
2	Retained earnings	656,471	26 (1) (c)		
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-619,596	26 (1)		
3a	Funds for general banking risk		26 (1) (f)		
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1		486 (2)		
	Public sector capital injections grandfathered until 1 January 2018	700,000	483 (2)		
5	Minority interests (amount allowed in consolidated CET1)	654,488	84, 479, 480	168,709	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)		
6	COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	5,673,771		168,709	
	COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS				
7	Additional value adjustments (negative amount)		34,105		
8	Intangible assets (net of related tax liability) (negative amount)	-160,519	36 (1) (b), 37, 472 (4)	107,012	
9	Empty set in the EU				
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-295,480	36 (1) (c), 38, 472 (5)	199,699	
11	Fair value reserves related to gains or losses on cash flow hedges	34,362	33 (a)		
12	Negative amounts resulting from the calculation of expected loss amounts	-72,219	36 (1) (d), 40, 159, 472 (6)	48,146	
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)		
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-3,581	33 (b)	973	
15	Defined-benefit pension fund assets (negative amount)	-13,401	36 (1) (e), 41, 472 (7)	8,934	

(Continues)

(Continuation)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-6,388	36 (1) (f), 42, 472 (8)	4,259	
17	Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)		
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) and (3), 79, 472 (10)		
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	25,601	
20	Empty set in the EU				
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)		
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91		
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258		
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-223,279	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	275,742	
22	Amount exceeding the 15% threshold (negative amount)	-122,868	48 (1)	241,314	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-62,364	36 (1) (i), 48 (1) (b), 470, 472 (11)	145,327	Amounts relating to line 22
24	Empty set in the EU				
25	of which: deferred tax assets arising from temporary differences	-60,503	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	95,987	Amounts relating to line 22
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)		
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)		
26	Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment				

(Continues)

(Continuation)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	96,110		96,110	
	of which: unrealised losses	128,952	467	128,952	
	of which: unrealised losses in relation to central Government	122,949	467	122,949	
	of which: unrealised gains	-32,842	468	-32,842	
	of which: unrealized gains relating to central Government	-1,387	468	-1,387	
26b	Amount to be deducted or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	124,954	481	124,954	
	of which: pension fund row	124,973		124,973	
	of which: deduction of deposits with higher interest rates to certain thresholds	-20		-20	
	of which: deferred tax assets dependent on future profitability that are not caused by temporary differences (net of associated deferred tax liabilities)				
	of which: insufficient credit adjustments related to expected losses on positions using the IRB approach				
	of which: deferred tax assets dependent on future profitability from temporary differences				
	of which: adjustment to the 15% limit				
	of which: adjustment of national filters				
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-157,263	36(1) (j)	-157,263	
28	TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1 (CET1)	-799,572		975,480	
29	COMMON EQUITY TIER 1 (CET1) CAPITAL	4,874,199		1,144,189	
ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS					
30	Capital instruments and the related share premium accounts		51, 52		
31	of which: classified as equity under applicable accounting standards				
32	of which: classified as liabilities under applicable accounting standards				
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	10,629	486 (3)	10,629	
	Public sector capital injections grandfathered until 1 January 2018		486 (3)		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	-14,313	
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)		

(Continues)

(Continuation)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
36	ADDITIONAL TIER 1 (AT1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	10,629		-3,684	
	ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)		
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)		
39	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)		
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)		
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (i.e., CRR residual amounts)	157,263		157,263	CET1 allocation to cover insufficient AT1 (*versus* line 27)
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation	-151,873	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-151,873	
	of which: Intangible assets	-107,012		-107,012	
	of which: insufficient provisions for expected losses	-24,073		-24,073	
	of which: residual amounts of CET1 instruments of financial entities in which the institution has a significant investment	-20,788		-20,788	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013	-11,760	477, 477 (3), 477 (4) (a)	-11,760	
	of which: elements to drill down line by line, for example, cross-shareholdings reciprocal of T2 instruments, direct shareholdings in non-significant investments in other financial entities equity, etc.				

