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Market Discipline Report

Millennium bcp

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Statement pursuant to part VIII of EU Regulation number 575/2013 please find herein the transcription of the

2017 Market Discipline Report

BANCO COMERCIAL PORTUGUÊS, S.A.

Public Company
Head Office: Praça D. João I, 28, 4000-295 Porto – Share Capital of 5,600,738,053.72 euros
Registered at Porto Commercial Registry, under the single registration and tax identification number 501 525 882

Millennium bcp

All references in this document to the application of any regulations and rules refer to the respective version currently in force.

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List of the acronyms and technical terms used throughout the document (in alphabetical order)

AC: Audit Committee

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

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

O-SII: Other Systemically Important Institution

OTC: Over-the-Counter

Own Funds Requirements: According to artº 92 of the CRR (RWA*8%)

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

SFT: Securities Financing Transaction

SSM: Single Supervisory Mechanism

SPE: Special Purpose Entity

VaR: Value at Risk

Introduction

The “2017 Market Discipline Report” is comprised within the requisites for the provision of information foreseen in Pillar III of the Capital Accord, complementing the 2017 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 the disclosure requirements foreseen in Part VII of the Capital Requirements Directive IV/Capital Requirements Regulation (CRD IV/CRR), whose objective is to give market participants precise and complete information about the risk profile of institutions. The standard formats and guidelines of the EBA, transposed into the national law through the instruction no. 5/2018, were included as well as additional information deemed relevant for the evaluation of the Bank’s risk profile and capital adequacy on a consolidated basis. The Group’s report is structured as follows:

1	Scope of application
2	Risk management in the Group
3	Capital adequacy
4	Credit risk
5	Counterparty credit risk
6	Credit risk mitigation techniques
7	Equity exposures in the banking book
8	Securitisation operations
9	Market risk
10	Operational risk
11	Interest rate risk in the banking book
12	Liquidity risk

Additionally, and given the fact that the Bank was considered as an other systemically important institution (O-SII), the Group informs that it will comply with the terms of article 14-A, no. 3 of the instruction no. 1/2017.

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 – CALCULATION METHODS AND SCOPE OF APPLICATION

	31 Dec. 17	31 Dec. 16
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.

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 “2017 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 “2017 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 2017 exercise and the approval date of this report are described in chapter 3.4 – Events with a material impact on own funds and capital requirements in 2018.

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 2017 Annual Report that was appraised and subject to approval in the General Meeting of Shareholders that took place on 30 May 2018.

VII. The report has the following chapters:

1. Scope of application
2. Risk management in the Group
3. Capital adequacy
4. Credit risk
5. Counterparty credit risk
6. Credit risk mitigation techniques
7. Equity exposures in the banking book
8. Securitisation operations
9. Market risk
10. Operational risk
11. Interest rate risk in the banking book
12. Liquidity risk

VIII. The 2017 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”2017 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 reports relates to.

Lisbon, 5 June 2018

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

1. SCOPE OF APPLICATION

1.1. 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 2017 was 5,600,738,053.72 euros, fully paid up and represented by 15,113,989,952 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.

1.2. 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 “3. Capital adequacy”. As of 31 December 2017, 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.

Notwithstanding the principles and standards that rule the intra-group relations, 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 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 2017 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 – TEMPLATE EU LI3 – OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity	Head office	% Equity
Banco de Investimento Imobiliário, S.A.	Full	Total	Banking	Portugal	100.0%
Banco ActivoBank, S.A.	Full	Total	Banking	Portugal	100.0%
Bank Millennium, S.A.	Full	Total	Banking	Poland	50.1%
Banque Privée BCP (Suisse) S.A.	Full	Total	Banking	Switzerland	100.0%
BCP África, S.G.P.S., Lda.	Full	Total	Holding company	Portugal	100.0%
BCP Capital - Sociedade de Capital de Risco, S.A.	Full	Total	Venture capital	Portugal	100.0%
BCP International B.V.	Full	Total	Holding company	The Netherlands	100.0%
BCP Investment, BV	Full	Total	Holding company	The Netherlands	100.0%
BCP Finance Bank, Ltd.	Full	Total	Banking	Cayman Islands	100.0%
BCP Finance Company	Full	Total	Financial	Cayman Islands	34.1%
BCP Holdings (USA), Inc.	Full	Total	Holding company	USA	100.0%
BG Leasing S.A	Full	Total	Leasing	Poland	37.1%
BIM - Banco Internacional de Moçambique, S.A.	Full	Total	Banking	Mozambique	66.7%
Millennium bcp Bank & Trust	Full	Total	Banking	Cayman Islands	100.0%
Millennium BCP - Escritório de Representações e Serviços, Ltda.	Full	Total	Financial services	Brazil	100.0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Total	Holding company	Portugal	100.0%
MB Finance AB	Full	Total	Financial	Sweden	50.1%
Enerparcela - Empreendimentos Imobiliários. S.A.	Full	Neither conslidated nor subject to deduction (4)	Real estate management	Portugal	100.0%
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Total	Investment fund management	Portugal	100.0%
Adelphi Gere, Investimentos Imobiliários, S.A.	Full	Neither conslidated nor subject to deduction (4)	Real estate management	Portugal	100.0%
Sadamora - Investimentos Imobiliários, S.A.	Full	Neither conslidated nor subject to deduction (4)	Real estate management	Portugal	100.0%
Monumental Residence - Investimentos Imobiliários, S.A.	Full	Neither conslidated nor subject to deduction (4)	Real estate management	Portugal	100.0%
Millennium bcp - Prestação de Serviços, A.C.E.	Full	Total	Services	Portugal	93.5%
Millennium bcp Teleserviços - Serviços de Comércio Electrónico, S.A.	Full	Total	Videotext services	Portugal	100.0%
Millennium Dom Maklerski S.A.	Full	Total	Brokerage services	Poland	50.1%
Millennium Goodie Sp. z o.o.	Full	Total	Consulting and services	Poland	50.1%
Millennium Leasing Sp. z o.o.	Full	Total	Leasing	Poland	50.1%
Millennium Service Sp. z o.o	Full	Total	Services	Poland	50.1%
Millennium Telecomunication Sp. z o.o.	Full	Total	Brokerage services	Poland	50.1%

(Continues)

(Continuation)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity	Head office	% Equity
Millennium TFI - Towarzystwo Funduszy Inwestycyjnych, S.A.	Full	Total	Investment fund management	Poland	50.1%
Millennium bcp Imobiliária, S.A	Full	Total	Real estate management	Portugal	99.9%
MULTI 24 - Sociedade Imobiliária, S.A.	Full	Neither conslidated nor subject to deduction (4)	Real estate management	Portugal	100.0%
Servitrust - Trust Managment Services S.A.	Full	Total	Trust services	Portugal	100.0%
Setelote - Aldeamentos Turísticos S.A.	Full	Neither conslidated nor subject to deduction (5)	Real estate company	Portugal	100.0%
Irgossai - Urbanização e construção, S.A.	Full	Neither conslidated nor subject to deduction (5)	Real estate company	Portugal	100.0%
Imábida - Imobiliária da Arrábida, S A.	Full	Neither conslidated nor subject to deduction (5)	Real estate company	Portugal	100.0%
Bichorro - Empreendimentos Turísticos e Imobiliários S.A.	Full	Neither conslidated nor subject to deduction (5)	Real estate company	Portugal	100.0%
Finalgarve - Sociedade de Promoção Imobiliária Turística, S.A.	Full	Neither conslidated nor subject to deduction (5)	Real estate company	Portugal	100.0%
Fiparso - Sociedade Imobiliária Lda.	Full	Neither conslidated nor subject to deduction (5)	Real estate company	Portugal	100.0%
Fundo de Investimento Imobiliário Imosotto Acumulação	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundo de Investimento Imobiliário Gestão Imobiliária	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundo de Investimento Imobiliário Imorenda	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundo Especial de Investimento Imobiliário Oceânico II	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundo de Investimento Imobiliário Fechado Gestimo	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundo Especial de Investimento Imobiliário Fechado Intercapital	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Millennium Fundo de Capitalização - Fundo de Capital de Risco	Full	Neither conslidated nor subject to deduction (1)	Venture capital fund	Portugal	100.0%
Funsita - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Multiusos Oriente - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Grand Urban Investment Fund - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Fundial- Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
DP Invest - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	54.0%

(Continues)

(Continuation)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity	Head office	% Equity
Fundipar - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
MR - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	100.0%
Domus Capital - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	50.0%
Predicapital - Fundo Especial de Investimento Imobiliário Fechado	Full	Neither conslidated nor subject to deduction (1)	Real estate investment fund	Portugal	60.0%
Banco Millennium Atlântico, S.A.	Equity method	Deduction (3)	Banking	Angola	22.5%
Banque BCP, S.A.S.	Equity method	Deduction (3)	Banking	France	19.9%
ACT-C-Indústria de Cortiças, S.A.	Equity method	Neither conslidated nor subject to deduction (2)	Extractive industry	Portugal	20.0%
Beiranave Estaleiros Navais Beira SARL	Equity method	Neither conslidated nor subject to deduction (2)	Naval shipyards	Mozambique	14.0%
Constellation, S.A.	Equity method	Neither conslidated nor subject to deduction (2)	Property management	Mozambique	12.3%
Exporsado - Comércio e Indústria de Produtos do Mar, Lda.	Equity method	Neither conslidated nor subject to deduction (2)	Trade and industry of sea products	Portugal	35.0%
Lubuskie Fabryki Mebli S.A	Equity method	Neither conslidated nor subject to deduction (2)	Furniture manufacturer	Poland	25.1%
Mundotêxtil - Indústrias Têxteis, S.A.	Equity method	Neither conslidated nor subject to deduction (2)	Textile products, except clothing	Portugal	25.1%
SIBS, S.G.P.S., S.A.	Equity method	Deduction (3)	Banking services	Portugal	21.9%
Sicit - Sociedade de Investimentos e Consultoria em Infra-Estruturas de Transportes, S.A.	Equity method	Neither conslidated nor subject to deduction (2)	Consulting	Portugal	25.0%
UNICRE - Instituição Financeira de Crédito, S.A.	Equity method	Deduction (3)	Credit cards	Portugal	32.0%
Webspectator Corporation	Equity method	Neither conslidated nor subject to deduction (2)	Digital advertising services	USA	25.1%
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity method	Deduction (3)	Holding company	Portugal	49.0%
S&P Reinsurance Limited	Full	Deduction (3)	Life reinsurance	Ireland	100.0%
SIM - Seguradora Internacional de Moçambique, S.A.R.L.	Full	Deduction (3)	Insurance	Mozambique	61.4%
Magellan Mortgages No.2 Limited	Full	Total	Special Purpose Entity (SPE)	Ireland	100.0%
Magellan Mortgages No.3 Limited	Full	Total	Special Purpose Entity (SPE)	Ireland	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.

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 "8.2 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 funds 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, revenue and expenses, with items of a similar nature on a line by line basis, from the date that joint control started until the date that joint control ceases. On 31 December 2017, 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 purpose of supervision on a consolidated basis.

On 31 December 2017, 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:

TABLE 3 – TEMPLATE EU LI1 (1ST PART) - DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

(Thousand euros)

	Carrying values as reported in published financial statements	Deconsolidation of insurance/other entities	Carrying values under scope of regulatory consolidation
ASSETS			
Cash and deposits at central banks	2,167,934	-2	2,167,933
Repayable on demand to credit institutions	295,532	-2,721	292,811
Other loans and advances to credit institutions	1,065,568	-99	1,065,470
Loans and advances to customers	47,633,492	19,493	47,652,985
Financial assets held for trading	897,734	-6,518	891,216
Other financial assets held for trading at fair value through profit or loss	142,336		142,336
Financial assets available for sale	11,471,847	624,948	12,096,795
Assets with repurchase agreement			
Hedging derivatives	234,345		234,345
Financial assets held to maturity	411,799	-4,001	407,798
Investments in associated companies	571,362	25,224	596,586
Non current assets held for sale	2,164,567	-465,544	1,699,023
Investment property	12,400	-8,053	4,347
Property and equipment	490,423	-155,722	334,701
Goodwill and intangible assets	164,406	-4,611	159,795
Current tax assets	25,914	-790	25,124
Deferred tax assets	3,137,767	-1,117	3,136,649
Other assets	1,052,024	88,247	1,140,271
	71,939,450	**108,734**	**72,048,185**
LIABILITIES			
Amounts owed to central banks	4,154,272		4,154,272
Amounts owed to others credit institutions	3,333,085	-1,095	3,331,991
Amounts owed to customers	51,187,817	200,420	51,388,237
Debt securities	3,007,791	14,795	3,022,586
Financial liabilities held for trading	399,101		399,101
Other financial liabilities held for trading at fair value through results			
Hedging derivatives	177,337		177,337
Non current liabilities held for sale			
Provisions for liabilities and charges	324,158	-58,879	265,280
Subordinated debt	1,169,062		1,169,062
Current income tax liabilities	12,568	1,504	14,072
Deferred income tax liabilities	6,030	-311	5,719
Other liabilities	988,493	-12,565	975,928
	64,759,715	**143,870**	**64,903,584**

(Continues)

(Continuation)

EQUITY			
Share capital	5,600,738		5,600,738
Treasury stock	-293		-293
Share premium	16,471		16,471
Preference shares	59,910		59,910
Other capital instruments	2,922		2,922
Fair value reserves	82,090		82,090
Reserves and retained earnings	132,586		132,586
Net profit for the year attributable to Shareholders	186,391		186,391
	6,080,814		**6,080,814**
Minority interests	1,098,921	-35,135	1,063,786
TOTAL LIABILITIES, EQUITY AND MINOTITY INTERESTS	**71,939,450**	**108,734**	**72,048,185**

The accounting values determined under the scope of regulatory consolidation are distributed accoding to the regulatory risk categories presented in Table 4:

TABLE 4 - TEMPLATE EU LI1 (2ND PART) – MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

(Thousand euros)

	Carrying values under the scope of regulatory consolidation	Carrying values of items				
		Subject to credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS						
Cash and deposits at central banks	2,167,933	2,168,844	-	-	-	-
Repayable on demand to credit institutions	292,811	279,788	-	-	-	-
Other loans and advances to credit institutions	1,065,470	1,054,442	-	-	47,694	-
Loans and advances to customers	47,652,985	45,230,439	-	2,831,345	-	63,260
Securities and derivatives [(a)]	14,369,075	12,927,268	881,253	6,720	599,275	200,240
Non current assets held for sale	1,699,023	1,671,126	-	-	-	29,415
Investment property	4,347	4,347	-	-	-	-
Property and equipment	334,701	334,701	-	-	-	-
Intangible assets	159,795	-	-	-	-	159,795
Current tax assets	25,124	23,677	-	-	-	-
Deferred tax assets	3,136,649	2,290,824	-	-	-	845,825
Other assets	1,140,271	816,488	-	-	210,382	116,781
	72,048,185	**66,801,945**	**881,253**	**2,838,065**	**857,351**	**1,415,315**
LIABILITIES						
Amounts owed to credit institutions	7,486,263	-	-	-	507,599	-
Amounts owed to customers	51,388,237	-	-	-	129,735	-
Debt securities	3,022,586	-	64,658	-	1,038,208	-
Financial liabilities held for trading	399,101	-	-	-	-	-
Other financial liabilities held for trading at fair value through results	-	-	-	-	-	-
Hedging derivatives	177,337	-	-	-	-	-
Non current liabilities held for sale	-	-	-	-	-	-
Provisions for liabilities and charges	265,280	-	-	-	-	-
Subordinated debt	1,169,062	-	-	-	-	-
Current income tax liabilities	14,072	-	-	-	-	-
Deferred income tax liabilities	5,719	-	-	-	-	-
Other liabilities	975,928	-	-	-	-	-
	64,903,584	**-**	**64,658**	**-**	**1,675,542**	**-**

[(a)] Includes derivatives that are simultaneously subject to market risk and counterparty credit risk.

The exposures' amounts for regulatory purposes also reflect differences regarding the carrying values as reported in the published financial statements. Table 5 presents the most relevant sources of these differences.

TABLE 5 – TEMPLATE: EU LI2 – MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

(Thousand euros)

		Total	Items subject to		
			Credit risk framework	CCR framework	Securitisation framework
1	**Assets carrying value amount under the scope of regulatory consolidation (1)**	70,521,262	66,801,945	881,253	2,838,065
2	Liabilities carrying value amount under the regulatory scope of consolidation	64,658	-	64,658	-
3	Total net amount under the regulatory scope of consolidation	70,456,604	66,801,945	816,595	2,838,065
4	Off-balance sheet amounts (2)	12,784,904	4,172,985	-	283,872
5	Differences in valuations	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-
7	Differences due to the consideration of provisions (3)	2,985,402	2,985,402	-	-
8	Differences due to prudential filters	-	-	-	-
9	Differences due to the consideration of CCF (4)	(8,404,807)	-	-	-
10	Differences due to add-on and CRM	(469,075)	(332,567)	147,364	(283,872)
11	Other	35,799	(40,760)	(200)	-
12	**Exposure amounts considered for regulatory purposes**	**77,388,827**	**73,587,005**	**963,758**	**2,838,065**

(1) The total of line 1 does not match the total assets of Table 4 since it does not consider neither the assets subject to market risk nor the assets that are subject to own funds' deduction;

(2) The total of line 4 does not match the sum of the parts because, according to the filling rules, this total refers to the original exposure net of provisions and the parts contain the exposure value after the application of CCF.

(3) Provisions related to on-balance sheet exposures on the IRB method since these are included in the respective EAD.

(4) Value that is only present in the "Total", as mentioned in note (2).

(5) EAD reported in each of the frameworks.

2. RISK MANAGEMENT IN THE GROUP

2.1. 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, concerning the developments and actions in prudential activities/risk management in 2017:

- Undertaking of the internal developments necessary for the implementation of IFRS9, together with the participation in the impact studies regarding this new framework, with report to EBA;
- Execution of the stress testing exercise of 2017, specifically regarding the interest rate risk of the banking book;
- Approval of the new risk taxonomy for ICAAP(*) purposes, with the identification and quantification of risks within the scope of this process and execution of Pillar 2 report;
- Supervisory approval of the new Retail LGD/ELBE models of Bank Millennium (Poland);
- Supervisory approval of the IRB approach for financial assets stemming from the Group's participation (in Portugal) in Collective Investment Undertakings;
- Submission of authorisation request for the PPU (Permanent Partial Use) of the standard approach for exposures related to tariffs' credits over the national electricity system and for intra-group credit exposures;
- Submission of authorisation requests for material changes to LGD/ELBE Retail and Corporate models for Portugal, with new estimates and segmentations for these parameters. The authorisations for the Retail LGD/ELBE models were granted at the beginning of 2018;
- Implementation of updates to the internal market risk model (VaR);

(*) *Internal Capital Adequacy Assessment Process.*

- Implementation of a software solution to support the management and registration of internal models (MRM), aiming at the reinforcement of model risk governance practices;
- Launching of the BCBS 239 (Principles for effective risk data aggregation and risk reporting) Project and nomination of the Chief Data Officer (CDO), in view of the Bank's compliance with the principles of the Basel

2.2. 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 Risk Assessment Committee 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 Commission that is responsible, at an executive level, for monitoring global credit, market, liquidity and operational risk levels (ensuring that these are compatible with the goals, financial resources available and strategies approved for the development of the group's activity), from a standpoint of support to decision-making regarding management and promotion of a better connection between current management decisions.