(Continues)

(Continuation)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
41c	Amount to be deducted or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-4,258	467, 468, 481	-4,258	
	of which: ... possible filter for unrealised losses		467		
	of which: ... possible filter for unrealised gains		468		
	of which: ...	-4,258	481	-4,258	Transitional provision for direct investments in own CET1 and AT1 instruments
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)		
43	TOTAL REGULATORY ADJUSTMENTS TO ADDITIONAL TIER 1 (AT1) CAPITAL	-10,629		-10,629	
44	ADDITIONAL TIER 1 (AT1) CAPITAL			-14,313	
45	TIER 1 CAPITAL (T1 = CET1 + AT1)	4,874,199		1,129,876	
TIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS					
46	Capital instruments and the related share premium accounts	361,938	62, 63		
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	41,553	486 (4)	41,553	
	Public sector capital injections grandfathered until 1 January 2018		483 (4)		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	126,963	87, 88, 480	113,904	
49	of which: instruments issued by subsidiaries subject to phasing-out		486 (4)		
50	Credit risk adjustments		62 (c) (d)		
51	TIER 2 (T2) CAPITAL BEFORE REGULATORY ADJUSTMENTS	530,454		155,457	
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)		
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)		
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment (amount above 10% threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70 and 79, 477 (4)		
54a	of which: new holdings not subject to transitional arrangements				

(Continues)

(Continuation)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements				
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-47,040	66 (d), 69, 79, 477 (4)	11,760	
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to the pre-treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (*i.e.*, CRR residual amounts)				
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No. 575/2013	-44,861	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-44,861	
	of which: Insufficient provisions for expected losses	-24,073		-24,073	
	of which: residual amounts of FPP1 instruments of financial entities in which the institution has a significant investment	-20,788		-20,788	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013		475, 475 (2) (a), 475 (3), 475 (4) (a)		
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non significant investments in the capital of other financial entities, etc.				
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	-55,285	467, 468, 481	-55,285	Amount associated with properties in restitution that exceed the regulatory deadline for permanence in the active
	of which: ... possible filter for unrealised losses		467		
	of which: ... possible filter for unrealised gains		468		
	of which: ...		481		
57	TOTAL REGULATORY ADJUSTMENTS TO TIER 2 (T2) CAPITAL	-147,186		-88,386	
58	TIER 2 (T2) CAPITAL	383,268		67,071	
59	TOTAL CAPITAL (TC = T1 + T2)	5,257,467		1,196,947	

(Continues)

(Continuation)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (i.e., CRR residual amounts)				
	of which: ... non-deducted elements to CET1 (Regulation (EU) No. 575/2013, residual amounts) (elements to detail row by row, for example, deferred tax assets that depend on future profitability net of corresponding tax liability, indirect shareholdings of an institution in their own CET1, etc.)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		
	of which: ... non-deducted elements to AT1 (Regulation (EU) No. 575/2013, residual amounts) (elements to detail row by row, for example, reciprocal cross holdings of T2 instruments, direct shareholdings in non-significant investments in equity of other financial sector entities, etc.)		475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		
	Elements not deducted to T2 elements (Regulation (EU) No. 575/2013, residual amounts) (elements to detail row by row, for example, indirect shareholdings of an institution in its T2, indirect shareholdings in insignificant own funds of other financial entities, etc.)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		
60	TOTAL RISK WEIGHTED ASSETS	39,159,791		562,367	
CAPITAL RATIOS AND BUFFERS					
61	COMMON EQUITY TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	12.45%	92 (2) (a), 465		
62	TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	12.45%	92 (2) (b), 465		
63	TOTAL CAPITAL (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)	13.43%	92 (2) (c)		
64	INSTITUTION-SPECIFIC BUFFER REQUIREMENT (CET1 REQUIREMENT IN ACCORDANCE WITH ARTICLE 92 (1) (A), PLUS CAPITAL CONSERVATION AND COUNTERCYCLICAL BUFFER REQUIREMENTS, PLUS SYSTEMIC RISK BUFFER, PLUS SYSTEMICALLY IMPORTANT INSTITUTION BUFFER EXPRESSED AS A PERCENTAGE OF RISK EXPOSURE AMOUNT)		CRD 128, 129, 130		
65	OF WHICH: CAPITAL CONSERVATION BUFFER REQUIREMENT				
66	OF WHICH: COUNTERCYCLICAL CAPITAL BUFFER REQUIREMENT				
67	OF WHICH: SYSTEMIC RISK BUFFER REQUIREMENT				
67a	OF WHICH: GLOBAL SYSTEMICALLY IMPORTANT INSTITUTION (G-SII) OR OTHER SYSTEMICALLY IMPORTANT INSTITUTION (O-SII) BUFFER		CRD 131		
68	COMMON EQUITY TIER 1 AVAILABLE TO MEET BUFFERS (AS A PERCENTAGE OF RISK EXPOSURE AMOUNT)	7.95%	CRD 128		

(Continues)

(Continuation)

		(A) Amount at disclosure date	(B) Regulation (EU) No. 575/2013 (CRR) article reference	(C) Amounts subject to pre-regulation (EU) No. 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013	Explanatory notes
69	[NOT RELEVANT ON EU REGULATIONS]				
70	[NOT RELEVANT ON EU REGULATIONS]				
71	[NOT RELEVANT ON EU REGULATIONS]				
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment (amount above 10% threshold and net of eligible short positions)	55,519	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment (amount above 10% threshold and net of eligible short positions)	487,482	36 (1) (i), 45, 48, 470, 472 (11)		
74	Empty set in the EU				
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 No 3 are met)	537,761	36 (1) (c), 38, 48, 470, 472 (5)		
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	137,368	62		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62		
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	139,083	62		
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JANUARY 2013 AND 1 JANUARY 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) and (5)		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) and (5)		
82	Current cap on AT1 instruments subject to phase-out arrangements	37,332	484 (4), 486(3) and (5)		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486(3) and (5)		
84	Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) and (5)		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	1,222	484 (5), 486 (4) and (5)		

(Thousand euros)

ANNEX 2 – CET1 ELEGIBLE FINANCIAL INSTRUMENTS

ISIN	Issuer	Description	Eleg. CRD IV 31 Dec.16	Eleg. CRD IV 31 Dec.15	Own funds 31 Dec.16	Own funds 31 Dec.15
PTBCPOAM0015	BCP, S.A.	Ordinary shares	**CET1**	CET1	**4,265 938**	4,102,003
PTBIZQOM0059	BCP, S.A.	BCP's "CoCo" Bonds – Subscribed by the Portuguese State	**CET1**	CET1	**700,000**	750,000

(Thousand euros)

ANNEX 3 – AT1 ELIGIBLE FINANCIAL INSTRUMENTS

ISIN	Issuer	Description	Issue Date	Maturity Date	Amount 31 Dec. 16[1]	1st Call Date	Eleg. CRD IV 31 Dec.16	Eleg. CRD IV 31 Dec.15	Own funds 31 Dec.16	Own funds 31 Dec.15
PTBCPMOM0002	BCP, S.A.	BCP FRNPLD	29/06/2009	Perpetual	**2,922**	-	**N**	N	**2,922**	2,922
XS0194093844	BCP Finance Co	BCP Finance Co 5,543 EUR	09/06/2004	Perpetual	**43,356**	09/03/2018	**N**	N	**5,998**	14,808
XS0231958520	BCP Finance Co	BCP Finance Co 4,239 EUR	13/10/2005	Perpetual	**15,942**	13/01/2018	**N**	N	**1,709**	4,898

(Thousand euros)