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

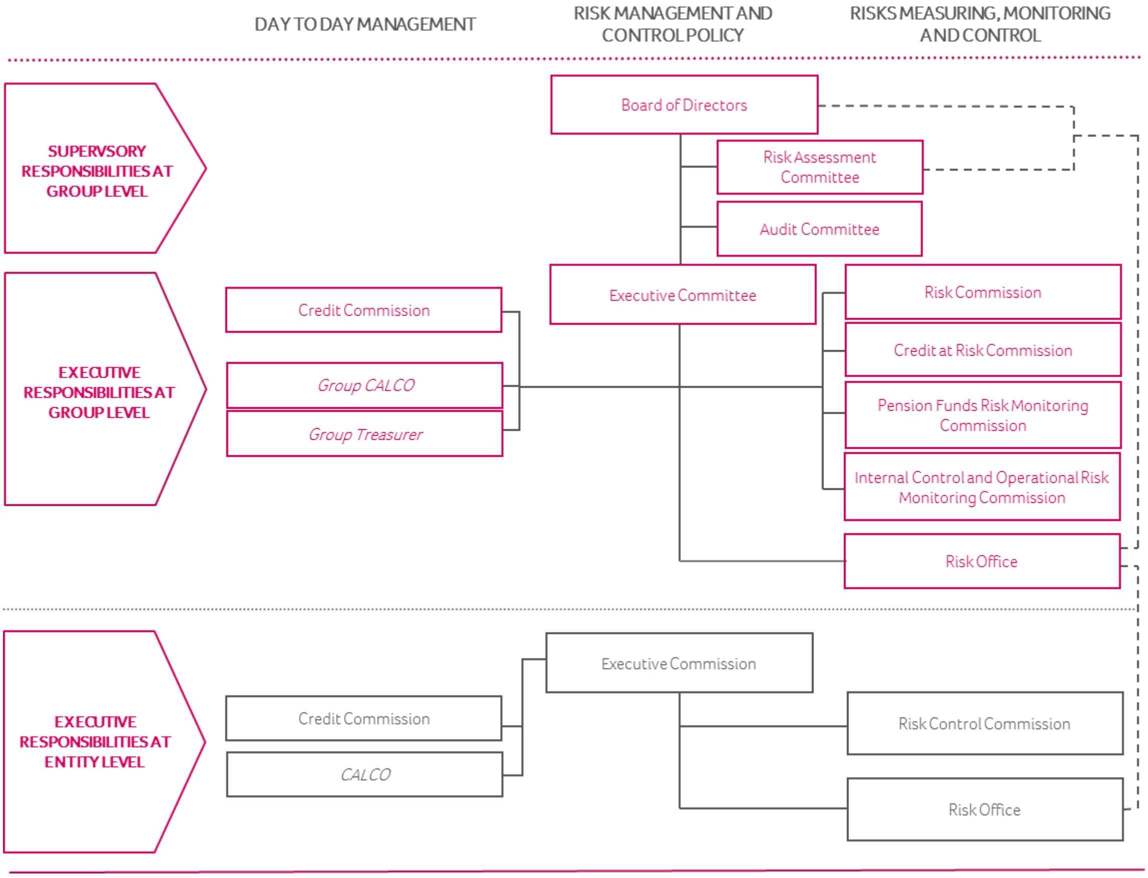
The Risk Office gives support to the Risk Commission, informing this body on the general level of risk and proposing measures to improve its respective control, implementing the approved limits. The responsible for the Risk Office also has the power to veto any decision that is not subject to the approval 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 centrally established by the Risk Commission and all the main subsidiaries abroad have local Risk Office structures established in accordance with the risks inherent to their respective activities. Those subsidiary companies also have a Risk Control Commission responsible for controlling risk locally.

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 Commission - responsible for the assessment and decision on credit granting applications from the Bank's Clients.

TABLE 6 – RISK MANAGEMENT MODEL



2.3. RISK ASSESSMENT

2.3.1. 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". Non-processual 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 the Supervisor 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 CCF own estimations result from the analysis made to data on the use of credit lines and limits or from the execution of the collateral provided for a time horizon of one year before the occurrence of the defaults. The CCF own estimations (or the regulatory values for these factors) apply to all off-balance sheet exposures.

The stage of development of the processes and systems allocated by the Group to credit risk management and control enabled the Supervisor 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, the Supervisor 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.

2.3.2. MARKET RISK

The Trading Book portfolio is composed by 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 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.

Complementing the previous approach, the Bank monthly calcullates the impacto n net interest margin projected for the following 12 months, due to changes in market interest rates (NII method). For this puropose, all assets, liabilities and off-balance products that generate interest are considered and the calculation on interest cash flows is performed based on the repricing and amortisation characteristics of the products and on yield curves for 12 months projected in accordance with the “cash and carry trade” and “non-arbitrage principle” methods. This exercise assumes a static balance for 12 months in which, for each amortisation, an exposure with the same maturity and proce features is generated.

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 2017, 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.

Among its main responsibilities, the Bank's Market and Liquidity Risks Area is responsible for:

- Proposing and implementing market risks’ management policies and methodologies for their identification, measurement, limitation, monitoring, mitigation and reporting;
- Participating in the structural management of market risks, particularly in the planning process;
- Measuring, monitoring and reporting risk positions and the results of stress tests exercises, as well as the compliance with the established internal limits;
- Modelling the market risks’ management system and ensuring its reviews;
- Reporting to the Executive Committee any excess over limits, as well as verifying the compliance with the required ratification and approval processes;
- Verifying the operating implementation, within the front-office platform, of the market risks’ management system;
- Analysing new products prior to their launching; and
- Coordinating with the relevant Group entities the definition of the negotiation strategies, validating their compliance with the defined policy and limits.

On the other hand, the Risk Office (in which the Market and Liquidity Risks Area is integrated) acts independently – both organically and functionally - from all market risks takers, which reinforces the autonomy of its management functions, oriented towards a risk profile in accordance with the Group's strategic goals.

2.3.3. 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: segregation of functions; definition of lines of responsibility and corresponding authorisations; definition of limits of tolerance and of exposure to risk; codes of ethics and conduct; implementation of KRI (Key Risk Indicators)[1]; access controls, physical and logical; reconciliation activities; exception reports; new products’ structured approval process; contingency plans; insurance policies (for the total or partial risks transfer); and 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, which encompasses 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

[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 used for all processes of the main Group geographies.

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 processes review is ensured by dedicated organisational units.

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 authorizations 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, such as accounting, complaints and insurance.

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.

In 2017, the usual operational risk management activities continued to be carried out by the various intervenient involved in the management of this risk, aiming at an efficient and systematic identification, evaluation, mitigation and control of exposures, as well as their respective internal reporting (to the management bodies) or within the regulatory domain. Due to their relevance for operational risk management, it is important to highlight the launching of initiatives aimed at strengthening the mechanisms for a more efficient control of outsourcing risk, namely, the issuance of an internal regulation and the definition of performance and risk indicators for the monitoring of the outsourcers service levels within the scope of processes.

2.3.4. 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 operational liquidity 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.

Regarding the evolution of the Group's structural liquidity, a number of indicators are included - such as the Loans-to-Deposits Ratio, the LCR (Liquidity Coverage Ratio) and the NSFR (Net Stable Funding Ratio) - as well as the available collateral eligible for discount at central banks. These indicators are regularly monitored and reported to the Bank's management bodies. Some of the liquidity indicators structure are metrics integrated in the Group's Risk Appetite Statement.

Liquidity risk management also includes the preparation of an annual liquidity plan defining the desired financing structure for the expected evolution of the Group's assets and liabilities, including a set of initiatives and an actions plan to achieve the financing structure at both Group level and for the major subsidiaries and currencies. This plan is an integral part of the Group's planning process and is approved simultaneously with final budget approval.

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. The control of the exposure to liquidity risk pertains to the Risk Commission.

2.3.5. 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 as well as from changes on the actuarial factors used on the fund projections, implying the necessity of unplanned contributions. The Pension Funds Risk Monitoring Commission is responsible for the regular monitoring and follow-up of this risk.

3. CAPITAL ADEQUACY

3.1. 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 (2.5%) and additional Pillar 2 requirements (2.4%), of 9.4% for Common Equity Tier 1 (CET1), 10.9% for Tier 1 (T1) and 12.9% 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 institution), and is obliged to comply with an additional buffer of 0.188% from 1 January 2018, of 0.375% form 1 January 2019, of 0.563% from 1 January 2020 and of 0.75% from 1 January 2021.

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 29 September 2017, Banco de Portugal, in the exercise of its powers as national macroprudential authority, decided that the countercyclical buffer rate to be in force in the fourth quarter of 2017 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 2016 and 2017, 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.

3.2. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER 2017 AND 2016

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 lasted 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 Table7:

TABLE 7 – PHASE-IN PROGRESSION

	2017	2016
Goodwill and other intangible assets	80%	60%
Shortfall of impairment to expected loss	80%	60%
Investments in financial and insurance entities	80%	60%
Deferred tax assets existing as of 01.01.2014	30%	20%
Deferred tax assets created after 01.01.2014	80%	60%
Fair value reserves on public debt securities	80%	60%
Fair value reserves on other securities	80%	60%
National filters and deductions	80%	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 2017 and 2016 as well as the respective capital ratios are shown in Table 8:

TABLE 8 - CAPITAL RATIO AND SUMMARY OF THE MAIN AGGREGATES

(Thousand euros)

	31 Dec. 17	31 Dec. 16
OWN FUNDS		
Tier I	5,319,273	4,874,199
of which: Common Equity Tier I	5,319,273	4,874,199
Tier II	612,577	383,268
Total capital	5,931,851	5,257,467
RWA		
Credit risk and counterparty credit risk	35,366,357	35,007,882
Market risk	991,992	675,498
Operational risk	3,574,097	3,260,661
Credit Valuation Adjustments (CVA)	238,668	215,749
Total	40,171,113	39,159,791
CAPITAL RATIOS		
Common Equity Tier I	13.2%	12.4%
Tier I	13.2%	12.4%
Total capital	14.8%	13.4%

The phased-in CET1 ratio, calculated according to our interpretation of the CRD IV/CRR and the current applicable prudential regulatory framework, stood at 13.2% as at 31 December 2017 and at 12.4% as at 31 December 2016, both above the respective minimum required thresholds.

TABLE 9 – IMPACTS

(Thousand euros)

	CET1 31 Dec. 16	Phase-in	CET1 1 Jan. 17	Cap. Incr. and CoCo's reimb	LGD/ELBE - Retail Portfolios	Activity 2017	CET1 31 Dec. 17
CET1	4,874,033	-512,196	4,361,838	676,851	-239,048	519,633	5,319,273
RWA	39,159,791	-146,969	39,012,823	228,091	408,574	521,626	40,171,113
Ratio	12.4%	-127 bp	11.2%	166 bp	-72 bp	117 bp	13.2%

The performance of the CET1 phased-in ratio in 2017 mainly reflects the following impacts:

- the capital increase operation performed in February 2017 and the full reimbursement of the remaining CoCos, which determined a CET1 increase of 677 million euros and a 228 million euros increase of RWA (+ 166 basis points in CET1 phased-in ratio);
- the phase-in progression, which determined reductions of CET1 by 512 million euros and RWA by 147 million euros as at 1 January 2017 (- 127 basis points in CET1 phased-in ratio);
- the changes performed in the Retail LGD/ELBE models decreased the CET1 in 239 million euros due to expected losses, despite the 409 million euros risk weighted assets' increase (-72 basis points in CET1 phased-in ratio).

The organic generation of capital, based on the positive net income, as well as on the fair value reserves' favourable evolution, also contributed to the positive performance of capital ratios on this period.

Table 10 shows the reconciliation between the accounting and regulatory capital as at 31 December 2017 and 2016:

TABLE 10 - RECONCILIATION BETWEEN ACCOUNTING AND REGULATORY CAPITAL

(Thousand euros)

		31 Dec. 17	31 Dec. 16
1	Share capital	5,600,738	4,268,818
2	Own shares	-293	-2,880
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	214,676	12,937
7	Net income for the period attributable to Shareholders	186,391	23,938
	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	6,080,814	4,382,115
8	Non-controlling interests (minority interests)	1,063,786	888,682
	TOTAL EQUITY	7,144,600	5,270,798
9	Own shares of CET1 not elegible instruments	-4,254	
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
13	Non-controlling interests not eligible for CET1	-499,744	-234,195
14	Other regulatory adjustments	-1,258,496	-799,572
	COMMON EQUITY TIER 1 (CET1)	5,319,273	4,874,199
15	Subordinated debt	4,130	10,629
16	CET1 transferred adjustments	104,239	157,263
17	T2 transferred adjustments	-5,880	-11,760
18	Other Adjustments	-102,489	-156,132
	Of which: Intangible assets	-54,479	-107,012
	Of which: Shortfall of impairment to expected loss	-39,246	-24,073
	Of which: Residual amounts of CET1 instruments of financial entities in which the institution has a significant investment	-8,764	-20,788
	Of which: Other		-4,258
	TIER 1 (T1)	5,319,273	4,874,199
19	Subordinated debt	596,693	403,491
20	Non-controlling interests elegible for T2	146,229	126,963
21	Preference shares elegible for T2		
22	Adjustments with impact in T2, including national filters	-130,345	-147,186
23	Adjustments that are transferred for T1 for insufficient T2 instruments		
	TIER 2 (T2)	612,577	383,268
	OWN FUNDS	5,931,851	5,257,467

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 11 shows BCP Group risk weighted assets as at 31 December 2017 and 2016.

TABLE 11 – TEMPLATE EU OV1 - OVERVIEW OF THE RISK WEIGHTED ASSETS (RWA)

(Thousand euros)

	RWA		Minimum capital requirements
	31 Dec. 17	31 Dec. 16	31 Dec. 17
CREDIT RISK (EXCLUDING CCR)	**31,921,172**	**31,568,860**	**2,553,694**
of which:			
Standardised Approach	9,020,139	10,690,134	721,611
Advanced IRB (AIRB) approach	22,901,033	20,878,725	1,832,083
CCR	**519,686**	**584,546**	**41,575**
of which:			
Mark to Market	519,686	584,546	41,575
Standardised Approach			
SETTLEMENT RISK			
SECURITISATION EXPOSURES IN THE BANKING BOOK (AFTER THE CAP)	**350,669**	**406,177**	**28,054**
of which:			
IRB Approach	3,781	17,261	302
IRB Supervisory Formula Approach (SFA)	346,888	388,916	27,751
MARKET RISKS	**991,992**	**675,498**	**79,359**
of which:			
Standardised Approach	358,218	36,374	28,657
IMA	633,773	639,124	50,702
LARGE EXPOSURES			
OPERATIONAL RISK	**3,574,097**	**3,260,661**	**285,928**
of which:			
Standardised Approach	3,574,097	3,260,661	285,928
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (subject to 250% risk weight)	**2,178,123**	**2,016,516**	**174,250**
Floor Adjustment			
TOTAL	**39,535,739**	**38,512,259**	**3,162,859**

By the end of 2017 and 2016, the Group had an own funds surplus, comparing with the respective own funds requirements, of 2,718 million euros and 2,125 million euros, respectively, as referred to in Table 12.

TABLE 12 – CAPITAL ADEQUACY

(Euro thousand)

	31 Dec. 17	31 Dec. 16
CET1 Ratio (%)	13.2%	12.4%
Surplus (+) / Deficit (-) of CET1	3,511,573	3,111,843
T1 ratio (%)	13.2%	12.4%
Surplus (+) / Deficit (-) of T1	2,909,007	2,524,446
Total ratio (%)	14.8%	13.4%
Surplus (+) / Deficit (-) of Own Funds	2,718,162	2,124,553

3.3. LEVERAGE RATIO ON 31 DECEMBER 2017 AND 2016

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.

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 intra-group 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 2017:

TABLE 13 – LEVERAGE RATIO ON 31 DECEMBER 2017

(Thousand euros)

	Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amount
1	Total assets as per published financial statements	71,939,450
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	108,734
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	452
5	Adjustment for securities financing transactions (SFTs)	
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,571,601
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	-1,169,298
8	**LEVERAGE RATIO TOTAL EXPOSURE MEASURE**	74,450,939

(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)	71,058,193
2	Asset amounts deducted in determining Tier 1 capital	-1,067,728
3	**TOTAL**	69,990,464
	DERIVATIVES EXPOSURE	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	646,575
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	446,058
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	-211,530
8	Exempted CCP leg of client-cleared trade exposures	-253,508
9	Adjusted effective notional amount of written credit derivatives	261,278
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	
11	**TOTAL**	888,874
	SFT EXPOSURES	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	Netted amounts of cash payables and cash receivables of gross SFT assets	
14	Counterparty credit risk exposure for SFT assets	
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**	
	OTHER OFF-BALANCE SHEET EXPOSURES	
17	Off-balance sheet exposures at gross notional amount	12,126,739
18	Adjustments for conversion to credit equivalent amounts	-8,555,138
19	**TOTAL**	3,571,601
	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**	5,319,273
21	**LEVERAGE RATIO TOTAL EXPOSURE MEASURE**	74,450,939
	LEVERAGE RATIO	
22	Leverage ratio	7.1%
	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	

(Thousand euros)

	Breakdown of on-balance sheet exposures (excluding derivatives and STF and exempted exposures)	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	71,058,193
EU-2	Trading book exposures	-234,028
EU-3	Banking book exposures, of which:	70,824,165
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	12,007,548
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	798,628
EU-7	Institutions	303,957
EU-8	Secured by mortgages of immovable properties	24,041,423
EU-9	Retail exposures	6,599,982
EU-10	Corporate	10,369,891
EU-11	Exposures in default	6,928,377
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	9,774,357

3.4. EVENTS WITH A MATERIAL IMPACT ON OWN FUNDS AND CAPITAL REQUIREMENTS IN 2018

The main events with recognised or possible material impact on own funds and capital requirements in 2018 are related with:

I) ENTRY INTO FORCE OF THE IFRS 9:

In the beginning of 2018 came into force the IFRS 9, which establishes new requirements regarding the classification and measurement of financial assets and liabilities, the impairment calculation methodology and the application of hedge accounting rules. The Group's regulator issued a transitional guidance within the scope of the IFRS 9 implementation, which allows choosing between two approaches for the recognition of the impacts on regulatory capital. The Group chose to defer the impact, as defined in Article 473a of the CRR.

The estimated impact, of the IFRS 9 application, on the CET1 pro-forma ratio as at 31 December 2017 is -34 basis points fully implemented and -25 basis points phased-in.

II) SREP MINIMUM REQUIREMENTS:

The Bank informed the market of the European Central Bank's (ECB) decision regarding the minimum prudential requirements to be fulfilled from January 1st, 2018, based on the results of the Supervisory Review and Evaluation Process (SREP). In addition, BCP was informed by the Banco de Portugal on its capital buffer requirement as "other systemically important institution" (O-SII). These decisions define, concerning minimum own funds requirements, as from January 1st, 2018, the following ratios, determined as a percentage of total risk weighted assets (RWA): 8.8125% CET1, 10.3125% T1 and 12.3125% Total. In addition to the minimum requirements set by CRR article 92 these minimum own funds requirements include 2.25% of Pillar 2, 1.875% of additional conservation buffer and 0.1875% of other systemically important institutions (O-SII) buffer.

Also on the scope of SREP, the CET1 deduction of irrevocable payment commitments for the Resolution Fund and the Deposits Guarantee Fund is required from January 1st, 2018.

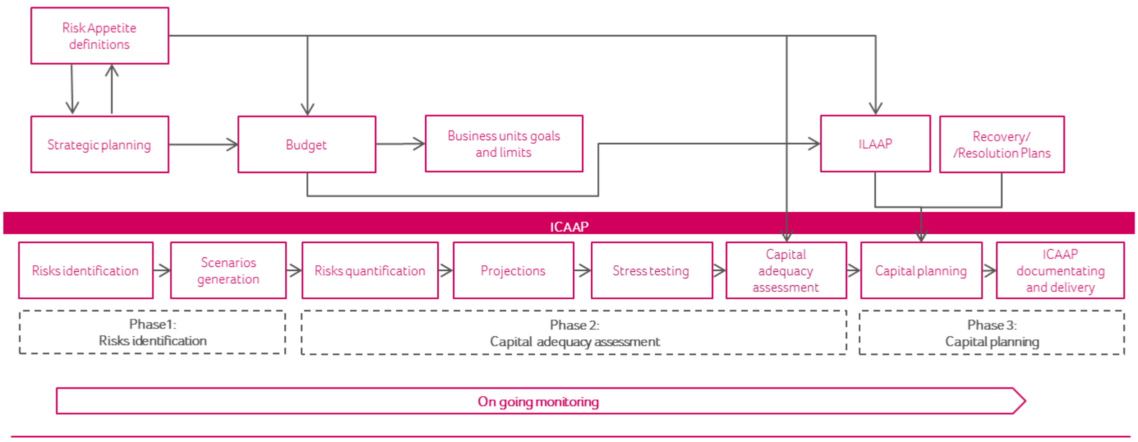
III) PHASE-IN PROGRESSION:

It is also worth noting that the year 2018 will have the last phase-in progression with substantial impact on capital ratios.

The estimated impact on CET1 pro-forma ratio, considering the application of the SREP result and the phase-in progression as for January 1st, 2018, stood at -31 basis points in fully implemented ratio and -157 basis points in phased-in ratio.

3.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The Bank continuously monitors the adequacy of capital to cover the risks level to which the Group's activity is subject in the development of its business strategy, current and projected for the medium-term. This continuous process, designated by ICAAP (Internal Capital Adequacy Assessment Process), is a key process within the risk management function's scope at Group BCP. The chart below summarizes the process at stake:



The ICAAP develops under an internal governance model that ensures the involvement of the BoD (the body responsible for approving the results) 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.

For this purpose, the ICAAP is rolled-out from a prospective vision of the impact estimates concerning the occurrence of risks over the Bank's capital (capital requirements), considering their scale or dimension, complexity, frequency, probability and materiality, against a background consisting of the medium term (3 years) projection for the developments of the Group's activities. In this process, impacts are estimated for a base scenario and a stress scenario; the latter, 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, which involves the Bank's management and the management from the main subsidiaries abroad. 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 Risks Assessment Committee.

Within the ICAAP for 2017, the Group has considered the following risks (as materially relevant ones, after mitigation effects, or considered within the scope of Pillar I):

TABLE 14 – RISKS INCORPORATED IN THE SCENARIO MODELS

Risks incorporated in the scenario models	
Credit risk	Counterparty risk
	Default risk
	Issuer risk
	Securitisation risk
	Sovereign risk
	Transfer risk
Concentration risk	Sectorial concentration
	Single name concentration
Market risks	CVA risk
	FX risk of the banking book
	Interest rate risk of the banking book (IRRBB)
	Market risks of the trading book
Business risks	Economic risk
	Strategy risk
	Financial holdings risk
Operational risk	Clients, products and commercial practices
	Damages to physical assets
	Commercial activities disrupture and systems failures
	Execution, delivery and processes management
	Internal/External fraud risk
	Employment practices and safety at the workplace risk
	Model risk
Reputation risk	Reputation risk of the banking sector
Real Estate risk	Real Estate market risk
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

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

In the third stage of the ICAAP, the impact of the risks identified is modelled for the reference date and the capital requirements are calculated for that date. All risks identified by the Bank are considered in the ICAAP. The material risks are quantified in term of their impact over the Risk Weighted Assets (RWA) level or over the P&L, in accordance with 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 portfolio, due to its business nature). The non-material risks are considered through an additional buffer to the capital calculated by the Bank through the ICAAP.

The approval of the estimation methodologies for the risks impacts in the Group's activity is a competence of the Risk Commission.

In the prospective component, the baseline and adverse scenarios referred to above are considered for a medium-term (3 years) projection, either in the current vision of the Group's management (baseline scenario) or within a macroeconomic context that is severely penalizing, in order to test the Group's resilience under extreme scenarios, i.e., if the Group has adequate capital levels to cover the risks to which its activity may be subject to. For this, the different risks are modelled or incorporated within the Group's stress testing methodology.

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

The Group adopts a RTC that is aligned with the definitions of the regulatory capital ratios, pursuant to Directive 2013/36/EU and Regulation (EU) No 575/2013 (the CRR – Capital Requirements Regulation), including some adjustments in order to encompass other elements or capital instruments that the Group considers appropriate to cover the existing risks, prudently projected along the timeframe under analysis.

The ICAAP results show that the current capitalisation levels are appropriate for a 3-year horizon, either under the base scenario or the stressed/adverse scenario.

Quarterly, the Bank reviews the ICAAP's assumptions, namely, in what concerns the assessment of the materiality of the risks that are considered as "non-material", the up-to-dating of the projections considered under the macroeconomic scenarios, the analysis of gaps in the business plans, the update of the assessment on the main ICAAP's material risks and the RTC calculation. The results are reported to the Bank's management bodies and are one of the major sources for the revision of the Group RAS. Whenever there are significant changes in the Group's risk profile, the capital adequacy model is recalculated.

4. CREDIT RISK

4.1. 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.

In 2017, the credit impairment assessment process included 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 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 conciliation of the general and specific credit risk adjustments, concerning exposures subject to impairment, is presented in Table 15.

TABLE 15 – TEMPLATE EU CR2-A – CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

(Thousand euros)

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
OPENING BALANCE IN 1 JANUARY	**3,765,523**	**107,499**
Increases due to amounts set aside for estimated loan losses during the period	622,995	17,699
Decreases due to amounts reversed for estimated lon losses during the period		
Decreases due to amounts taken against accumulated credit risk adjustments	-1,080,765	-3,320
Transfers between credit risk adjustments	-15,645	15,645
Impact of exchange rate differences		-18,903
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments		
CLOSING BALANCE IN 31 DECEMBER	**3,292,108**	**118,620**
Recoveries on credit risk adjustments recorded directly to the statement of profit and loss	-16,966	
Specific credit risk adjustments directly recorded to the statement of profit and loss		

The changes in the stock of defaulted and impaired loans and debt securities is shown in table 16.

TABLE 16 – TEMPLATE EU CR2-B - CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS AND DEBT SECURITIES

(Thousand euros)

	Gross carrying value of defaulted exposures
OPENING BALANCE IN 1 JANUARY	9,965,166
Loans and debt securities that have defaulted or impaired since the last reporting period	901,047
Returned to non-defaulted status	- 691,106
Amounts written off	- 540,965
Other changes	- 1,824,540
CLOSING BALANCE IN 31 DECEMBER	7,809,602

4.2. CREDIT QUALITY

The following table presents the breakdown of both on-balance and off-balance sheet items' credit quality.

TABLE 17 - TEMPLATE EU CR1-A – CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Corporates	4,764,905	13,268,238	0	2,447,368	0	0	15,585,776
Of which: Specialised lending	5,556	1,508,534	0	3,452	0	0	1,510,638
Retail	2,237,327	27,379,800	0	660,183	0	0	28,956,944
Equity	0	593,948	0	141,292	0	0	452,656
TOTAL IRB APPROACH	**7,002,233**	**41,241,986**	**0**	**3,248,843**	**0**	**0**	**44,995,376**
Central Governments or Central Banks	0	11,349,628	0	1,823	0	0	11,347,805
Regional Governments or Local Authorities	0	744,693	0	708	0	0	743,984
Public Setor Entities	0	349,156	0	2,090	0	0	347,066
Multilateral Development Banks	0	19,432	0	0	0	0	19,432
International Organisations	0	0	0	0	0	0	0
Institutions	0	2,914,386	0	132	0	0	2,914,255
Corporates	0	8,150,275	0	39,389	0	0	8,110,886
Retail	0	2,524,644	0	25,010	0	0	2,499,634
Secured by mortgages on immovable property	0	985,519	0	22,942	0	0	962,577
Exposures in default	943,785	0	0	343,114	0	0	600,671
Items associated with particularly high risk	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
Collective Investments Undertakings	0	22,329	0	1,190	0	0	21,139
Equity exposures	0	22,453	0	10,972	0	0	11,480
Other exposures	0	0	0	0	0	0	0
TOTAL STANDARDISED APPROACH	**943,785**	**27,082,514**	**0**	**447,370**	**0**	**0**	**27,578,929**
TOTAL	**7,946,017**	**68,324,500**	**0**	**3,696,212**	**0**	**0**	**72,574,305**

TABLE 18 - TEMPLATE EU CR1-B – CREDIT QUALITY OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Mortgage credit	1,483,492	21,852,632		235,411			23,100,712
Services	2,536,207	9,047,916		1,434,263			10,149,860
Consumer credit	725,580	6,037,353		431,346			6,331,587
Construction	1,442,704	1,691,345		587,563			2,546,486
Other activ. national	921,667	18,967,310		416,325			19,472,652
Other activ. international		242		0			242
Wholesale business	145,192	1,502,340		84,392			1,563,141
Other	691,176	8,586,632		353,458			8,924,350
TOTAL	**7,946,017**	**67,685,770**		**3,542,758**			**72,089,029**

TABLE 19 - TEMPLATE EU CR1-C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

(Thousand euros)

	a	b	c	d	e	f	g
	Gross carrying values		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Portugal	6,983,609	46,885,649		3,084,729			50,784,529
Poland	751,147	18,342,171		356,112			18,737,206
Other	211,262	2,457,950		101,918			2,567,294
TOTAL	**7,946,017**	**67,685,770**		**3,542,758**			**72,089,029**

TABLE 20 - TEMPLATE EU CR1-D – AGEING OF PAST-DUE EXPOSURES

(Thousand euros)

	Gross carrying values					
	=< 30 days	> 30 days =< 60 days	> 60 days =< 90 days	> 90 days =< 180 days	> 90 days =< 1 year	> 1 year
Loans	691,914	78,946	14,487	1,313	1,281	13,252
Debt securities						
Total exposures	**691,914**	**78,946**	**14,487**	**1,313**	**1,281**	**13,252**

TABLE 21 - TEMPLATE EU CR1-E – NON-PERFORMING AND FORBONE EXPOSURES

(Thousand euros)

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collateral and financial guarantees received	
		Of which performing but past due > 30 days and =< 90 days	Of which performing forbone	of which non-peroforming				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forbone exposures
					of which defaulted	of which impaired	of which forbone		of which forbone		of which forbone		
Debt securities	13,021,126			204,964	75,121	204,964		-5,202		-126,480		3,730	
Loans and advances	51,910,117	81,178	1,061,296	7,658,392	7,126,669	7,541,711	3,130,330	-108,801	-17,921	-3,170,245	-1,407,824	3,698,454	2,369,125
Off-balance-sheet exposures	12,741,260			746,554	693,318			7,188	6	123,687	5	316,985	

4.3. 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. 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 "Customer Groups" - sets of connected Customers (individual persons or companies), which represent a single entity from a credit risk perspective, such that if one of them is affected by financial problems, one or all of the others, will probably face difficulties to fulfil their debtor obligations. The Customer connections that originate a Customer group include the formal participation on the same economic group, the evidence that a direct or indirect control relationship exists, including the control by an individual Customer (criteria of capacity of control) of a company or the existence of a strong commercial interdependency or common sources of funding that cannot be replaced on a short term (criteria of economic dependency).The identification of connected clients is an integral part of the credit granting and monitoring processes of each entity.

For the control of credit concentration risk and limit the exposure to this risk, there are limits defined for:

- 1) Corporate single-name exposures (Large exposures);
- 2) Exposures to sovereign risks;
- 3) Exposures to Institutions (banks/financial institutions);
- 4) Exposure to sectors of activity;
- 5) Geographic concentration (country risk).

These limits apply to the 'Net exposures' at stake(*), relating either to a counterparty or a group of counterparties – cases for 1), 2) and 3) – or to the set of exposures to an activity sector or to a country (the counterparty country of residence) – cases for 4) and 5). The measurement of geographic concentration excludes the countries in which the Group operates (Portugal, Poland and Mozambique).

Except for case 4), the concentration limits are established by taking into consideration the credit worthiness of the debtors at stake in what concerns their rating grades/probability of Default (PD) (internal or external ratings; country rating in the case of geographic concentration).

The concentration limits for Corporate single-name exposures apply only to non-NPE positions, since the NPE positions are covered by the NPE reduction Plan.

The limits for single-name concentration are presented in the following table, which indicates the single-name limit established (for any given Customer/Group of Customers), as the Net Exposure weight on the consolidated Own Funds.

TABLE 22 – LIMITS FOR SINGLE NAME CONCENTRATION

Risk quality	Risk grade	Max Net exposure as a % of COF
High quality	1 – 5	8.0%
Average/good quality	6 – 7	6.0%
Average low/quality	8 - 9	4.0%
Low quality	10 – 11	1.0%
Restricted credit	12 or worse	0.5%

As at 31 of December 2017 there were 4 Economic Groups with net exposure above the limits approved for the respective risk grade, which compares with 8 Customers by the end of 2016. For each Client with exposure excess a specific plan is prepared, aiming at reducing the exposure and bringing it within the established limits.

(*) Net exposure = EAD x LGD, assuming that PD=1 and considering LGD=45% whenever own estimates for LGD do not exist.

It should also be referred that the measurement of this concentration type is also done within the Group RAS (Risk Appetite Statement) scope.

The following tables present the concentration limits to Sovereigns, Institutions, activity sectors and geographies, as well as the measurements of these concentrations as at 31st of December 2017:

TABLE 23 – OTHER CONCENTRATION LIMITS

Counterparties	Limit (% of COF)	Net exposure % weight
Sovereigns	Very low risk 25%; low risk 10%; average (or lower quality) risk 7.5%	Sovereign 1: 3.8% (very low risk); Sovereign 2: 0.4% (low risk); Sovereign 3: 0.01% (low risk); Sovereign 4: 0.01% (very low risk)
Institutions	Very low risk 10%; low risk 5%; average (or lower quality) risk 2.5%	Institution 1 (very low risk): 2.7%; Institution 2 (average or lower quality risk): 2.0%; Institution 3 (low risk): 0.7%; Institution 4: 0.7%; Institution 5: 0.6%; Institution 6: 0.6%; Institution 7: 0.6%; Institution 8: 0.5%; Institution 9: 0.5%; Institution 10: 0.5%; Institution 11: 0.4%; Institution 12: 0.3%; Institution 13: 0.3%; Institution 14: 0.3%; Institution 15: 0.3%; Institution 16: 0.2%; Institution 17: 0.2%; Institution 18: 0.2%; Institution 19: 0.2%; Institution 20: 0.2%

Counterparties	Limit (% of COF)	Net exposure % weight
Countries	Very low risk 40%; low risk 20%; average (or lower quality) risk 10%	Country 1 (very low risk): 4.9% ; Country 2 (very low risk): 2.7% ; Country 3 (very low risk): 2.6% ; Country 4 (average or lower quality risk): 2.5% ; Country 5 (very low risk): 2.3% ; Country 6 (very low risk): 1.8% ; Country 7 (very low risk): 1.5% ; Country 8: 1.3% ; Country 9: 0.8% ; Country 10: 0.6% ; Country 11: 0.5% ; Country 12: 0.3% ; Country 13: 0.2% ; Country 14: 0.2% ; Country 15: 0.2%
Sectors of activity	40% of the Group entity's Own Funds	Portugal: Other corporate services 28.4% Other activities 19.2% Construction 17.9% Financial and insurance activities 16.2% Wholesale and retail trade; repair of motor vehicles and motorcycles 16.2% Poland: Wholesale and retail trade; repair of motor vehicles and motorcycles 25.2% Transporting and storage 12.1% Financial and insurance activities 10.5%

Risk Grades		
1 - 3	4 - 6	7 - 12
Very low risk	Low risk	Average (or lower quality) risk

The Bank's management body and the Risk Assessment Committee are regularly informed on the evolution of the credit concentration risk metrics (against the mentioned limits) and on major risks, which are assessed by measuring the weights of the net exposure values in question in terms of the consolidated Own Funds level. For such measurements, the Risk Office uses a database on credit exposures (the Risk Office Datamart), monthly updated by the Group's systems, which also feeds a simulation tool for supporting the analysis of the impact on changes on the Customers exposures in the consumption of the respective concentration limits, used by the Credit Division within the scope of credit analysis for large clients.

4.4. 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 exposures net of impairments and amortisations attained a value of 72,574 million euros, as at 31 December 2017, and 72,491million euros as at 31 December 2016. Table 24 presents the breakdown of this amount in accordance with the risk types defined in the Basel Accord.

TABLE 24 – TEMPLATE EU CRB-B – TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

(Thousand euros)

	Net value of exposures at the end of the period	Average net exposures over the period
Corporates	15,585,776	15,066,107
Of which: Specialised lending	1,510,638	1,541,953
Retail	28,956,944	29,104,710
Equity	452,656	450,793
TOTAL IRB APPROACH	**44,995,376**	**44,621,610**
Central Governments or Central Banks	11,347,805	11,632,548
Regional Governments or Local Authorities	743,984	770,801
Public Setor Entities	347,066	520,582
Multilateral Development Banks	19,432	18,952
International Organisations		
Institutions	2,914,255	3,119,068
Corporates	8,110,886	7,504,328
Retail	2,499,634	2,347,194
Secured by mortgages on immovable property	962,577	871,700
Of which: SMEs		
Exposures in default	600,671	587,720
Items associated with particularly high risk		273,490
Covered bonds		
Claims on institutions and corporates with a short-term credit assessment		
Collective Investments Undertakings	21,139	202,095
Equity exposures	11,480	21,356
Other exposures		
TOTAL STANDARDISED APPROACH	**27,578,929**	**27,869,832**
TOTAL	**72,574,305**	**72,491,442**

The geographical distribution of the Group's original risk positions at the end of 2017 and 2016 is provided in Table 25.

TABLE 25 – TEMPLATE EU CRB-C - GEOGRAPHICAL BREAKDOWN OF EXPOSURES

(Thousand euros)

	Portugal	Poland	Other	Total
Central Governments or Central Banks				
Institutions				
Corporates	14,568,895	3,474	1,013,406	15,585,776
Retail	20,911,484	6,585,238	1,460,223	28,956,944
Equity	421,625	7,927	23,104	452,656
TOTAL IRB APPROACH	**35,902,004**	**6,596,639**	**2,496,733**	**44,995,376**
Central Governments or Central Banks	4,963,896	4,865,568	1,518,342	11,347,805
Regional Governments or Local Authorities	654,971	88,872	141	743,984
Public Setor Entities	192,167	18,330	136,569	347,066
Multilateral Development Banks		19,432		19,432
International Organisations				
Institutions	1,104,001	398,724	1,411,529	2,914,255
Corporates	3,567,281	3,671,493	872,112	8,110,886
Retail	233,891	2,056,185	209,559	2,499,634
Secured by mortgages on immovable property	55,609	652,382	254,586	962,577
Exposures in default	130,461	317,893	152,316	600,671
Items associated with particularly high risk				
Covered bonds				
Claims on institutions and corporates with a short-term credit assessment				
Collective Investment Undertakings	21,139			21,139
Equity exposures	11,162		319	11,480
Other exposures				
TOTAL STANDARDISED APPROACH	**10,934,578**	**12,088,879**	**4,555,473**	**27,578,929**
TOTAL	**46,836,582**	**18,685,517**	**7,052,205**	**72,574,305**

The sectorial distribution of the Group's original risk positions at the end of 2017 and 2016 is provided in Table 26.