ANNEX 4 – T2 ELIGIBLE FINANCIAL INSTRUMENTS

ISIN	Issuer	Description	Issue Date	Maturity Date	Amount 31 Dec. 16[1]	1st Call Date	Eleg. CRD IV 31 Dec.16	Eleg. CRD IV 31 Dec.15	Own funds 31 Dec.16	Own funds 31 Dec.15
PTBIVXOM0013	BCP, S.A.	Bcp Obrigacoes Subordinadas March 2021	28/03/2011	28/03/2021	**114,000**	-	**T2**	T2	**96,773**	114,000
PTBIU6OM0028	BCP, S.A.	Bcp Subordinadas September 2019	14/10/2011	28/09/2019	**50,000**	-	**T2**	T2	**27,444**	37,444
PTBCL2OM0016	BCP, S.A.	Bcp Subordinadas November 2019	08/11/2011	08/11/2019	**40,000**	-	**T2**	T2	**22,844**	30,844
PTBCUWOM0011	BCP, S.A.	Bcp Subordinadas 11/25.08.2019	25/08/2011	25/08/2019	**7,500**	-	**T2**	T2	**3,979**	5,479
PTBCTZOM0037	BCP, S.A.	Millennium Bcp Subordinadas December 2019	30/12/2011	09/12/2019	**26,600**	-	**T2**	T2	**15,650**	20,970
PTBCU9OM0028	BCP, S.A.	Millennium Bcp Subordinadas January 2020	27/01/2012	13/01/2020	**14,000**	-	**T2**	T2	**8,501**	11,301
PTBIVSOM0077	BCP, S.A.	Bcp Obrigacoes Subordinadas April 2021	01/04/2011	01/04/2021	**64,100**	-	**T2**	T2	**54,521**	64,100
PTBIUGOM0072	BCP, S.A.	Bcp Obrigacoes Subordinadas 3Sr April 2021	21/04/2011	21/04/2021	**35,000**	-	**T2**	T2	**30,158**	35,000
PTBIZUOM0053	BCP, S.A.	Bcp Subordinadas July 2020	18/07/2012	02/07/2020	**26,250**	-	**T2**	T2	**18,404**	23,654
PTBCQJOM0030	BCP, S.A.	Millennium Bcp Subordinada Feb2020	04/04/2012	28/02/2020	**23,000**	-	**T2**	T2	**14,541**	19,141
PTBIUMOM0082	BCP, S.A.	Bcp Subordinadas April 2020	12/04/2012	03/04/2020	**51,000**	-	**T2**	T2	**33,235**	43,435
PTBIZKOM0063	BCP, S.A.	Bcp Subordinadas 2 Serie April 2020	12/04/2012	12/04/2020	**25,000**	-	**T2**	T2	**16,417**	21,417
XS0686774752	BCP Finance Bank, Ltd.	Bcpf Fixed Rate Subordinated Notes 13 Pct	13/10/2011	13/10/2021	**20,340**	-	**T2**	T2	**19,470**	17,722
PTBSMFOE0006	BCP, S.A.	TOPS's BPSM /97 (1ª e 2º série)	04/12/1997	Perpetual	**23,216**	-	**N**	N	**23,216**	23,025
PTBCLAOE0000	BCP, S.A.	Obr. Perpétuas Subord. BCP Leasing /2001	28/12/2001	Perpetual	**5,548**	-	**N**	N	**5,548**	5,436
PTBCPZOE0023	BCP, S.A.	Mbcp Ob Cx Sub 2 Serie 2008-2018 - 2Cpn	15/10/2008	15/10/2018	**14,887**	15/04/2018	**N**	N	**2,357**	5,335
PTBCLWXE0003	BCP, S.A.	Mbcp Ob Cx Sub 1 Serie 2008-2018 - 2Cpn	29/09/2008	29/09/2018	**51,795**	29/03/2018	**N**	N	**7,740**	18,097
PTBIPNOM0062	BCP, S.A.	Bcp Obrigacoes Subordinadas June 2020	29/06/2010	29/06/2020	**14,791**	29/06/2018	**N**	N	**1,471**	4,429
PTBCTCOM0026	BCP, S.A.	Bcp Obrigacoes Subordinadas Aug 2020	27/08/2010	27/08/2020	**9,278**	27/02/2018	**N**	N	**1,222**	3,077
XS0336845333	Bank Millennium	MB Finance AB[2]	20/12/2007	20/12/2017	**150,466**		**N**	N	**29,257**	59,133

[1] Net nominal value of own shares or securities held by Group entities.
[2] In CRR, is subject to phased-out until maturity and is registered in minority interests (T2).