TABLE 26 – TEMPLATE EU CRB-D - CONCENTRATION OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES

(Thousand euros)

	Mortgage credit	Services	Consumer credit	Construction	Other activ. national	Other activ. international	Wholesale business	Other	Total
Central Governments or Central Banks									
Institutions									
Corporates		5,906,473		2,097,926	1,054,058		954,627	5,572,692	15,585,776
Retail	23,066,347	274,631	4,377,310	166,764	178,546	13	195,654	697,680	28,956,944
Equity								452,656	452,656
TOTAL IRB APPROACH	**23,066,347**	**6,181,104**	**4,377,310**	**2,264,690**	**1,232,603**	**13**	**1,150,281**	**6,723,027**	**44,995,376**
Central Governments or Central Banks		1,137,400		6,296	9,494,992	204		708,913	11,347,805
Regional Governments or Local Authorities		4,120			731,440			8,425	743,984
Public Setor Entities		192,157			154,908				347,066
Multilateral Development Banks					19,432				19,432
International Organisations									
Institutions		2,181,186			733,069				2,914,255
Corporates		388,711		220,434	5,378,757	15	342,434	1,780,535	8,110,886
Retail		19,354	1,779,415	17,804	511,873	10	60,663	110,515	2,499,634
Secured by mortgages on immovable property	25,254	29,607	49,404	1,573	835,843		3,833	17,063	962,577
Exposures in default	9,111	16,221	125,458	35,689	379,735		5,930	28,527	600,671
Items associated with particularly high risk									
Covered bonds									
Claims on institutions and corporates with a short-term credit assessment									
Collective Investments Undertakings								21,139	21,139
Equity exposures								11,480	11,480
Other exposures									
TOTAL STANDARDISED APPROACH	**34,365**	**3,968,756**	**1,954,276**	**281,796**	**18,240,048**	**229**	**412,860**	**2,686,598**	**27,578,929**
TOTAL	**23,100,712**	**10,149,860**	**6,331,587**	**2,546,486**	**19,472,652**	**242**	**1,563,141**	**9,409,625**	**72,574,305**

The distribution of the Group's original risk positions by residual maturity term at the end of 2017 and 2016 is provided in Table 27.

TABLE 27 – TEMPLATE EU CRB-E - MATURITY OF EXPOSURES

(Thousand euros)

	RM < 1 year	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Total
Central Governments or Central Banks					
Institutions					
Corporates	7,209,939	3,530,115	2,930,818	1,914,903	15,585,776
Retail	1,876,121	3,072,284	2,230,794	21,777,746	28,956,944
Equity				452,656	452,656
TOTAL IRB APPROACH	**9,086,060**	**6,602,399**	**5,161,611**	**24,145,305**	**44,995,376**
Central Governments or Central Banks	5,067,486	3,882,606	2,150,538	247,175	11,347,805
Regional Governments or Local Authorities	135,460	126,668	199,271	282,585	743,984
Public Setor Entities	42,093	66,068	67,897	171,008	347,066
Multilateral Development Banks		19,432			19,432
International Organisations					
Institutions	1,617,165	456,925	807,888	32,277	2,914,255
Corporates	4,406,234	3,201,921	392,125	110,605	8,110,886
Retail	381,060	1,121,863	633,728	362,984	2,499,634
Secured by mortgages on immovable property	331,221	334,702	191,901	104,753	962,577
Exposures in default	276,927	219,221	70,342	34,181	600,671
Items associated with particularly high risk					
Covered bonds					
Claims on institutions and corporates with a short-term credit assessment					
Collective Investments Undertakings				21,139	21,139
Equity exposures				11,480	11,480
Other exposures					
TOTAL STANDARDISED APPROACH	12,257,645	9,429,407	4,513,690	1,378,186	27,578,929
TOTAL	**21,343,706**	**16,031,806**	**9,675,301**	**25,523,492**	**72,574,305**

4.5. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

4.5.1. FRAMEWORK OF THE APPROACHES USED

As at 31 December 2016 and 2017, the Group determined the own funds requirements for credit risk in accordance with the authorisations granted by the Supervisor for the approach to calculate 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 2016 and 2017, according to the supervisory authorisations granted 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 supervisory authorisations granted 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 2016 and 2017 were estimated following the standardised approach.

Also, in Portugal:

- Risk weighted assets as at 31 December 2016 and 2017 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 the supervisory authorisation for a permanent partial use of this approach, for these cases.

4.5.2. IRB APPROACH – PARAMETERS AND GENERAL INFORMATION

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

In addition, in this approach, the computation of the risk weighted assets also uses the 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 28.

TABLE 28 - 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 the Supervisor authorised the use of this approach.

The rating models included in the various rating systems are regularly subject to validation, 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 Commission.

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 the Supervisor 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.

The next table shows the off-balance credit facilities' amounts and their use, weighted by using own estimates for CCF (in accordance with article 452 (iii) e) of the CRR):

TABLE 29 – CREDIT FACILITIES OUTSIDE OF THE BALANCE SHEET

(Thousand euros)

IRB *Portfolio*	Original exposure		Exposure at risk		Risk weighted assets		% RWA	
	Non-used	Used	Non-used	Used	Non-used	Used	Non-used	Used
Corporate	8,737,382	18,873,038	3,255,496	18,373,226	2,139,646	12,783,571	66%	70%
Large Corporate	5,366,833	10,448,529	2,295,584	10,021,967	1,484,980	6,525,274	65%	65%
Small and medium Corporate	2,968,810	7,295,880	653,994	7,222,680	382,849	5,154,872	59%	71%
Specialised lending	401,739	1,128,629	305,918	1,128,579	271,818	1,103,426	89%	98%
Equity	105,341	2,807,176	105,341	2,245,496	191,223	4,055,746	182%	181%

In accordance with items h) and i) from article 452 of the CRR, it is also referred that:

- During 2017, the relevant parameters associated with the IRB portfolio parameters were stable. The effective LGD of the IRB portfolio is still, approximately, of 30% and the average CCF below 50%;
- The improvement in the credit worthiness of clients in 2017, as a consequence of the favourable evolution of the economic climate, translated into a reduction of 20% in the average PD.

4.5.3. 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 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.

In the second case, the Bank uses the Project Finance rating model, which consists on 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.

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 30 summarises these rating models and systems:

TABLE 30 - CORPORATES RATING MODELS AND SYSTEMS

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).
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.

4.5.4. 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 31:

TABLE 31 - 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.

TABLE 32 – TEMPLATE EU CR9 – IRB METHOD – BACKTESTING OF PD PER EXPOSURE CLASS

(Thousand euros)

Exposure class	PD range (%)	Weighted average PD (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which, new obligors	2017 default rate
				End of previous year	End of the year			
1. CORPORATES	0 to <0.25	0.20%	0.18%	861	912			
	0.25 to <1	0.62%	0.55%	2,338	2,551			
	1 to <5	2.42%	2.35%	2,656	2,914	8		0.30%
	5 to <16	9.52%	9.93%	2,909	3,254	111		3.82%
	16 to <99	40.60%	46.90%	118	127	48	3	38.14%
	100	100.00%	100.00%	1,246	1,268	1,266	22	
1.1 Specialised lending	0 to <0.25							
	0.25 to <1	0.69%	0.66%	38	50			
	1 to <5	1.30%	1.30%	13	14			
	5 to <16	11.50%	11.50%	3	3			
	16 to <99							
	100	100.00%	100.00%	2	2	2		
1.2 SME	0 to <0.25	0.20%	0.19%	522	558			
	0.25 to <1	0.57%	0.55%	1,655	1,811			
	1 to <5	2.36%	2.31%	1,950	2,150	3		0.15%
	5 to <16	9.84%	10.06%	2,292	2,576	91		3.98%
	16 to <99	43.73%	47.27%	99	107	37	3	34.34%
	100	100.00%	100.00%	1,048	1,064	1,063	16	
2. RETAIL	0 to <0.25	0.14%	0.13%	771,525	830,793	533	14	0.07%
	0.25 to <1	0.52%	0.52%	437,761	487,700	1,649	22	0.37%
	1 to <5	2.15%	2.18%	296,645	337,345	4,182	40	1.40%
	5 to <16	9.02%	9.71%	214,765	277,093	13,364	213	6.12%
	16 to <99	34.65%	42.21%	19,627	21,993	8,016	51	40.58%
	100	100.00%	100.00%	105,593	107,298	106,238	1,705	
2.1 Secured by real estate	0 to <0.25	0.14%	0.13%	198,452	205,295	166	1	0.08%
	0.25 to <1	0.51%	0.51%	75,296	77,291	274	2	0.36%
	1 to <5	2.17%	2.17%	46,678	47,909	674	2	1.44%
	5 to <16	8.96%	9.01%	28,177	28,637	2,267	7	8.02%
	16 to <99	32.60%	31.05%	3,606	3,635	1,221	3	33.78%
	100	100.00%	100.00%	17,406	17,441	17,079	35	
2.1.1 SME	0 to <0.25	0.19%	0.19%	3,692	3,829			
	0.25 to <1	0.48%	0.49%	5,574	5,711	3		0.05%
	1 to <5	2.09%	2.12%	3,693	3,895	29	1	0.76%
	5 to <16	9.49%	9.70%	2,854	2,994	151	3	5.19%
	16 to <99	46.24%	45.09%	123	126	56		45.53%
	100	100.00%	100.00%	1,182	1,190	1,165	8	

(Continues)

(Continuation) (Thousand euros)

Exposure class	PD range	Weighted average PD (%)	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which, new obligors	2017 default rate
				End of previous year	End of the year			
2.1.2 Non-SME	0 to <0.25	0.14%	0.13%	194,760	201,466	166	1	0.08%
	0.25 to <1	0.51%	0.51%	69,722	71,580	271	2	0.39%
	1 to <5	2.17%	2.18%	42,985	44,014	645	1	1.50%
	5 to <16	8.91%	8.93%	25,323	25,643	2,116	4	8.34%
	16 to <99	32.00%	30.55%	3,483	3,509	1,165	3	33.36%
	100	100.00%	100.00%	16,224	16,251	15,914	27	
2.2 Qualifying Revolving	0 to <0.25	0.13%	0.13%	546,506	595,070	335	8	0.06%
	0.25 to <1	0.53%	0.52%	272,869	312,655	1,020	16	0.37%
	1 to <5	2.13%	2.20%	192,597	226,048	2,522	26	1.30%
	5 to <16	9.80%	9.87%	145,796	201,567	7,707	170	5.17%
	16 to <99	42.59%	43.99%	13,165	15,358	5,033	42	37.91%
	100	100.00%	100.00%	60,366	61,680	61,213	1,314	
2.3 Other retail	0 to <0.25	0.17%	0.17%	26,567	30,428	32	5	0.10%
	0.25 to <1	0.52%	0.52%	89,596	97,754	355	4	0.39%
	1 to <5	2.10%	2.14%	57,370	63,388	986	12	1.70%
	5 to <16	9.15%	9.45%	40,792	46,889	3,390	36	8.22%
	16 to <99	46.52%	46.63%	2,856	3,000	1,762	6	61.48%
	100	100.00%	100.00%	27,821	28,177	27,946	356	
2.3.1 SME	0 to <0.25	0.18%	0.19%	12,772	14,740	1	1	
	0.25 to <1	0.53%	0.51%	24,385	26,824	39		0.16%
	1 to <5	2.12%	2.17%	14,802	17,249	141	2	0.94%
	5 to <16	9.92%	10.42%	16,286	20,335	744	21	4.43%
	16 to <99	48.61%	48.35%	447	492	246	3	54.36%
	100	100.00%	100.00%	5,279	5,463	5,400	184	
2.3.2 Non-SME	0 to <0.25	0.16%	0.16%	13,795	15,688	31	4	0.20%
	0.25 to <1	0.52%	0.52%	65,211	70,930	316	4	0.48%
	1 to <5	2.09%	2.12%	42,568	46,139	845	10	1.96%
	5 to <16	8.55%	8.72%	24,506	26,554	2,646	15	10.74%
	16 to <99	45.44%	46.29%	2,409	2,508	1,516	3	62.81%
	100	100.00%	100.00%	22,542	22,714	22,546	172	

TABLE 33 – TEMPLATE EU CR5 – STANDARDISED APPROACH

(Thousand euros)

Exposure classes	Risk weight																Total	RWA
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
Central Governments or Central Banks	10,974,786				8,281		46,470			178,196	848,661				9		12,056,403	1,476,081
Regional Governments or Local Authorities					584,815		45			119	9				124		585,113	117,138
Public Setor Entities	192,008				438		9,891			44	82,034						284,415	128,129
Multilateral Development Banks	19,432																19,432	
International Organisations																		
Institutions					1,446,222		396,359			76,562	3,534				114,809		2,037,486	571,584
Corporates					7,158		49,417			4,080,752	261,017				78,068		4,476,412	4,323,451
Retail									2,207,587								2,207,587	1,557,581
Secured by mortgages on immovable property					220		611,188		13,523	191,634	75,901				46,420		938,886	605,551
Exposures in default	1,255						0			288,338	142,677						432,269	502,353
Items associated with particularly high risk																		
Covered bonds																		
Claims on institutions and corporates with a short-term credit assessment																		
Collective Investment Undertakings											21,139						21,139	31,709
Equity exposures										11,480							11,480	11,480
Other exposures																		
TOTAL	**11,187,481**				**2,047,135**		**1,113,370**		**2,221,110**	**4,827,127**	**1,434,972**				**239,430**		**23,070,624**	**9,325,058**

The values of the exposures at risk originated by portfolios subject to the IRB approach, as at 31 December 2017, are presented in the following Tables, which reflect the different portfolos (Retail, Corporates, Specialised Lending and Equity positions).

TABLE 34 – TEMPLATE EU CR6 – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE - CORPORATES

(Thousand euros)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average CCF	Number of obligors	PD Média	Average LGD	RWA	RWA density	EL	Value adjustments and provisions
CORPORATES	0.01% to 0.05%												
	0.05% to 0.07%		3,316	79.74%	2,644	0.05%	14	42.26%	367	296	11.2%	1	
	0.07% to 0.14%	20,070	17,378	42.99%	27,544	0.10%	89	42.20%	391	5,248	19.1%	12	
	0.14% to 0.28%	661,005	1,161,981	82.99%	1,634,608	0.20%	339	41.80%	657	599,866	36.7%	1,367	
	0.28% to 0.53%	330,572	300,343	67.20%	534,414	0.40%	370	35.99%	501	225,740	42.2%	769	
	0.53% to 0.95%	510,005	517,282	75.85%	910,362	0.70%	315	40.49%	561	587,763	64.6%	2,580	
	0.95% to 1.73%	440,451	293,931	65.68%	622,427	1.30%	307	40.98%	531	526,737	84.6%	3,315	
	1.73% to 2.92%	705,548	207,676	48.08%	798,250	2.30%	202	36.59%	986	855,765	107.2%	6,711	
	2.92% to 4.67%	818,879	359,792	43.92%	982,417	3.70%	275	35.64%	634	1,046,231	106.5%	12,951	
	4.67% to 7.00%	302,185	253,951	33.87%	376,571	5.90%	188	33.89%	528	443,473	117.8%	7,528	
	7.00% to 9.77%	547,628	56,269	25.39%	474,694	8.30%	129	29.64%	741	575,196	121.2%	11,580	
	9.77% to 13.61%	364,175	265,893	19.43%	388,411	11.50%	307	34.94%	939	642,541	165.4%	15,604	
	13.61% to 100.00%	11,173	1,198	10.51%	11,299	41.58%	15	42.23%	1,411	26,428	233.9%	1,984	
	100.00% (default)	2,939,245	267,230	13.44%	2,975,169	100.00%	219	63.66%	1,162	441,503	14.8%	1,675,409	
	SUBTOTAL	**7,650,936**	**3,706,241**	**59.56%**	**9,738,811**	**32.39%**	**2,769**	**45.74%**	**758**	**5,976,788**	**61.4%**	**1,739,809**	**-1,715,012**
SME	0.01% to 0.05%												
	0.05% to 0.07%		785	76.55%	601	0.05%	3	31.71%	365	39	6.6%	0	
	0.07% to 0.14%	4,739	4,028	57.64%	6,863	0.10%	71	32.09%	917	1,055	15.4%	2	
	0.14% to 0.28%	48,577	130,044	55.29%	117,819	0.20%	507	39.39%	497	25,303	21.5%	93	
	0.28% to 0.53%	214,223	212,548	54.40%	317,379	0.40%	911	38.53%	825	133,226	42.0%	488	

	0.53% to 0.95%	209,396	190,978	51.84%	277,872	0.70%	903	38.55%	605	128,673	46.3%	746	
	0.95% to 1.73%	229,497	162,798	49.90%	399,671	1.30%	825	35.25%	568	229,396	57.4%	1,809	
	1.73% to 2.92%	321,504	116,343	43.62%	321,391	2.30%	687	35.08%	801	224,007	69.7%	2,554	
	2.92% to 4.67%	193,480	100,531	35.50%	204,186	3.70%	591	37.04%	689	168,293	82.4%	2,778	
	4.67% to 7.00%	149,533	73,894	39.65%	166,058	5.90%	482	35.18%	884	155,462	93.6%	3,412	
	7.00% to 9.77%	75,716	66,804	20.94%	85,800	8.30%	249	34.30%	630	86,050	100.3%	2,427	
	9.77% to 13.61%	599,514	210,119	23.95%	637,066	11.50%	1,858	30.86%	858	718,092	112.7%	22,461	
	13.61% to 100.00%	136,710	22,900	25.84%	142,174	46.53%	120	33.80%	1,510	230,340	162.0%	22,319	
	100.00% (default)	1,335,096	176,522	13.35%	1,358,663	100.00%	1,099	57.02%	1,174	256,255	18.9%	689,358	
	SUBTOTAL	**3,517,986**	**1,468,295**	**39.52%**	**4,035,543**	**36.75%**	**8,306**	**42.24%**	**904**	**2,356,190**	**58.4%**	**748,447**	**-728,903**
TOTAL		**11,168,921**	**5,174,536**	-	**13,774,353**	-	-	-	-	**8,332,979**	**60.5%**	**2,488,256**	**-2,443,915**

NOTE: These data do not include the exposures on Derivatives and Specialised Lending.

TABLE 35 – TEMPLATE EU CR6 – CREDIT RISK EXPOSURES BY EXPOSURE CLASS AND PD RANGE - RETAIL

(Thousand euros)

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	LGD Média	Average Maturity	RWA	RWA density	EL	Value adjustments and provisions
SECURED BY	0.01% to 0.05%												
REAL ESTATE	0.05% to 0.07%	76,286	46	46.24%	76,307	0.05%	1,135	18.13%		2,020	2.65%	7	
	0.07% to 0.14%	9,017,954	20,963	2.56%	9,112,696	0.09%	166,013	23.03%		483,549	5.31%	1,890	
	0.14% to 0.28%	3,893,102	2,497	26.39%	3,955,339	0.20%	60,531	21.54%		347,348	8.78%	1,643	
	0.28% to 0.53%	2,328,521	1,556	26.15%	2,374,148	0.40%	37,842	20.88%		344,545	14.51%	1,969	
	0.53% to 0.95%	1,652,400	1,446	21.52%	1,655,245	0.70%	26,764	21.95%		375,303	22.67%	2,556	
	0.95% to 1.73%	1,114,276	697	26.66%	1,115,651	1.30%	18,254	21.93%		378,399	33.92%	3,164	
	1.73% to 2.92%	769,031	773	10.27%	758,799	2.29%	12,724	21.75%		364,911	48.09%	3,769	
	2.92% to 4.67%	770,886	256	55.68%	782,669	3.71%	13,405	20.80%		474,442	60.62%	6,059	
	4.67% to 7.00%	573,188	45	23.76%	512,259	5.93%	8,691	21.03%		402,737	78.62%	6,410	
	7.00% to 9.77%	389,746	1,636	0.02%	345,440	8.45%	5,788	20.55%		311,738	90.24%	6,068	
	9.77% to 13.61%	932,153	385	24.08%	830,564	11.50%	14,114	18.86%		765,272	92.14%	18,015	
	13.61% to 100.00%	278,459	50		278,459	28.68%	4,210	26.92%		419,111	150.51%	19,506	
	100.00% (default)	1,471,023	63		1,471,023	100.00%	16,505	27.16%		307,313	20.89%	399,502	
	SUBTOTAL	**23,267,026**	**30,410**	**8.04%**	**23,268,600**	**7.75%**	**385,976**	**22.37%**		**4,976,689**	**21.39%**	**470,557**	**-231,090**
QUALIFYING	0.01% to 0.05%												
REVOLVING	0.05% to 0.07%	2,097	138,675	12.72%	19,735	0.05%	72,273	56.90%		398	2.02%	6	
	0.07% to 0.14%	72,801	532,358	45.94%	317,390	0.08%	271,066	62.61%		10,866	3.42%	165	
	0.14% to 0.28%	98,840	505,489	22.62%	213,161	0.20%	250,534	59.01%		13,978	6.56%	247	
	0.28% to 0.53%	101,624	216,278	29.34%	165,088	0.40%	178,006	59.49%		19,218	11.64%	388	

	0.53% to 0.95%	89,391	115,425	37.36%	132,517	0.71%	125,596	60.75%		24,940	18.82%	569	
	0.95% to 1.73%	83,893	71,655	44.54%	115,805	1.29%	96,573	62.06%		35,230	30.42%	924	
	1.73% to 2.92%	56,257	36,921	39.83%	70,964	2.27%	62,557	62.22%		32,877	46.33%	1,000	
	2.92% to 4.67%	42,364	24,298	36.17%	51,152	3.77%	50,808	62.32%		33,953	66.38%	1,201	
	4.67% to 7.00%	27,287	15,306	32.01%	32,186	6.03%	41,278	61.98%		29,003	90.11%	1,204	
	7.00% to 9.77%	18,124	10,097	33.09%	21,465	9.07%	30,719	62.06%		24,885	115.93%	1,214	
	9.77% to 13.61%	24,518	45,772	12.73%	30,345	11.50%	136,004	56.90%		36,582	120.56%	1,986	
	13.61% to 100.00%	31,285	4,518	71.48%	34,514	29.68%	23,839	65.56%		63,143	182.95%	6,677	
	100.00% (default)	59,385	3,306	9.36%	59,694	100.00%	73,125	77.35%		14,359	24.05%	46,174	
	SUBTOTAL	**707,865**	**1,720,100**	**32.33%**	**1,264,018**	**6.69%**	**1,412,378**	**61.84%**		**339,433**	**26.85%**	**61,755**	**-39,996**
OTHER	0.01% to 0.05%												
RETAIL - SME	0.05% to 0.07%	4,175	12,831	44.83%	9,928	0.05%	224	32.72%		387	3.89%	2	
	0.07% to 0.14%	50,527	112,062	36.92%	103,974	0.10%	13,169	33.78%		7,037	6.77%	35	
	0.14% to 0.28%	137,875	119,559	38.65%	208,460	0.20%	15,943	34.65%		23,624	11.33%	144	
	0.28% to 0.53%	127,236	91,133	40.53%	164,839	0.40%	11,732	34.94%		29,044	17.62%	228	
	0.53% to 0.95%	110,638	51,632	33.73%	117,286	0.70%	8,908	33.12%		26,758	22.81%	269	
	0.95% to 1.73%	86,423	46,631	33.62%	87,630	1.30%	6,824	32.61%		25,872	29.52%	369	
	1.73% to 2.92%	56,953	39,342	22.18%	53,351	2.30%	4,277	34.11%		19,388	36.34%	415	
	2.92% to 4.67%	42,859	12,883	60.05%	61,906	3.70%	5,753	31.77%		22,681	36.64%	725	
	4.67% to 7.00%	28,018	13,135	20.91%	22,635	5.90%	2,809	32.84%		8,982	39.68%	435	
	7.00% to 9.77%	19,029	3,718	21.87%	12,426	8.30%	1,706	32.86%		5,249	42.24%	339	
	9.77% to 13.61%	101,356	57,621	25.17%	83,472	11.50%	17,143	31.76%		37,699	45.16%	3,043	
	13.61% to 100.00%	8,990	2,840	47.65%	10,005	48.04%	566	37.83%		7,742	77.39%	1,826	
	100.00% (default)	217,999	81,445	47.33%	256,548	100.00%	5,768	38.39%				98,499	
	SUBTOTAL	**992,079**	**644,831**	**36.88%**	**1,192,460**	**22.86%**	**94,822**	**34.67%**		**214,464**	**17.98%**	**106,330**	**-151,122**
OTHER	0.01% to 0.05%												

RETAIL - NON SME	0.05% to 0.07%	13,768	5,916	23.42%	15,142	0.05%	14	27.41%		644	4.25%	2	
	0.07% to 0.14%	91,184	30,405	8.27%	98,078	0.10%	89	28.94%		7,432	7.58%	28	
	0.14% to 0.28%	294,118	38,803	15.51%	307,714	0.20%	339	29.98%		39,424	12.81%	184	
	0.28% to 0.53%	364,162	28,352	26.34%	373,566	0.40%	370	29.87%		74,384	19.91%	446	
	0.53% to 0.95%	232,992	9,113	18.10%	233,935	0.70%	315	31.67%		67,327	28.78%	519	
	0.95% to 1.73%	183,780	4,219	15.72%	183,238	1.30%	307	32.07%		69,999	38.20%	764	
	1.73% to 2.92%	150,743	9,973	39.45%	155,196	2.30%	202	26.96%		58,723	37.84%	962	
	2.92% to 4.67%	102,607	2,609	32.35%	105,591	3.70%	275	32.11%		50,992	48.29%	1,254	
	4.67% to 7.00%	70,590	2,278	33.82%	67,822	5.90%	188	31.40%		33,711	49.71%	1,256	
	7.00% to 9.77%	54,147	1,670	19.83%	50,603	8.30%	129	32.18%		27,337	54.02%	1,351	
	9.77% to 13.61%	131,780	3,067	38.29%	124,905	11.50%	307	32.41%		74,913	59.98%	4,656	
	13.61% to 100.00%	23,157	849	49.81%	23,574	45.07%	15	31.13%		19,276	81.77%	3,225	
	100.00% (default)	401,306	2,801	49.80%	402,701	100.00%	219	32.56%				131,131	
	SUBTOTAL	**2,114,336**	**140,056**	**20.40%**	**2,142,064**	**20.98%**	**2,769**	**30.88%**		**524,162**	**24.47%**	**145,780**	**-237,975**
TOTAL		**27,081,306**	**2,535,396**	-	**27,867,143**	-	-	-	-	**6,054,748**	**21.73%**	**784,421**	**-660,183**

NOTE: These data do not include the exposures on Derivatives and Specialised Lending.

TABLE 36 – TEMPLATE EU CR10 – IRB (SPECIALISED LENDING)

(Thousand euros)

Specialised lending

Regulatory categories	Remaining maturity	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Category 1	Less than 2.5 years			50%			
	Equal to or more than 2.5 years	23,586		70%	23,606	16,524	94
Category 2	Less than 2.5 years			70%			
	Equal to or more than 2.5 years	905,510	348,620	90%	1,202,416	1,074,929	9,619
Category 3	Less than 2.5 years			115%			
	Equal to or more than 2.5 years	147,342	42,542	115%	152,307	174,530	4,265
Category 4	Less than 2.5 years			250%			
	Equal to or more than 2.5 years	36,341	3,250	250%	38,041	95,103	3,043
Category 5	Less than 2.5 years			-			
	Equal to or more than 2.5 years	1,543	1,905	-	3,924		1,962
Total	Less than 2.5 years			-			
	Equal to or more than 2.5 years	1,114,321	396,316	-	1,420,293	1,361,086	18,984

TABLE 37 – TEMPLATE EU CR10 – IRB (EQUITY POSITIONS)

(Thousand euros)

Equities under the simple risk-weighted approach

Categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Own funds requirements	Expected loss
Private equity exposures			190%				
Exchange-traded equity exposures	8,215		290%	8,215	23,825	1,906	66
Other equity exposures	27,379		370%	27,379	101,302	8,104	657
Total	35,594			35,594	125,126	10,010	723

TABLE 38 – TEMPLATE EU CR8 – RWA FLOW STATEMENTS OF CCR EXPOSURES UNDER THE IRB APPROACH

(Thousand euros)

	RWA amounts	Capital requirements
RWA AS AT THE END OF THE PREVIOUS REPORTING PERIOD	18,512,032	1,480,963
Asset size	-313,944	-25,116
Asset quality		
Model updates	-322,000	-25,760
Methodology and policy	49,000	3,920
Acquisitions and disposals		
Foreign exchange movements	-164,856	-13,188
Other	-45,285	-3,623
RWA AS AT THE END OF THE REPORTING PERIOD	17,714,947	1,417,196

5. 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 total exposure limit for counterparties that are not financial institutions in contracts subject to this type of risk is divided into two components: one for traditional credit operations (financial and/or signature) and another for treasury products.

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 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 regularly made 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.

Generally speaking, the Bank does not use netting as a technique for credit risk mitigation/reduction under RWA/capital requirements calculation; only in accounting, non-prudential terms, netting is used for interest rate swaps, per operation. The exception to this are the approved ISDA Master Netting Agreements (MNA) celebrated with 5 entities form the "Institutions" risk class that effectively provide prudential credit risk mitigation.

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 2017 and in 2016, 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 2016 and 2017, 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 the Supervisor 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 directly collected 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.

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. 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 Bank's negotiating policy for ISDA CSA clauses privileges bilateral conditions, without any terms associated with the counterparties' ratings. Moreover, after the implementation of the last phase of EMIR, the conditions defined for OTC collateral contracts cannot be linked to credit ratings. In this context, there is currently no relation between the collateral requirements for OTC derivatives and the rating of the Bank.

As at December 2017, the Group did not have any formal counterparty credit risk coverage operation in force.

Table 39 shows the counterparty credit risk for exposures subject to the standardised approach, computed as at the end of 2017 and 2016.

TABLE 39 – TEMPLATE EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

(Thousand euros)

	Notional	Replacement cost / Current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		759,726	453,472			963,758	519,686
Original exposure							
Standardised approach							
Internal Model Method - IMM (for derivatives and SFTs)							
Of which: securities financing transactions							
Of which: derivatives and long settlements transactions							
Of which: from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR (Value at risk) for SFTs							
TOTAL							**519,686**

The own funds requirements for CVA risk, computed as at the end of 2017 and 2016 are broken down in Table 40.

TABLE 40 – TEMPLATE EU CCR2 – CVA CAPITAL CHARGE

(Thousand euros)

	Exposure value	RWA
Total portfolios subject to the advanced method		
(i) VaR component (including the 3x multiplier)		
(ii) SVaR component (including the 3x multiplier)		
All portfolios subject to the standardised method	476,062	238,668
Based on the original exposure method		
Total subject to the CVA capital charge	**476,062**	**238,668**

TABLE 41 – TEMPLATE EU CCR8 – EXPOSURES TO CCPs

(Thousand euros)

	EAD post CRM	RWA
EXPOSURES TO QCCP (TOTAL)		4,398
Exposures for trades at QCCP (excluding initial margin and default fund contributions); of which:		
(i) OTC derivatives	119,207	4,398
(ii) Exchange-traded derivatives		
(iii) SFT		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin	222,091	
Non-segregated initial margin		
Prefunded default fund contributions		
Alternative calculation of own funds requirements for exposures		
EXPOSURES TO NON-QCCP (TOTAL)		
Exposures for trades at non-QCCP (excluding initial margin and default fund contributions); of which:		
(i) OTC derivatives		
(ii) Exchange-traded derivatives		
(iii) SFT		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Prefunded default fund contributions		
Unfunded default fund contributions		

TABLE 42 – TEMPLATE EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK

(Thousand euros)

Exposure classes	Risk weight											Total	RWA
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
Central Governments or Central Banks	13,212											**13,212**	
Regional Governments or Local Authorities													
Public Setor Entities	41,127				0							**41,127**	0
Multilateral Development Banks													
International Organisations													
Institutions					188,436	266,429			10,596		114,809	**580,270**	183,794
Corporates									121,573			**121,573**	121,124
Retail								1				**1**	0
Institutions and corporates with a short-term credit assessment													
Other items													
TOTAL	**54,339**				**188,437**	**266,429**		**1**	**132,169**		**114,809**	**756,183**	**304,918**

TABLE 43 – TEMPLATE EU CCR4 – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE - CORPORATES

(Thousand euros)

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
CORPORATES	0.01% to 0.05%							
	0.05% to 0.07%							
	0.07% to 0.14%	6	0.10%	1	42.26%	365	1	18.6%
	0.14% to 0.28%	68	0.20%	3	42.26%	365	20	29.9%
	0.28% to 0.53%	359	0.40%	3	42.26%	365	165	45.8%
	0.53% to 0.95%	461	0.70%	4	42.26%	633	338	73.3%
	0.95% to 1.73%	3,899	1.30%	7	42.26%	747	3,405	87.3%
	1.73% to 2.92%	6,014	2.30%	7	42.26%	1,037	8,058	134.0%
	2.92% to 4.67%	86	3.70%	2	42.26%	365	101	117.5%
	4.67% to 7.00%	69	5.90%	1	42.26%	365	97	140.2%
	7.00% to 9.77%							
	9.77% to 13.61%	77	11.50%	1	34.68%	1,080	124	161.3%
	13.61% to 100.00%							
	100.00% (default)							
	SUBTOTAL	**11,040**	**1.90%**	**29**	**42.21%**	**703**	**12,309**	**111.49%**
SME	0.01% to 0.05%							
	0.05% to 0.07%							
	0.07% to 0.14%							
	0.14% to 0.28%	126	0.20%	8	38.68%	369	26	20.4%
	0.28% to 0.53%	53	0.40%	7	42.95%	365	17	31.9%
	0.53% to 0.95%	84	0.70%	9	41.16%	842	37	43.3%
	0.95% to 1.73%	152	1.30%	9	40.26%	608	88	57.7%
	1.73% to 2.92%	63	2.30%	6	39.50%	365	38	60.1%
	2.92% to 4.67%	73	3.70%	8	40.83%	787	66	90.3%
	4.67% to 7.00%	215	5.90%	7	39.79%	365	207	96.3%
	7.00% to 9.77%	108	8.30%	5	44.40%	365	141	131.2%
	9.77% to 13.61%	479	11.50%	7	42.21%	873	717	149.7%
	13.61% to 100.00%							
	100.00% (default)	265	100.00%	1	49.62%	485	17	6.3%
	SUBTOTAL	**1,618**	**21.55%**	**67**	**42.59%**	**623**	**1,352**	**83.58%**
TOTAL		**12,658**	**-**	**96**	**-**	**-**	**13,661**	**107.9%**

NOTE: These data do not include the exposures on Derivatives and Specialised Lending.

TABLE 44 – TEMPLATE EU CCR4 – IRB APPROACH – CCR EXPOSURES BY PORTFOLIO AND PD SCALE - RETAIL

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
RETAIL SME	0.01% to 0.05%							
	0.05% to 0.07%							
	0.07% to 0.14%							
	0.14% to 0.28%	44	0.20%	7	0.04%		6	12.5%
	0.28% to 0.53%	11	0.40%	4	0.05%		2	23.5%
	0.53% to 0.95%	12	0.70%	2	0.05%		4	32.1%
	0.95% to 1.73%	6	1.30%	1	0.03%		2	28.3%
	1.73% to 2.92%							
	2.92% to 4.67%	12	3.70%	3	0.04%		5	43.8%
	4.67% to 7.00%							
	7.00% to 9.77%							
	9.77% to 13.61%	336	11.50%	7	0.03%		148	44.1%
	13.61% to 100.00%							
	100.00% (default)							
	SUBTOTAL	**421**	**9.36%**	**24**	**32.71%**		**167**	**39.67%**
RETAIL NON-SME	0.01% to 0.05%							
	0.05% to 0.07%							
	0.07% to 0.14%							
	0.14% to 0.28%							
	0.28% to 0.53%							
	0.53% to 0.95%							
	0.95% to 1.73%							
	1.73% to 2.92%	4	2.30%	1	36.62%		2	51.7%
	2.92% to 4.67%							
	4.67% to 7.00%							
	7.00% to 9.77%							
	9.77% to 13.61%							
	13.61% to 100.00%							
	100.00% (default)							
	SUBTOTAL	**4**	**2.30%**	**1**	**36.62%**		**2**	**51.66%**
TOTAL		**425**	**-**	**25**	**-**	**-**	**169**	**39.8%**

NOTE: These data do not include the exposures on Derivatives and Specialised Lending.

TABLE 45 – TEMPLATE EU CCR5-A – IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

(Thousand euros)

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	687,178	62,276	624,902	199,445	441,512
Value of collateral held without impact				16,055	
SFT					
Cross-product netting					
TOTAL	**687,178**	**62,276**	**624,902**	**199,445**	**441,512**

TABLE 46 – TEMPLATE EU CCR5-B – COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

(Thousand euros)

	Collateral used in derivatives transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	3,259	231,833	14,315	297,694	11,207	51,990
Bonds			211,035			
TOTAL	**3,259**	**231,833**	**225,350**	**297,694**	**11,207**	**51,990**

TABLE 47 – TEMPLATE EU CCR6 – CREDIT DERIVATIVES EXPOSURES

(Thousand euros)

	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
NOTIONALS			
Credit default swaps	319,000	19,510	-7,300
Total return swaps			
Credit linked notes			135,350
Other credit derivatives			
TOTAL NOTIONALS	**319,000**	**19,510**	**128,050**
FAIR VALUES			
Positive fair value (asset)	3,470		
Negative fair value (liability)	3,068		21,607

6. CREDIT RISK MITIGATION TECHNIQUES

6.1. 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 may be 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 the protection is formalised by:

- State, Financial Institutions or Mutual Guarantee Societies guarantees;
- Personal guarantees (or, in the case of Leasing, a returns agreement from the supplier);
- Credit derivatives;
- Adhering contractor clause (in leasing operations), when that part is an entity that controls or has a group relationship with the lessee.

6.2. 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.

6.3. 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 respective analysis and ratification process is centralised in the Appraisals Unit of the Rating Division, 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 – namely, Law 135/2015, from the 14th of September - and are ratified by the Appraisals Unit.

Regarding residential real estate, after the initial valuation and in accordance with Notice 5/2006 of 11 October from Banco de Portugal and with the CRR, the Bank monitors the respective values through market indexes. If the index is lower than 0.9, the Bank revaluates through one of the following three methods:

i) depreciation of the property by direct application of the index, if the amount owed does not exceed 300 thousand euros;

ii) review of the property value 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 the ECB's and Banco de Portugal's 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/services, commercial premises, 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, without prejudice of following method i) above referred.

For the remaining real estate (land 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 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.

6.4. 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 credit worthiness of the borrower, i.e., when the deterioration of the credit risk of the latter 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 repo 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.

Table 48 summarises the impact as at 31 December 2017 of the credit risk mitigation techniques used by the Group within the scope of the standardised approach, with effects on the substitution of exposures as well as on the exposure amounts, by risk class.

TABLE 48 – TEMPLATE EU CR3 – CRM TECHNIQUES - OVERVIEW

(Thousand euros)

Exposures	Exposures unsecured - Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	11,291,413	35,419,522	31,886,126	3,533,396	
Total debt securities	11,738,714	1,150,730	806,871	343,859	
TOTAL EXPOSURES	**23,030,127**	**36,570,252**	**32,692,997**	**3,877,255**	
Of which: defaulted	554,513	3,544,004	3,181,444	362,560	

Note: Securities of the trading book are not included.