(Thousand euros)

ANNEX 5 – OWN FUNDS INSTRUMENTS MAIN FEATURES

		(1)	(2)	(3)	(4)	(5)
1	Issuer	Banco Comercial Português. S.A.	Banco Comercial Português. S.A.	Banco Comercial Português. S.A.	Banco Comercial Português. S.A.	Banco Comercial Português. S.A.
2	Unique identifier	PTBIVXOM0013	PTBIU6OM0028	PTBCL2OM0016	PTBCUWOM0011	PTBCTZOM0037
3	Governing law(s) of the Instrument	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law
REGULATORY TREATMENT						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital[1]	96,773,333	27,444,444	22,844,444	3,979,167	15,649,667
9	Nominal amount of instrument[2]	114,000,000	50,000,000	40,000,000	7,500,000	26,600,000
9a	Issue price	100%	84.45%	80.40%	100%	73.19%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	28 March 2011	14 October 2011	8 November 2011	25 August 2011	30 December 2011
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	28 March 2021	28 September 2019	8 November 2019	25 August 2019	9 December 2019
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A

(Continues)

(Continuation) (Thousand euros)

		(1)	(2)	(3)	(4)	(5)
COUPONS/DIVIDENDS						
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	Euribor 3m + 3.75%	9.31%	8.519%	6.383%	7.150%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Senior Debt	Senior Debt
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

(Continues)

(Continuation) (Thousand euros)

		(6)	(7)	(8)	(9)	(10)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier	PTBCU9OM0028	PTBIVSOM0077	PTBIUGOM0072	PTBIZUOM0053	PTBCQJOM0030
3	Governing law(s) of the Instrument	English and Portuguese law	English and Portuguese law	English and Portuguese law	English and Portuguese law	Portuguese law
REGULATORY TREATMENT						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital(1)	8,501,111	54,520,611	30,158,333	18,404,167	14,541,111
9	Nominal amount of instrument (2)	14,000,000	64,100,000	35,000,000	26,250,000	23,000,000
9a	Issue price	72.31%	100%	100%	82.55%	81.52%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	27 January 2012	1 April 2011	21 April 2011	18 July 2012	4 April 2012
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	13 January 2020	1 April 2021	21 April 2021	2 July 2020	28 February 2020
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
COUPONS/DIVIDENDS						
17	Fixed or floating dividend/coupon	Fixed	Floating	Floating	Fixed	Fixed
18	Coupon rate and any related index	7.010%	Euribor 3m + 3.75%	Euribor 3m + 3.75%	9.00%	9.00%
19	Existence of a dividend stopper	No	No	No	No	No

(Continues)

(Continuation) (Thousand euros)

		(6)	(7)	(8)	(9)	(10)
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Senior Debt	Senior Debt
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

(Continues)

(Continuation) (Thousand euros)