TABLE 49 – TEMPLATE EU CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

(Thousand euros)

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central Governments or Central Banks	11,298,450	37,966	12,039,031	4,160	1,476,081	12.3%
Regional Governments or Local Authorities	693,901	50,792	568,180	16,933	117,138	20.0%
Public Setor Entities	258,612	49,416	228,693	14,595	128,129	52.7%
Multilateral Development Banks	19,432		19,432			
International Organisations						
Institutions	1,236,991	946,906	1,402,779	54,437	571,584	39.2%
Corporates	5,000,776	2,994,755	4,209,511	145,328	4,323,451	99.3%
Retail	2,258,871	265,772	2,199,112	8,474	1,557,581	70.6%
Secured by mortgages on immovable property	962,884	22,635	931,396	7,490	605,551	64.5%
Exposures in default	783,725	160,059	427,309	4,960	502,353	116.2%
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective Investment Undertakings	22,329		21,139		31,709	150.0%
Equity exposures	22,453		11,480		11,480	100.0%
Other exposures						
TOTAL	**22,558,423**	**4,528,302**	**22,058,064**	**256,377**	**9,325,058**	**41.8%**

7. 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 participation 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 "4.1. 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 50, as follows:

TABLE 50 – EQUITY EXPOSURES IN THE BANKING BOOK

(Thousand euros)

	Listed shares		Unlisted shares – Private equity		Other capital instruments [(*)]		Total		
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	
Acquisition cost / Notional amount	8,240	44,445	84,981	84,392			93,221	128,837	
Fair value	8,240	18,442	38,242	34,844			46,482	53,286	
Market price	8,240	18,442							
Balance sheet value	8,240	18,442	38,242	34,844			46,482	53,286	
Gains or losses arising from sales and settlements in the period							15,218	97,440	(1)
Total unrealised gains or losses							10,073	11,027	(2)
Total latent revaluation gains or losses							-46,739	-75,551	(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 and Poland. The 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 in 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 were exempted from these risk weights until 31 December 2017, and were subject to a single 100% weight during this period of time, identical to the standardised approach.

The significant exposures held over financial institutions and insurance companies that are not deducted to own funds are risk weighted at 250%.

The risk positions and risk weighted assets for equity exposures in the banking book are presented in Table 51.

TABLE 51 – EQUITY EXPOSURES

(Thousand euros)

	Risk weights	Risk positions		Risk weighted assets	
		31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
STANDARDISED APPROACH	100%	22,453	32,190	11,480	2,575
IRB APPROACH [1]		121,110	160,989	125,126	46,092
Listed shares	290%	28,839	24,380	23,825	5,656
Unlisted shares	370%	92,270	136,609	101,302	40,436
EQUITY EXPOSURES SUBJECT TO RISK WEIGHTNING		472,838	362,449	1,255,979	906,122
TOTAL		616,401	555,627	1,392,586	954,789

[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: RWA shown in this table are emphasized in Table 11.

8. SECURITISATION OPERATIONS

8.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2017, 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 2017, 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 achieving an effective transfer of risk to specialised institutional investors, resulting in a reduction of the risk weighted assets associated with those portfolios.

As an investor, the Group does not hold, and given its profile and investment policy is not expected to hold, any significant position in securitisation transactions. In any case, pursuant to article 449 f), the Bank has a broad risk management and controlling operation, based on models established across a wide range of credit products, including monitoring credit and market risks of securitisation positions. In this context, and being a Bank with IRB methodology approved by the regulator for securitisation positions, the provisions of Part III, Title II, Chapter 5 are observed, with emphasis on the risk weights resulting from articles 261 and 262 of the CRR , thus sustaining an adequate level of own funds. On the other hand, the book value reflects at each moment the market risk component of the security, allowing an adequate assessment of the risk return profile of the underlying asset. Any changes in the risk of these positions are thus subject to rigorous monitoring with reflection not only on the level of own funds but also on the Bank's results. Such changes are also considered and monitored under stress testing scenarios. Currently, under the terms of article 449 (g) of the CRR, given the insignificance of risks involved, there is no specific hedging or personal protection transaction to reduce the risk of securitization positions held. The specific need for hedging will always depend on the level of risk and of the amounts involved, as this analysis and follow-up will be carried out on a case-by-case basis.

It should also be noted that the Bank does not hold any position in re-securitisations, but it should be pointed out that the procedures for monitoring credit and market risk changes are identical to those mentioned here, with the corresponding risk weights predicted in 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 2017, are summarised in Table 52.

TABLE 52 – 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 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 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 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 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 million 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 million 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 2017, 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 2017 and 2016 are summarised in Table 53.

TABLE 53 - MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS

	Traditional							
	Magellan 1		Magellan 2		Magellan 3		Magellan 4	
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
INFORMATION ON THE TRANSACTIONS								
Amounts in debt (in million euros)	100	129	127	158	380	432	410	474
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%	3%	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. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
INFORMATION ON THE TRANSACTIONS				
Amounts in debt (in million euros)	1,840	2,295	991	963
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) (%)	48%	52%	26%	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.

8.2. 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 traditional 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 traditional 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.

The Group has two operations in progress which form structures of synthetic securitization. Caravela SME No. 3, associated to a corporate loan portfolio, mostly small and medium sized enterprises (SMEs) or individual entrepreneurs and Caravela SME No. 4, which involves a pool of leasing contracts to companies and sole-partnerships.

In both operations, the Bank hired a Credit Default Swap (CDS) with a SPV, buying by this way the protection for the total portfolio referred. Both cases, the synthetic securitizations, the same CDS, the risk of the respective portfolios were divided in 3 classes: senior, mezzanine and equity. The mezzanine and part of the equity (20%) were placed in the market through an SPV, and the subscription by investors, the Credit Linked Notes (CLSs). The Bank retained the senior risk and part of the equity remaining (80%). The product of the CLNs issue was invested by the SPV in a deposit which total collateral the responsibilities in the presence of the Bank, in accordance of the CDS.

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.

8.3. OWN FUNDS REQUIREMENTS

On 31 December 2017, 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 the own funds requirements of the securitisation operations by the end of 2017 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 that is defined in prudential regulations and Guidelines. The exposures without external rating were subject to a 1,250% weight.

The ECAI used in 2017 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 risk weighted assets for securitisation operations computed according to the IRB approach, at the end of 2017 and 2016, are shown in Tables 39 and 40.

TABLE 54 - SECURITISATION OPERATIONS: IRB APPROACH (TRADITIONAL)

(Thousand euros)

Traditional securitisation	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value		Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%				Risk weighted assets	
				Internal ratings approach		1250%			
			Amounts deducted from own funds (-)	12% - 18%	100%	Position subject to notation	Position not subject to notation	31 Dec. 17	31 Dec. 16
TOTAL EXPOSURES (=A+B+C)		6,720			6,620		100	3,781	17,261
A - LENDER ENTITY: TOTAL EXPOSURES									
B - INVESTOR: TOTAL EXPOSURES		6,720			6,620		100	3,781	17,261
B.1 - Balance sheet items		6,720			6,620		100	3,781	17,261
Most senior		6,620			6,620			2,456	16,005
Mezzanine									
First loss		100					100	1,325	1,256
B.2 - Off-balance sheet items and derivatives									
C - SPONSOR: TOTAL EXPOSURES									

TABLE 55 - SECURITISATION OPERATIONS: IRB APPROACH (SYNTHETIC)

(Thousand euros)

Synthetic Securitisation	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value		Breakdown of the exposure amount subject to weighting by a risk weight higher or equal to 100%		Risk weighted assets	
			Amounts deducted from own funds (-)	Regulatory formula approach			
					Average risk weight (%)	31 Dec. 17	31 Dec. 16
TOTAL EXPOSURES (=A+B+C)	3,115,217	2,831,345		2,831,345	12%	346,888	388,916
A - LENDER ENTITY: TOTAL EXPOSURES	3,115,217	2,831,345		2,831,345	12%	346,888	388,916
A.1 - Balance sheet items	2,831,345	2,547,473		2,547,473	11%	290,113	330,929
Most senior	2,538,479	2,538,479		2,538,479	7%	177,694	212,038
Mezzanine	281,623						
First loss	11,242	8,994		8,994	1250%	112,420	118,891
A.2 - Off-balance sheet items and derivatives	283,872	283,872		283,872	20%	56,774	57,987
A.3 - Early amortisation							
B - INVESTOR: TOTAL EXPOSURES							
C - SPONSOR: TOTAL EXPOSURES							

On 31 December 2017 and 2016 there were no additional amounts of risk weighted exposures of securitisation of revolving exposures with early amortisation provisions.

9. MARKET RISK

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 2017 and 2016, 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.

MARKET RISKS	
Generic risk over debt instruments and equity securities	Internal Model
FX risk	Internal Model
Commodities risk and specific risk over debt instruments and equity securities	Standardised Approach

For specific risk, the bank does not use an internal model. Also, the Bank does not have a correlation trading portfolio (CPT). Hence, incremental risk capital charges, migration risk or specific risk measurement for the CTP do not apply.

The RWA and own funds requirements for market risks, as at 31st of December 2017 and calculated through the Standardised Approach are shown in the following table .

TABLE 56 – TEMPLATE MR1 - MARKET RISK UNDER THE STANDARDISED APPROACH

(Thousand euros)

	RWA	Capital requirements
OUTRIGHT PRODUCTS		
Interest rate risk (general and specific)	18,902	1,512
Equity risk (general and specific)	4,883	391
Foreign exchange risk	334,188	26,735
Commodity risk	245	20
OPTIONS		
Simplified approach	633,773	50,702
Delta-plus method		
Scenario approach		
SECURITISATION (SPECIFIC RISK)		
TOTAL	**991,992**	**79,359**

9.1. 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.

The valuation procedures are established in terms of the potential negative impact of market conditions, in both normal and stressful circumstances, on the trading book of the Group's business units.

As already mentioned, with respect to risk measurement models used in the Group, the Bank is authorized to use the internal models approach in assessing the generic market risk capital requirements of the trading sub-portfolios that are part of Porrtugal's centrally managed perimeter (by Banco Comercial Portugues, SA). All trading transactions related to markets and financial products are considered in this perimeter. The transactions carried out by Banco Comercial Português, S.A. account for approximately 64% of the total market risks of the Group's trading portfolio.

The methodology used to measure market risk is the Value-at-Risk (VaR), which indicates the maximum losses that can occur in the portfolios, with a certain level of confidence and time horizon. The VaR calculation is based on the analytical approach defined in the methodology developed by RiskMetrics, and is calculated considering a time horizon of ten business days and a significance level of 99%.

This methodology is widely used in the market and has the advantage of summarizing, in a single metric, the inherent risks of the trading activity, taking into account the relationships between all of them, providing an estimate of the trading book losses as a result of changes in the stock markets' prices, interest rates, FX rates and commodities' prices. In addition, for some positions, other risks are considered, such as credit spreads' risk, base risk, volatility risk and correlation risk.

The daily VaR is determined by calculating the impact, on the current value of the portfolio, of the historical changes of last years' risk factors, with a daily update of the observation window. As of December 31, 2017, the Bank did not apply any weighting system to the seniority of historical variations. The holding period is modelled through multiplying the 1-day VaR by the square root of 10.

In accordance with the implemented methodology, the Bank carries out a total revaluation, using the logarithmic returns of the risk factors; for interest rates, the logarithmic returns of the discount factors are used.

As a complement, other metrics are used for the remaining types of risk, namely, a non-linear risk measure that incorporates the options' risk not covered in the VaR model, with a confidence interval of 99%, and a measure defined by the standard methodology in the VaR model for commodities' risk. These measures are integrated into the market risk indicator with the conservative assumption of perfect correlation between the different types of risk (worst-case scenario).

In what concerns the capital requirements calculation, the VaR amount measured is increased by the amount measured for SVaR (stressed VaR). For both the VaR and the SVaR, pursuant to Article 366 of the CRR, a regulatory multiplier is additionally applied.

The SVaR calculation process consists of calculating historical VaR, with a confidence interval of 99%, based on the daily variations of market prices during a stress period of 12 consecutive months. The analysis to define the stress period is carried out weekly, and may lead to a review of the period to be considered as the one that maximizes the VaR of the portfolio at the time of analysis. As of December 31, 2017, the stress period considered was between 16/04/2011 and 16/04/2012.

The SVaR calculation is based on the same methodology and structure used for the VaR, the only difference being the historical period used. Regarding the process of determining the holding period, this also results from multiplying the 1-day VaR by the square root of 10.

Table 57 shows the main VaR and SVaR statistics, calculated in accordance to the approved internal model methods, exclusively for the universe of entities managed centrally from Portugal, in 2017:

TABLE 57 – TEMPLATE EU MR3 – IMA VALUES FOR TRADING PORTFOLIOS

(Thousand euros)

VaR (10 day 99%)	
Maximum value	5,858
Average value	3,065
Minimum value	975
Period end	2,666
SVaR (10 day 99%)	
Maximum value	10,073
Average value	7,411
Minimum value	4,488
Period end	4,794
IRC (99,9%)	
Maximum value	
Average value	
Minimum value	
Period end	
COMPREHENSIVE RISK CAPITAL CHARGE (99.9%)	
Maximum value	
Average value	
Minimum value	
Period end	

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).

The 2017 average for the stressed VaR of the Trading Book positions amounted to € 7.84 M. Regarding the stressed VaR as at 31st of December 2017, the amount measured was of € 4.75 M.

9.2. 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 58 summarises the results of these tests on the Group's global trading book on 31 December 2017, 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.

TABLE 58 - STRESS TESTS OVER THE TRADING BOOK

(Thousand euros)

Standard tested scenarios with reference to 31 December 2017	Negative results scenarios	Result
Parallel shift of the yield curve by +/- 100 bp	+ 100 bp	-11.0
Change in the scope of the yield curve (for maturities from 2 to 10 years) by +/- 25 bp	+ 25 bp	-2.2
4 possible combinations of the previous 2 scenarios	+ 100 bp and + 25 bp	-13.0
	+ 100 bp and - 25 bp	-9.0
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%	-6.5
Variation in the swap spreads by +/- 20 bp	- 20 bp	-1.2

Non-standard tested scenarios with reference to 31 December 2017	Negative results scenarios	Result
Widening/Narrowing of the Bid-Ask Spread	Widening	-7.3
Customised scenario [1]		1.7
Historical scenarios [2]	06/10/2008	-0.9
	12/09/2011	1.1

[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.

9.3. 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.

The evaluation of the 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 2017, by the Models Monitoring 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 in 2016 and 2017, 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 59.

TABLE 59 - BACKTESTING OF THE VAR APPROACH APPLIED IN MARKET RISK CALCULATION

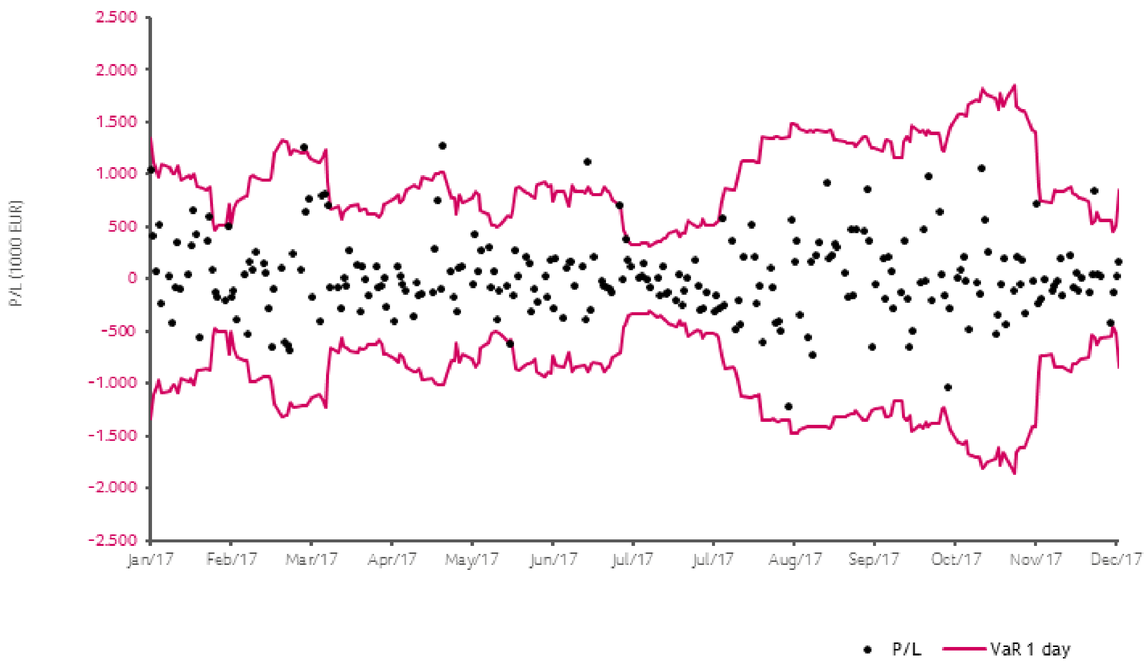
Year	Result	
	Positive	Negative
2016	1	5
2017	4	1

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

The 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.

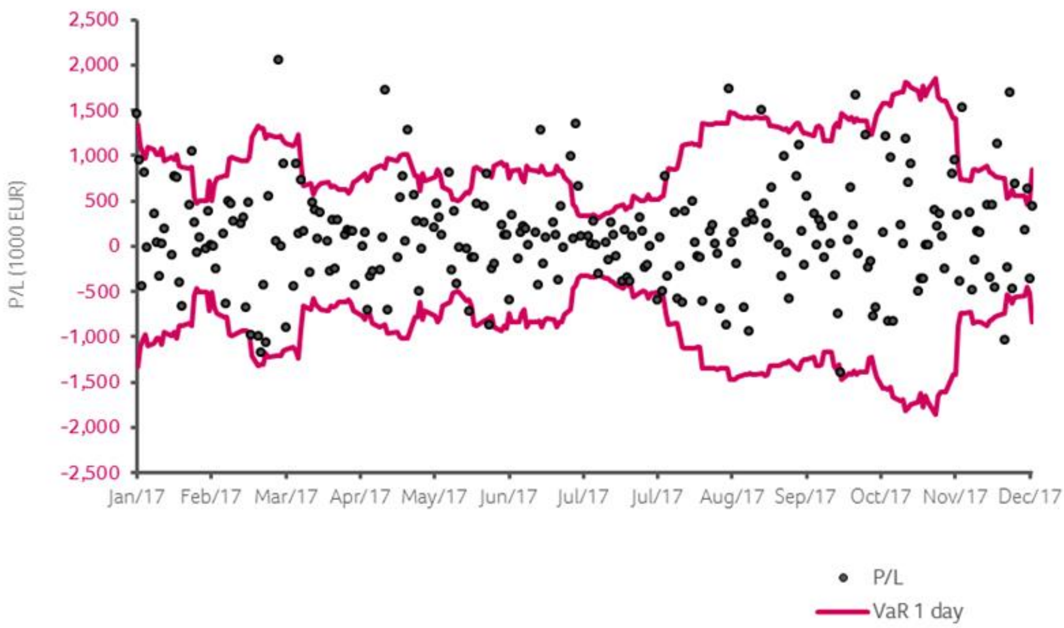
The following charts show the results of the hypothetical and real backtesting, for the trading book centrally managed from Portugal, in 2017.

GRAPH 1 – HYPOTHETICAL VAR BACKTESTING (TRADING BOOK)



As illustrated by Graph 1, there were five excesses in 2017 (four positive and one negative) over the hypothetical results of the model, representing a frequency of 1.95% in 257 daily observations. This result is aligned with the theoretical amount expected for bilateral excesses; hence, the model is considered to be adequate.

GRAPH 2 – REAL VAR BACKTESTING (TRADING BOOK)



In addition, Table 60 presents the detailed results of the daily backtesting of the trading book centrally managed from Portugal in 2017. An excess occurs when the return registered for the portfolio is higher (in absolute value) than the theoretical result of the VaR model:

TABLE 60 - HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2017

(Thousand euros)

Date	VaR	Hypothetical result	Date	VaR	Hypothetical result	Date	VaR	Hypothetical result
02/01/2017	1,337	1,044	06/03/2017	1,110	-401	10/05/2017	512	68
03/01/2017	1,112	403	07/03/2017	1,153	803	11/05/2017	497	-388
04/01/2017	1,027	65	08/03/2017	1,232	805	12/05/2017	515	-112
05/01/2017	971	525	09/03/2017	925	698	15/05/2017	599	-61
06/01/2017	1,094	-236	10/03/2017	663	-83	16/05/2017	589	-619 (1)
09/01/2017	1,068	22	13/03/2017	701	-86	17/05/2017	657	-156
10/01/2017	1,011	-420	14/03/2017	572	-275	18/05/2017	863	273
11/01/2017	1,010	-80	15/03/2017	642	18	19/05/2017	876	26
12/01/2017	1,087	355	16/03/2017	666	-62	22/05/2017	819	206
13/01/2017	949	-104	17/03/2017	697	277	23/05/2017	813	152
16/01/2017	990	43	20/03/2017	710	140	24/05/2017	793	-312
17/01/2017	951	314	21/03/2017	653	-313	25/05/2017	766	-92
18/01/2017	1,011	662	22/03/2017	671	124	26/05/2017	893	-225
19/01/2017	881	431	23/03/2017	658	-5	29/05/2017	933	20
20/01/2017	876	-565	24/03/2017	623	-158	30/05/2017	884	-176
23/01/2017	855	368	27/03/2017	623	124	31/05/2017	901	174
24/01/2017	876	591	28/03/2017	587	-87	01/06/2017	743	-289
25/01/2017	546	84	29/03/2017	629	-72	02/06/2017	833	198
26/01/2017	468	-123	30/03/2017	714	16	05/06/2017	840	-372
27/01/2017	505	-173	31/03/2017	721	-267	06/06/2017	744	98
30/01/2017	506	-197	03/04/2017	771	-407	07/06/2017	703	162
31/01/2017	716	509	04/04/2017	804	118	08/06/2017	891	163
01/02/2017	506	-181	05/04/2017	725	31	09/06/2017	841	-74
02/02/2017	674	-119	06/04/2017	756	-58	12/06/2017	835	126
03/02/2017	745	-388	07/04/2017	846	-110	13/06/2017	822	-388
06/02/2017	783	40	10/04/2017	889	-353	14/06/2017	888	1,120
07/02/2017	784	-527	11/04/2017	884	-33	15/06/2017	818	-290
08/02/2017	976	169	12/04/2017	858	-162	16/06/2017	797	218
09/02/2017	982	92	13/04/2017	965	-141	19/06/2017	810	-25
10/02/2017	975	258	17/04/2017	948	-135	20/06/2017	886	-60
13/02/2017	940	142	18/04/2017	999	291	21/06/2017	838	-82
14/02/2017	938	55	19/04/2017	1,010	754	22/06/2017	836	-94
15/02/2017	940	-275	20/04/2017	1,016	-96	23/06/2017	756	-122
16/02/2017	978	-646	21/04/2017	1,016	1,270	26/06/2017	699	696
17/02/2017	1,204	-96	24/04/2017	779	67	27/06/2017	465	0
20/02/2017	1,323	110	25/04/2017	778	-176	28/06/2017	437	378
21/02/2017	1,305	-608	26/04/2017	617	-313	29/06/2017	353	180
22/02/2017	1,306	-632	27/04/2017	804	107	30/06/2017	330	116
23/02/2017	1,189	-681	28/04/2017	719	119	03/07/2017	331	12
24/02/2017	1,229	239	02/05/2017	768	-48	04/07/2017	341	31
27/02/2017	1,207	81	03/05/2017	841	426	05/07/2017	343	143
28/02/2017	1,205	1,258	04/05/2017	796	74	06/07/2017	340	-11
01/03/2017	1,212	639	05/05/2017	652	274	07/07/2017	308	-76
02/03/2017	1,160	767	08/05/2017	618	303	10/07/2017	359	14
03/03/2017	1,139	-169	09/05/2017	517	-76	11/07/2017	358	-153

(Continues)

(Continuation)

Date	VaR	Hypothetical result
12/07/2017	381	124
13/07/2017	391	-143
14/07/2017	427	-134
17/07/2017	462	-198
18/07/2017	403	48
19/07/2017	437	-247
20/07/2017	433	-120
21/07/2017	557	16
24/07/2017	507	185
25/07/2017	495	-71
26/07/2017	512	-301
27/07/2017	572	-281
28/07/2017	516	-134
31/07/2017	513	-315
01/08/2017	543	-154
02/08/2017	560	-283
03/08/2017	734	576
04/08/2017	858	-256
07/08/2017	850	363
08/08/2017	857	-480
09/08/2017	971	-198
10/08/2017	1,114	-432
11/08/2017	1,126	216
14/08/2017	1,132	513
15/08/2017	1,124	210
16/08/2017	1,116	-241
17/08/2017	1,107	-63
18/08/2017	1,353	-609
21/08/2017	1,346	100
22/08/2017	1,342	-77
23/08/2017	1,351	-415
24/08/2017	1,363	-407
25/08/2017	1,350	-495
28/08/2017	1,352	-1,226
29/08/2017	1,474	558
30/08/2017	1,473	159
31/08/2017	1,473	361
01/09/2017	1,437	-341
04/09/2017	1,411	-558
05/09/2017	1,420	164
06/09/2017	1,406	-724
07/09/2017	1,412	220
08/09/2017	1,421	346
11/09/2017	1,408	919
12/09/2017	1,424	202
13/09/2017	1,413	230
14/09/2017	1,325	333
15/09/2017	1,322	309
18/09/2017	1,314	55
19/09/2017	1,303	-170
20/09/2017	1,289	467
21/09/2017	1,294	-153
22/09/2017	1,262	467
25/09/2017	1,351	463
26/09/2017	1,357	855
27/09/2017	1,283	372
28/09/2017	1,251	-651
29/09/2017	1,247	-49
02/10/2017	1,224	200
03/10/2017	1,320	-189
04/10/2017	1,323	206
05/10/2017	1,307	74
06/10/2017	1,164	-280
09/10/2017	1,164	-122
10/10/2017	1,314	365
11/10/2017	1,358	-191
12/10/2017	1,309	-658
13/10/2017	1,465	-495
16/10/2017	1,397	-41
17/10/2017	1,423	471
18/10/2017	1,372	-17
19/10/2017	1,414	977
20/10/2017	1,386	-209
23/10/2017	1,386	647
24/10/2017	1,237	41
25/10/2017	1,226	-152
26/10/2017	1,341	-1,042
27/10/2017	1,447	-279
30/10/2017	1,574	6
31/10/2017	1,571	82
01/11/2017	1,579	208
02/11/2017	1,555	-27
03/11/2017	1,671	-483
06/11/2017	1,705	-33
07/11/2017	1,699	-149
08/11/2017	1,817	1,062
09/11/2017	1,792	558
10/11/2017	1,753	255
13/11/2017	1,721	-528
14/11/2017	1,617	-345
15/11/2017	1,776	-49
16/11/2017	1,653	197
17/11/2017	1,723	-439
20/11/2017	1,852	-113
21/11/2017	1,652	205
22/11/2017	1,614	-57
23/11/2017	1,607	175
24/11/2017	1,608	-324
27/11/2017	1,412	-18
28/11/2017	1,411	727
29/11/2017	884	-240
30/11/2017	742	-182
01/12/2017	737	-12
04/12/2017	727	-109
05/12/2017	850	-63
06/12/2017	840	-18
07/12/2017	838	193
08/12/2017	840	-159
11/12/2017	883	234
12/12/2017	818	-76
13/12/2017	808	63
14/12/2017	775	-117
15/12/2017	768	8
18/12/2017	744	-127
19/12/2017	531	44
20/12/2017	560	835
21/12/2017	627	34
22/12/2017	563	19
26/12/2017	550	-424
27/12/2017	454	-124
28/12/2017	514	25
29/12/2017	843	171

(1) Decrease of 6 b.p. in the interest rates of 7/9-years-term German bonds and depreciation of the kwanza of 0.7%.

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).

TABLE 61 – TEMPLATE EU MR2-A – MARKET RISK UNDER THE IMA

(Thousand euros)

	RWA	Capital requirements
VaR (higher of values a) and b))	214,869	17,190
a) Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		1,626
b) Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		17,190
SVaR (higher of values a) and b))	418,904	33,512
a) Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		4,488
b) Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366of the CRR)		33,512
IRC (higher of values a) and b))		
a) Most recent IRC value (incremental default and migration risks) calculated in accordance with Articles 370º and 371º of the CRR		
b) Average of the number over the preceeding 12 weeks		
COMPREHENSVE RISK MEASURE (higher of values a), b) and c))		
a) Most recent risk number for the correlation trading portfolio (Article 377º do CRR)		
b) Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		
c) 8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338º, nº4 of the CRR)		
OTHER		
TOTAL	633,773	50,702

TABLE 62 – TEMPLATE EU MR2-B – RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

(Thousand euros)

	VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
RWA AT PREVIOUS QUARTER END	**159,961**	**377,673**				**537,634**	**43,011**
Regulatory adjustment	110,495	281,758				392,253	31,380
RWA at the previous quarter-end (end of the day)	49,466	95,915				145,381	11,630
Movement in risk levels	-29,143	-39,818				-68,961	-5,517
Model updates/changes							
Methodology and policy							
Acquisitions and disposals							
Foreign exchange movements							
Other							
…							
RWA at the end of the reporting period (end of the day)	20,323	56,097				76,420	6,114
Regulatory adjustment	194,546	362,808				557,353	44,588
RWA AT THE END OF THE REPORTING PERIOD	**214,869**	**418,904**				**633,773**	**50,702**

10. OPERATIONAL RISK

As at 31 December 2017 and 2016, 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.

10.1. 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.

10.2. 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 2017, 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 2017, the Group reported 286 million euros of own funds requirements for operational risk, having reported 261 million euros as at 31 December 2016, computed based on the information presented in Table 63.

TABLE 63 - GROSS INCOME FOR OPERATIONAL RISK

(Thousand euros)

Segments	Gross Income 2017		
	2015	2016	2017
1. BASIC INDICATOR APPROACH			
2. STANDARD APPROACH	2,012,239	2,067,059	2,287,535
- Corporate finance	25,732	26,571	20,267
- Trading and sales	59,008	110,694	201,032
- Retail brokerage	15,605	22,259	22,599
- Commercial banking	595,195	528,726	532,714
- Retail banking	1,171,260	1,242,620	1,375,941
- Payment and settlement	82,552	81,657	82,104
- Agency services	37,370	28,827	23,373
- Asset management	25,517	25,705	29,506
ADVANCED MEASUREMENT APPROACH			

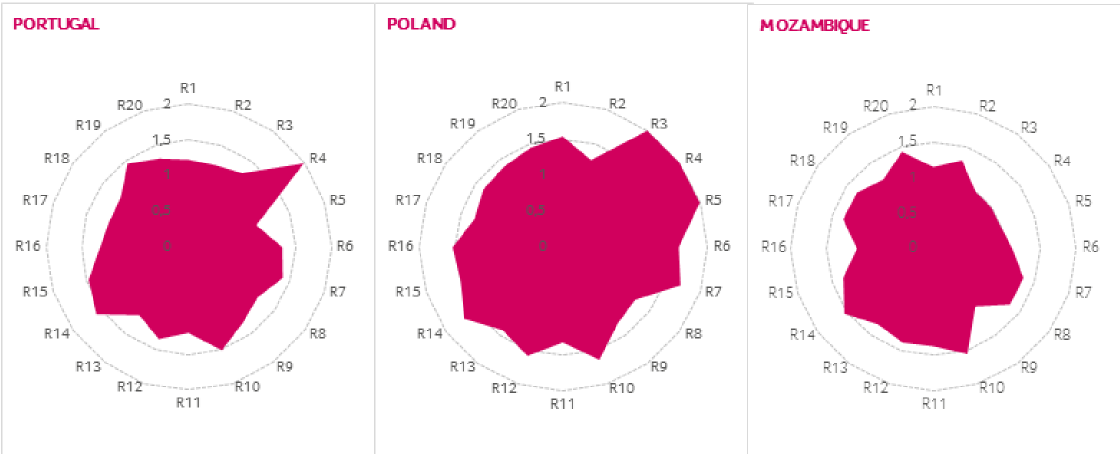
Segments	Gross Income 2016		
	2014	2015	2016
1. BASIC INDICATOR APPROACH			
2. STANDARD APPROACH	1,803,587	2,012,239	2,067,059
- Corporate finance	21,396	25,732	26,571
- Trading and sales	-158,204	59,008	110,694
- Retail brokerage	23,485	15,605	22,259
- Commercial banking	659,978	595,195	528,726
- Retail 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			

10.3. OPERATIONAL RISK MANAGEMENT

Operational risk management is based on an end-to-end process structure, defined for each of 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 3 - RISK SELF-ASSESSMENT RESULTS

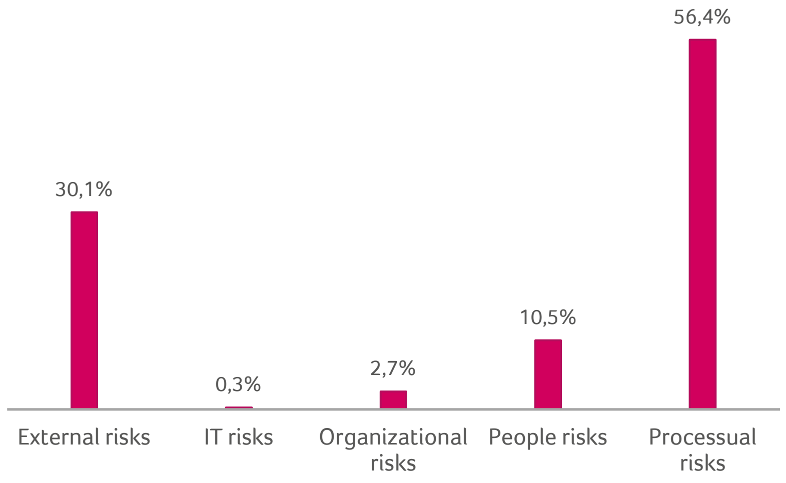


R1 Internal fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safety regulations
R5 Discrimination over employees
R6 Loss of key staff
R7 Hardware and Software problems
R8 Problems related to telecom services & lines
R9 Systems security
R10 Transaction, 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 risks
R18 Project Risks
R19 Outsourcing related problems
R20 Other third parties' related problems

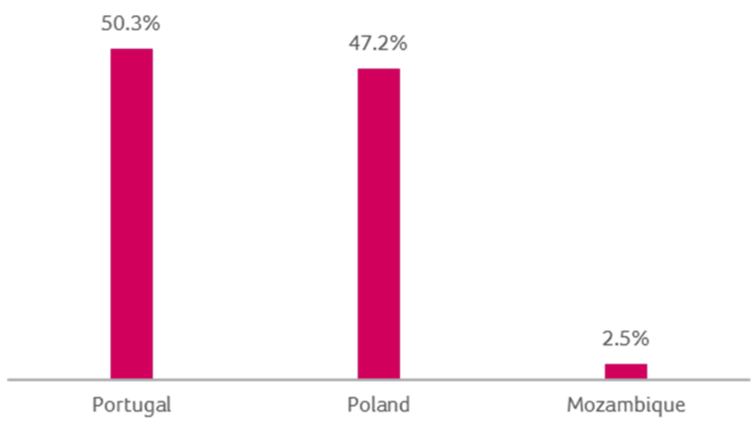
The operational losses identified are registered in the Group's operational risk application and connected with the respective process, being assessed and characterised in accordance to their nature. When applicable, a mitigation action is associated with each loss event.

The following graphs feature the profile of accumulated operational losses for 2017, until 31 December.

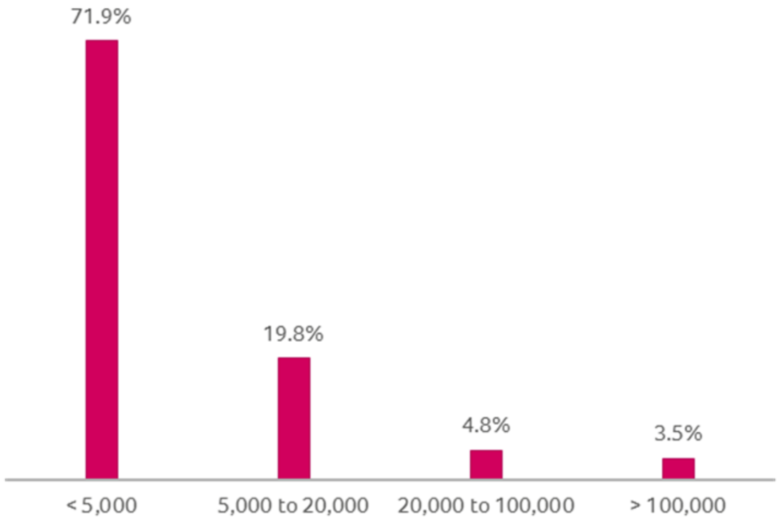
GRAPH 4 – LOSS AMOUNT DISTRIBUTION, BY CAUSE



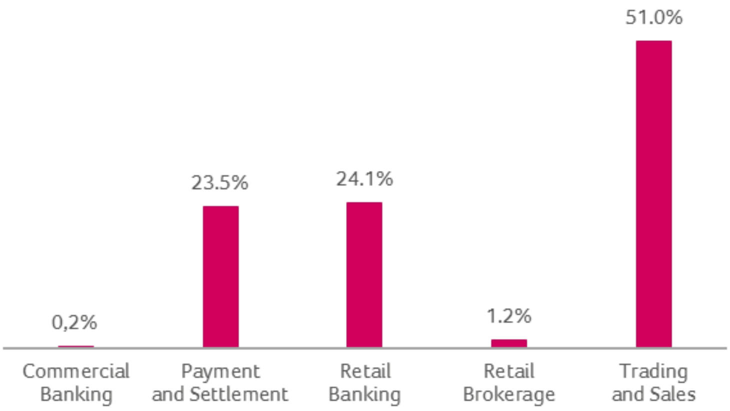
GRAPH 5 – LOSS AMOUNT DISTRIBUTION, BY GEOGRAPHY



GRAPH 6 – LOSS AMOUNT DISTRIBUTION, BY AMOUNT RANGE (IN EUROS)



GRAPH 7 – LOSS ANOUNT DISTRIBUTION, BY BUSINESS LINE



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.

The 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 are integrated in the model that was developed for the ICAAP and this data is 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 2017, 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 Internal Control and Operational Risk Monitoring 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.

11. 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 economic 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/or CALCO 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 2017, 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 64 illustrates the impacts on the shareholders' equity of the Group, as at 31 December 2017 and 2016, in value and percentage, as a result of +200 and –200 basis points shocks in interest rates.

TABLE 64 - SENSITIVITY ANALYSIS TO THE INTEREST RATE RISK IN THE BANKING BOOK

(Thousand euros)

		31 Dec. 17	31 Dec. 16
Value	+200 bp	469,267	191,306
	-200 bp	-113,655	43,514
% Shareholders' equity [1]	+200 bp	6.6%	3.7%
	-200 bp	- 1.6%	0.8%

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

On 31 December 2017, 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. 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).

12. LIQUIDITY RISK

12.1. 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.

12.2. 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.

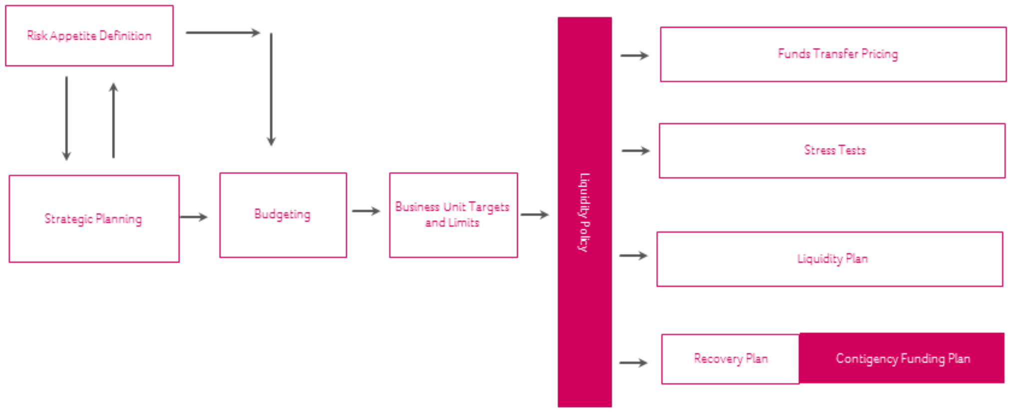
12.3.REGULATORY REQUIREMENTS

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 2017, 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.