		(11)	(12)	(13)	(14)	(15)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	BCP Finance Bank, Ltd.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier	PTBIUMOM0082	PTBIZKOM0063	XS0686774752	PTBSMFOE0006	PTBCLAOE0000
3	Governing law(s) of the Instrument	Portuguese law	Portuguese law	English law	Portuguese law	Portuguese law
	REGULATORY TREATMENT					
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital(1)	33,235,000	16,416,667	19,469,954	23,215,561	5,547,811
9	Nominal amount of instrument(2)	51,000,000	25,000,000	98,850,000	PTE 18,000,000,000; € 89,783,621.88	35,000,000
9a	Issue price	83.20%	82.82%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	12 April 2012	12 April 2012	13 October 2011	4 December 1997	28 December 2001
12	Perpetual or dated	Dated	Dated	Dated	Perpetual	Perpetual
13	Original maturity date	3 April 2020	12 April 2020	13 October 2021	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	In case of Capital Disqualification Redemption Event. The Notes will be redeemed at par.	N/A.	First call date: 4 December 2007	First call date: 28 December 2011
16	Subsequent call dates, if applicable	N/A	N/A	N/A	First call date and on each interest payment date thereafter.	First call date and on each interest payment date thereafter.
	COUPONS/DIVIDENDS					
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Floating	Floating
18	Coupon rate and any related index	9.15%	9.00%	13.00%	Until 4-Dec-2007: Euribor 6m + 0.4%; 4-Jun-2008 to 4-Dec-2017 (inclusive): Euribor 6m + 0.9%; From 4-Jun-2018: Euribor 6m + 1.4%	28-Mar-02 to 28-Dec-11 (inclusive): Euribor 3m + 1.75%; From 28-Mar-12: Euribor 3m + 2.25%
19	Existence of a dividend stopper	No	No	No	No	No

(Continues)

(Continuation) (Thousand euros)

		(11)	(12)	(13)	(14)	(15)
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	Yes	Yes
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Cumulative	Cumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	Full or partial	Full or partial
33	If write-down, permanent or temporary	N/A	N/A	N/A	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Senior Debt	Senior Debt
36	Non-compliant transitioned features	No	No	No	Yes	Yes
37	If yes, specify non-compliant features	N/A	N/A	N/A	Existence of Step-up clause	Existence of Step-up clause

(Continues)

(Continuation) (Thousand euros)

		(16)	(17)	(18)	(19)	(20)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Bank Millennium, S.A.
2	Unique identifier	PTBCPZOE0023	PTBCLWXE0003	PTBIPNOM0062	PTBCTCOM0026	XS0336845333
3	Governing law(s) of the Instrument	Portuguese law	Portuguese law	English and Portuguese law	English and Portuguese law	English law
	REGULATORY TREATMENT					
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital(1)	2,357,124	7,740,436	1,470,883	1,221,603	29,257,269
9	Nominal amount of instrument(2)	81,000,000	295,000,000	95,000,000	57,000,000	150,000,000
9a	Issue price	100%	100%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	15 October 2008	29 September 2008	29 June 2010	27 August 2010	20 December 2007
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	15 October 2018	29 September 2018	29 June 2020	27 August 2020	20 December 2017
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	First date: 15 October 2013	First date: 29 September 2013	First date: 29 June 2015	First date: 27 August 2015	First date: 20 December 2012; In case of Tax event call
16	Subsequent call dates, if applicable	First call date and on each interest payment date thereafter	First call date and on each interest payment date thereafter	First call date and on each interest payment date thereafter	First call date and on each interest payment date thereafter	First call date and on each interest payment date thereafter
	COUPONS/DIVIDENDS					
17	Fixed or floating dividend/coupon	Fixed to Floating	Fixed to Floating	Fixed to floating	Fixed to floating	Floating
18	Coupon rate and any related index	First year: 6.00%; 2nd to 5th year: Euribor 6m + 1.00%; 6th et seq: Euribor 6m + 1.40%	First year: 6.00%; 2nd to 5th year: Euribor 6m + 1.00%; 6th et seq: Euribor 6m + 1.40%	29-Jun-2010 to 29-Jun-2015: 3.25%; From 29-Jun-2015: Euribor 6m + 1%	1st year: 3%; 2nd year: 3.25%; 3rd year: 3.5%; 4th year: 4%; 5th year: 5%; 6th et seq: Euribor 6m + 1.25%	20-Jun-08 to 20-Dec-12 (inclusive): Euribor 6m + 1.50%; From 20-Jun-13: Euribor 6m + 2%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes	Yes	Yes

(Continues)

(Continuation) (Thousand euros)

		(16)	(17)	(18)	(19)	(20)
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Senior Debt	Senior Debt
36	Non-compliant transitioned features	Yes	Yes	Yes	Yes	Yes
37	If yes, specify non-compliant features	Existence of Step-up clause	Existence of Step-up clause	Existence of Step-up clause	Existence of Step-up clause	Existence of Step-up clause

(Continues)

(Continuation) (Thousand euros)

		(21)	(22)	(23)	(24)	(25)
1	Issuer	Banco Comercial Português, S.A.	BCP Finance Company, Ltd.	BCP Finance Company, Ltd.	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.
2	Unique identifier	PTBCPMOM0002	XS0194093844	XS0231958520	PTBCPOAM00007	PTBIZQOM0059
3	Governing law(s) of the Instrument	Portuguese law	Series C Preference Shares: Cayman Islands law; Subordinated Guarantee: English law; Subordination of the Subordinated Guarantee: Portuguese law	Series D Preference Shares: Cayman Islands law; Subordinated Guarantee: English law; Subordination of the Subordinated Guarantee: Portuguese law	Portuguese law	Portuguese law
	REGULATORY TREATMENT					
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo / (Sub) consolidated	(Sub)consolidated	(Sub)consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated
7	Instrument type	Other Capital Instruments	Preference Shares	Preference Shares	Ordinary shares	Government Subscribed Core Tier 1 Capital Instruments (GSIs)
8	Amount recognised in regulatory capital[(1)]	2,922,000	5,997,612	1,709,337	4,265,937,665	700,000,000
9	Nominal amount of instrument[(2)]	300,000,000	500,000,000	500,000,000	N/A	3,000,000,000
9a	Issue price	100%	100%	100%	N/A	100%
9b	Redemption price	100%	The Liquidation Preference plus, if applicable, an amount equal to accrued and unpaid Dividends for the then current Dividend Period to the Redemption Date and any Additional Amounts	The Liquidation Preference plus, if applicable, an amount equal to accrued and unpaid Dividends for the then current Dividend Period to the Redemption Date and any Additional Amounts	N/A	100%
10	Accounting classification	Shareholders' equity	Shareholders' equity	Shareholders' equity	Shareholders' equity	Liability – amortised cost
11	Original date of issuance	29 June 2009	9 June 2004	13 October 2005	N/A	29 June 2012
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Undated	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity	N/A	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	First date: 29 June 2014	First date: 9 June 2014; In case of Tax Event call or Capital Disqualification Event call	First date: 13 October 2015; In case of Tax Event call or Capital Disqualification Event call	N/A	The Issuer may at any time elect to purchase any or all outstanding GSIs at their principal amount together with any accrued but unpaid Coupons.
16	Subsequent call dates, if applicable	First call date and on each interest payment date thereafter	First call date and on each interest payment date thereafter	First call date and on each interest payment date thereafter	N/A	N/A

(Continues)

(Continuation) (Thousand euros)

		(21)	(22)	(23)	(24)	(25)
COUPONS/DIVIDENDS						
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating	Fixed to floating	Floating	Fixed
18	Coupon rate and any related index	Until 29-Jun-2011: 7%; From 29-Dec-2011: Euribor 6m + 2.5% (minimum rate: 5%)	Until 9-Jun-2014 (exclusive): 5.543%; From 9-Jun-2014: Euribor 3m + 2.07%	Until 13-Oct-2015 (exclusive): 4.239%; From 13-Oct-2015: Euribor 3m + 1.95%	N/A	1st year: 8.5%; 2nd year: 8.75%; 3rd year: 9%; 4th year: 9.5%; 5th year: 10%
19	Existence of a dividend stopper	No	No	No	N/A	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	N/A	Fully discretionary
21	Existence of step up or other incentive to redeem	No	Yes	Yes	N/A	Yes
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	(B)
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	Always fully
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	(C)
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	Mandatory
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	Special Shares or Ordinary Shares
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	Banco Comercial Português, S.A.
30	Write-down features	Yes	Yes	Yes	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	Always partial	Full or partial	Full or partial	N/A	N/A
33	If write-down, permanent or temporary	Temporary	Permanent	Permanent	N/A	N/A
34	If temporary write-down, description of write-up mechanism	(A)	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2	Tier 2	Additional Tier 1	Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes	No	No
37	If yes, specify non-compliant features	Existence of Step-up clause	Existence of Step-up clause	Existence of Step-up clause	N/A	N/A

(A) In the following situations: (i) to the extent of the positive variation of the Issuer's equity from profits or positive reserves (according to the rules applicable to the preparation of individual financial statements of the Issuer) on proportion of the nominal value of the Notes and the Share capital of the Issuer; (ii) in the case of dissolution, liquidation or insolvency of the Issuer; (iii) in case of payment of divivends to the shareholders; (iv) in the event of early redemption (Issuer call). In each case subject to prior authorisation from the Bank of Portugal.

(B) (a) If the Bank is in Material Breach of the Recapitalization Plan, the principal due under the GSI not bought back and cancelled by the Bank shall be mandatorily fully converted at the Conversion Rate into special shares subject to articles 4 and 16-A of Law 63-A/2008; (b) If the Bank does not buyback the GSI fully by the end of the Investment Period (5 years from the Issue Date), the principal amount due under the GSI held by the State at that date shall be mandatorily fully converted into ordinary shares of the Bank at the Conversion Rate.

(C) The Conversion Rate will be determined by the Minister of Finance, subject to any State Aid requirements, applying a 35% discount to the ordinary share price reflecting the traded market value of the shares at the time conversion is announced, taking into account the effect of dilution.

(1) Amount included in the calculation of Bank's Own Funds (phased-in) as of 31 December 2016

(2) On the Issue Date

ANNEX 6 – STANDARD FORMAT FOR DISCLOSURE ON INFORMATION IN RELATION TO THE COMPLIANCE OF INSTITUTIONS WITH THE REQUIREMENT FOR A COUNTERCYCLICAL BUFFER – GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights
Germany	2,187	95,608					6,326			6,326	0.3%
Angola	239	195,414					20,072			20,072	0.9%
Spain	32,586	203,967					10,914			10,914	0.5%
United States of America	3,540	101,853					11,193			11,193	0.5%
France	3,416	308,127					14,918			14,918	0.7%
Greece	39	87,009					7,923			7,923	0.4%
Kuwait		135,149					1,864			1,864	0.1%
Luxembourg	485,158	213,692					84,926			84,926	4.0%
Macao, SAR China	52,577	15,628					5,376			5,376	0.3%
Mozambique	863,600	29,152					88,470			88,470	4.2%
Netherlands	30,417	346,056					15,118			15,118	0.7%
Poland	3,990,612	6,769,686					379,173			379,173	17.8%
Portugal	2,838,625	35,818,926	163,686			3,334,700	1,437,682	1,284	32,494	1,471,460	69.2%
United Kingdom	8,539	260,315					5,535			5,535	0.3%
Switzerland	340	312,040					4,607			4,607	0.2%
TOTAL	8,311,875	44,892,620	163,686	0	0	3,334,700	2,094,096	1,284	32,494	2,127,875	-

ANNEX 7 – STANDARD FORMAT FOR DISCLOSURE ON INFORMATION IN RELATION TO THE COMPLIANCE OF INSTITUTIONS WITH THE REQUIREMENT FOR A COUNTERCYCLICAL BUFFER – AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

Total risk exposure amount	56,702,880
Institution specific countercyclical buffer rate	0.00%
Institution specific countercyclical buffer requirement	0

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Banco Comercial Português, S.A.,

Public Investment Company

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

Share Capital: 4,094,235,361.88 euros

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Under the single registration and TIN 501 525 882