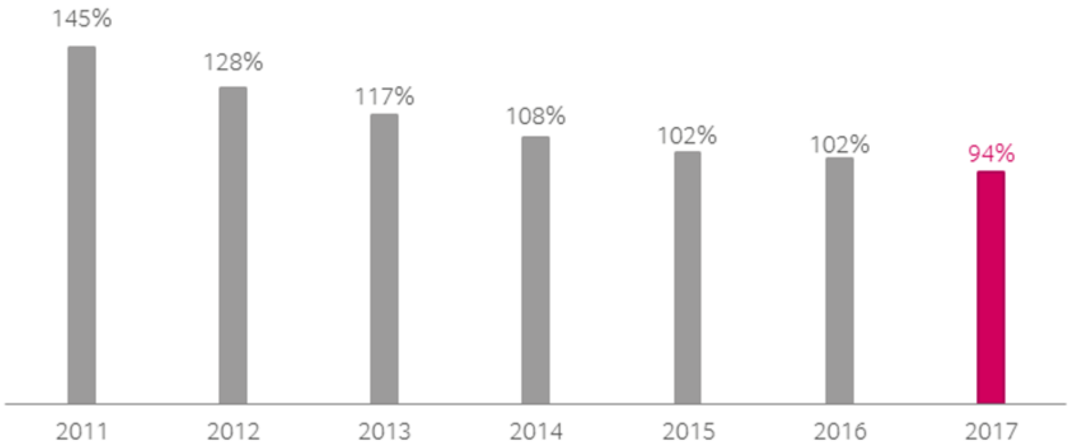


12.4.BALANCE SHEET INDICATORS

The main evolutions regarding the Group's liquidity situation in 2017 were the following:

- The commercial gap increased 2.6 billion euros compared to the end of 2016;
- A decrease of 3,264 million euros in wholesale financing requirements on a consolidated basis as compared to 31 December 2016, mainly due to the capital increase, the reduction in the commercial gap and the freed up commercial activity, whose overall effect was mitigated by the growth of the consolidated portfolio of securities;
- Repayments of medium and long-term debt amounted to 2,300 million euros, including the amortization of the last tranche of Cocos (700 million euros), with the sum of the amounts to be refinanced in the next 4 years not to exceed 641 million euros;
- Net usage of the ECB by 3,049 million euros, compared to 4,436 million euros at the end of December 2016, showing a further reduction of 1,388 million;
- 12,776 million euros (net of haircut) of eligible assets for financing operations with the ECB, with an available asset buffer of 9,728 million euros in December 2017 (figure that amounted to 7,614 million euros in December 2016);
- The BCP Group structurally improved its liquidity profile, recording a Loans-to-deposit ratio of 94% (*) at the end of 2017 and 90% if all balance sheet resources were included (at 31 December 2016 was set at 99% and 95%, respectively), keeping a comfortable liquidity reserve of EUR 9,728 million of available elegible assets to guarantee Eurosystem operations.

GRAPH 8 – TRANSFORMATION RATIO EVOLUTION*



(*) According to the instruction no. 16/2004 of Banco de Portugal

In the end of December 2017, customer deposits stood at 51,188 million euros, recording a 4.9% increase vis-à-vis 31 December 2016, with the Clients' balance sheet resources amounting to 52,688 million euros, having credit reached 50,955 million euros, which represents a 1.6% decrease comparing to the end of 2016.

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

TABLE 65 - LIQUID ASSETS INTEGRATED IN COLLATERAL POOLS

(Thousand euros)

	31 Dec. 17	31 Dec. 16
European Central Bank	7,431,756	8,592,234
Other Central Banks	3,216,224	3,204,850
TOTAL	10,647,980	11,797,084

As at 31 December 2017, the amount discounted in the European Central Bank amounted to 4,000 million euros (31 December 2016: 4,870 million euros). As at 31 December 2017 and 2016, 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 2017, the evolution of the ECB's Monetary Policy Pool, the net borrows at the ECB and liquidity buffer is analysed as follows:

TABLE 66 – LIQUIDITY BUFFER OF THE ECB

(Thousand euros)

	31 Dec. 17	31 Dec. 16
Collateral eligible for ECB, afer haircuts:		
The pool of ECB monetary policy [(i)]	7,431,756	8,592,234
Outside the pool of ECB monetary policy	5,344,503	3,457,859
	12,776,259	12,050,093
Net borrowing at the ECB [(ii)]	3,048,618	4,436,292
LIQUIDITY BUFFER [(iii)]	9,727,641	7,613,801

[(i)] Corresponds to the amount reported in COLMS (Banco de Portugal application).
[(ii)] Includes, as at December 2017, the value of funding with the ECB net of the interest associated with the negative financing rate applied to the TLTRO (Euro 17,954,000) and of deposits at the Banco de Portugal and other liquidity of the Eurosystem (Euro 1,227,481,000), plus the minimum cash reserve and the accrued interest (Euro 344,053,000).
[(iii)] Collateral eligible for the ECB, after haircuts, less net borrowing at the ECB.

Thus, as at 31 December 2017, the liquidity obtainable through available collateral, plus deposits with Banco de

Portugal deducted from the minimum cash reserves and accrued interest, amounted to 9,728 million euros, comparing to 7.614 million euros in 31 December 2016.

12.5.REGULATORY INDICATORS

12.5.1. 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 80% for this ratio until the end of 2017 and 100% from 1 January 2018.

The BCP Group's LCR ratio was comfortably above the minimum requirement 100% in 31 December 2017, supported by portfolios of highly liquid assets compatible with the Group's short-term liquidity prudential management, as evidenced in table 67.

TABLE 67 – LCR DISCLOSURE

(Thousand euros)

		Total unweighted value	Total weighted value
Period ending on 31-12-2017			
	Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUID ASSETS		0	0
1	Total high-quality liquid assets (HQLA)	-	9,259,829
CASH OUTFLOWS		0	0
2	Retail deposits and deposits from small business customers, of which:	22,246,172	2,062,282
3	Stable deposits	7,811,579	390,579
4	Less stable deposits	14,434,593	1,671,703
5	Unsecured wholesale funding	12,646,344	5,509,820
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,955,820	488,297
7	Non-operational deposits (all counterparties)	10,561,525	4,892,523
8	Unsecured debt	129,000	129,000
9	Secured wholesale funding	0	429,544
10	Additional requirements	8,100,483	1,226,983
11	Outflows related to derivative exposures and other collateral requirements	452,519	452,519
12	Outflows related to loss of funding on debt products	0	0
13	Credit and liquidity facilities	7,647,964	774,464
14	Other contractual funding obligations	717,446	717,446
15	Other contingent funding obligations	4,910,718	116,898
16.	**Total cash outflows**	-	10,062,973
CASH INFLOWS		0	0
17	Secured lending (eg reverse repos)	33,636	1,075
18	Inflows from fully performing exposures	3,310,874	1,869,604
19	Other cash inflows	6,494,100	1,854,624
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	0	-
EU-19b	(Excess inflows from a related specialised credit institution)	0	-
20	**TOTAL CASH INFLOWS**	0	3,725,303
EU-20a	Fully exempt inflows	-	-
EU-20b	Inflows subject to 90% cap	-	-
EU-20c	Inflows subject to 75% cap	9,838,610	3,725,303
21	**LIQUIDITY BUFFER**	-	9,259,829
22	**TOTAL NET CASH OUTFLOWS**	-	6,337,670
23	**LIQUIDITY COVERAGE RATIO (%)**	-	147%

Note: Information calculated as the consolidated LCR simple month-end observations over the twelve months of 2017 (EBA/GL/2017/01).
The LCR value as at 31 December 2017 stood at 158%.

Concentration of funding and liquidity sources:

Considering that the core business of the BCP Group is based on commercial banking, deposits of retail clients contribute significantly to the funding structure and to the increase of stability. Other deposits made by financial entities and large corporations further contribute to the diversification of the funding structure, increasing the relationship with some counterparties at the operational level. Collateralized resources contribute to the stable funding base, both for longer maturities and collateral quality, namely Targeted longer-term refinancing operations (TLTRO) with the European Central Bank, repurchase agreements, mortgage bond issues and securitization. Senior debt securities and subordinated debt securities that compete in part for regulatory capital increase the funding sources' level of diversification, without recognizing that there is a significant risk of financing concentration.

Derivative exposures and potential collateral calls:

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

Currency mismatch in the LCR

The BCP Group has a significant amount of funding obtained in PLN, mostly obtained by the subsidiary in Poland, representing about 20% of the total funding. The liquidity coverage ratio in PLN is significantly above the required liquidity ratio for the transition period (80% in 2017) and comfortably above 100% (required from 2018 onwards).

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

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

Other items in the LCR calculation that are not captured in the LCR disclosure template but are considered relevant by the institution for its liquidiy profile:

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

12.5.2. NET STABLE FUNDING RATIO

The definition of the Net Stable Funding Ratio (NSFR) was approved by the Basel Committee in October 2014. 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 levels in 2017 to stood the NSFR at 124%.

12.5.3. 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:

TABLE 68 – ENCUMBERED ASSETS

(Thousand euros)

Assets	31 Dec. 17				31 Dec. 16			
	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	12,542,681	n/a	60,204,359	n/a	-	15,302,927	n/a	57,835,396
Equity instruments	-	-	1,946,587	1,946,587	-	-	-	2,092,596
Debt securities	2,222,056	2,222,056	11,029,696	11,019,693	-	3,372,166	3,372,166	9,425,437
Other assets	-	-	8,744,647	n/a	-	-	n/a	8,138,305

(Thousand euros)

Collateral received	31 Dec. 17		31 Dec. 16	
	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	-	50,471	-	151,932
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. 17	31 Dec. 16
	Carrying amount of selected financial liabilities	Carrying amount of selected financial liabilities
Matching liabilities, contingent liabilities and securities lent	8,957,873	11,356,280
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	11,885,777	14,915,249

In the end of 2017, total encumbered assets in funding operations represented 17% of the Group's balance sheet total assets, comparing with the value of 21% recorded in the end of 2016. 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 8,744,647,000 euros (31 December 2016: 8,138,305,000 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 68reflect the high level of collateralisation of the wholesale funding of the Group.

Annexes

ANNEX 1 – EQUITY IN DECEMBER 31, 2017 (TRANSITIONAL MODEL OF DISCLOSURE OF OWN FUNDS)

(Thousand euros)

		(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	5,612,661	26 (1), 27, 28, 29, EBA list 26 (3)		
	of which: ordinary shares	5,600,650	EBA (3) of EBA list		Excludes own shares/ not eligible
2	Retained earnings	881,301	26 (1) (c)		
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-480,235	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		483 (2)		
5	Minority interests (amount allowed in consolidated CET1)	564,042	84, 479, 480	47,097	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)		
6	**COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS**	6,577,770		47,097	
COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS					
7	Additional value adjustments (negative amount)	-11,311	34, 105		
8	Intangible assets (net of related tax liability) (negative amount)	-217,915	36 (1) (b), 37, 472 (4)	54,479	
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)	-256,472	36 (1) (c), 38, 472 (5)	65,302	
11	Fair value reserves related to gains or losses on cash flow hedges	46,959	33 (a)		
12	Negative amounts resulting from the calculation of expected loss amounts	-313,970	36 (1) (d), 40, 159, 472 (6)	78,493	
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	-3,743	33 (b)	482	
15	Defined-benefit pension fund assets (negative amount)	-65,864	36 (1) (e), 41, 472 (7)	16,466	

(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	36 (1) (f), 42, 472 (8)	1	
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)		
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)	-286,643	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	146,609	
22	Amount exceeding the 15% threshold (negative amount)	-145,256	48 (1)	176,628	
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)	88,300	Amounts relating to line 22
24	Empty set in the EU				
25	of which: deferred tax assets arising from temporary differences	-82,891	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	88,328	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				

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		(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	-10,447		-10,447	
	of which: unrealised losses	18,389	467	18,389	
	of which: unrealised losses in relation to central Government	17,744	467	17,744	
	of which: unrealised gains	-28,836	468	-28,836	
	of which: unrealised gains relating to central Government	-5,522	468	-5,522	
26b	Amount to be deducted or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	63,327	481	63,327	
	of which: pension fund row	63,327		63,327	
	of which: deduction of deposits with higher interest rates to certain thresholds				
	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)	-57,155	36 (1) (j)	-57,155	
28	**TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1 (CET1)**	**-1,258,496**		**534,186**	
29	**COMMON EQUITY TIER 1 (CET1) CAPITAL**	**5,319,273**		**581,283**	
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	4,130	486 (3)	4,130	
	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	47,084	85, 86, 480	-24,281	
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**	**51,214**		**-20,151**	
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 AT 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)		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)	57,155		57,155	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	-102,489	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-102,489	
	of which: Intangible assets	-54,479		-54,479	
	of which: insufficient provisions for expected losses	-39,246		-39,246	
	of which: residual Amounts of CET1 instruments of financial entities in which the institution has a significant investment	-8,764		-8,764	
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	-5,880	477, 477 (3), 477 (4) (a)	-5,880	
	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		467, 468, 481		
	of which: ... possible filter for unrealised losses		467		
	of which: ... possible filter for unrealised gains		468		
	of which: ...		481		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**	**-51,214**		**-51,214**	
44	**ADDITIONAL TIER 1 (AT1) CAPITAL**			**-71,365**	
45	**TIER 1 CAPITAL (T1 = CET1 + AT1)**	**5,319,273**		**509,918**	
TIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS					
46	Capital instruments and the related share premium accounts	564,490	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	32,203	486 (4)	32,203	
	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	146,229	87, 88, 480	4,226	
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**	**742,922**		**36,428**	
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 e 79, 477 (4)		
54a	of which: new holdings not subject to transitional arrangements				

(Continues)

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		(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)	-52,920	66 (d), 69, 79, 477 (4)	5,880	
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	-48,010	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-48,010	
	of which: Insufficient provisions for expected losses	-39,246		-39,246	
	of which: residual amounts of FPP1 instruments of financial entities in which the institution has a significant investment	-8,764		-8,764	
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	-29,415	467, 468, 481	-29,415	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**	**-130,345**		**-71,545**	
58	**TIER 2 (T2) CAPITAL**	**612,577**		**-35,117**	
59	**TOTAL CAPITAL (TC = T1 + T2)**	**5,931,851**		**474,802**	

(Continues)

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		(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**	**40,171,113**		**371,710**	
CAPITAL RATIOS AND BUFFERS					
61	**COMMON EQUITY TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)**	**13.24%**	**92 (2) (a), 465**		
62	**TIER 1 (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)**	**13.24%**	**92 (2) (b), 465**		
63	**TOTAL CAPITAL (AS A PERCENTAGE OF TOTAL RISK EXPOSURE AMOUNT)**	**14.77%**	**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**				

(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
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)	8.74%	CRD 128		
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)	20,375	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)	483,370	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)	580,833	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	112,752	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	155,697	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)		

(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
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	31,313	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)		484 (5), 486 (4) and (5)		

ANNEX 2 – CET1 ELIGIBLE FINANCIAL INSTRUMENTS

(Thousand euros)

ISIN	Issuer	Description	Eleg. CRD IV		Own funds	
			31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
PTBCPOAM0015	BCP, S.A.	Ordinary shares	CET1	CET1	5,596,190	4,265,938
PTBIZQOM0059	BCP, S.A.	BCP's "CoCo" Bonds - Subscribed by the Portuguese State	CET1	CET1		700,000

ANNEX 3 – AT1 ELIGIBLE FINANCIAL INSTRUMENTS

(Thousand euros)

ISIN	Issuer	Description	Issue Date	Maturity Date	Amount	1st Call Date	Eleg. CRD IV		Own funds	
					31 Dec. 17(1)		31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
PTBCPMOM0002	BCP, S.A.	BCP FRNPLD	29/06/2009	Perpetual	2,922	-	N	N	2,338	2,922
XS0194093844	BCP Finance Co	BCP Finance Co 5,543 EUR	09/06/2004	Perpetual	43,763	09/03/2018	N	N	1,678	5,998
XS0231958520	BCP Finance Co	BCP Finance Co 4,239 EUR	13/10/2005	Perpetual	15,942	13/01/2018	N	N	115	1,709

ANNEX 4 – T2 ELIGIBLE FINANCIAL INSTRUMENTS

(Thousand euros)

ISIN	Issuer	Description	Issue Date	Maturity Date	Amount	1st Call Date	Eleg. CRD IV		Own funds	
					31 Dec. 2017[(1)]		31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
PTBIVXOM0013	BCP, S.A.	Bcp Obrigacoes Subordinadas March 2021	28/03/2011	28/03/2021	114,000	-	T2	T2	73,973	96,773
PTBIU6OM0028	BCP, S.A.	Bcp Subordinadas September 2019	14/10/2011	28/09/2019	50,000	-	T2	T2	17,444	27,444
PTBCL2OM0016	BCP, S.A.	Bcp Subordinadas November 2019	08/11/2011	08/11/2019	40,000	-	T2	T2	14,844	22,844
PTBCUWOM0011	BCP, S.A.	Bcp Subordinadas 11/25.08.2019	25/08/2011	25/08/2019	7,500	-	T2	T2	2,479	3,979
PTBCTZOM0037	BCP, S.A.	Millennium Bcp Subordinadas December 2019	30/12/2011	09/12/2019	26,600	-	T2	T2	10,330	15,650
PTBCU9OM0028	BCP, S.A.	Millennium Bcp Subordinadas January 2020	27/01/2012	13/01/2020	14,000	-	T2	T2	5,701	8,501
PTBIVSOM0077	BCP, S.A.	Bcp Obrigacoes Subordinadas April 2021	01/04/2011	01/04/2021	64,100	-	T2	T2	41,701	54,521
PTBIUGOM0072	BCP, S.A.	Bcp Obrigacoes Subordinadas 3Sr April 2021	21/04/2011	21/04/2021	35,000	-	T2	T2	23,158	30,158
PTBIZUOM0053	BCP, S.A.	Bcp Subordinadas July 2020	18/07/2012	02/07/2020	26,250	-	T2	T2	13,154	18,404
PTBCQJOM0030	BCP, S.A.	Millennium Bcp Subordinada Feb2020	04/04/2012	28/02/2020	23,000	-	T2	T2	9,941	14,541
PTBIUMOM0082	BCP, S.A.	Bcp Subordinadas April 2020	12/04/2012	03/04/2020	51,000	-	T2	T2	23,035	33,235
PTBIZKOM0063	BCP, S.A.	Bcp Subordinadas 2 Serie April 2020	12/04/2012	12/04/2020	25,000	-	T2	T2	11,417	16,417
XS0686774752	BCP Finance Bank, Ltd.	Bcpf Fixed Rate Subordinated Notes 13 Pct	13/10/2011	13/10/2021	22,863	-	T2	T2	17,312	19,470
PTBCPWOM0034	BCP, S.A.	Bcp Fix Rate Reset Sub Notes - Emtn 854	07/12/2017	07/12/2027	300,000	-	T2	T2	300,000	
PLBIG0000453	Bank Millennium	Bank Millennium - BKMO_071227R	07/12/2017	07/12/2027	167,641	-	T2	T2	66,145	
PTBSMFOE0006	BCP, S.A.	TOPS's BPSM /97 (1ª e 2º série)	04/12/1997	Perpetual	22,035	-	N	N	22,035	23,216
PTBCLAOE0000	BCP, S.A.	Obr. Perpétuas Subord. BCP Leasing /2001	28/12/2001	Perpetual	4,986	-	N	N	4,986	5,548
PTBCPZOE0023	BCP, S.A.	Mbcp Ob Cx Sub 2 Serie 2008-2018 - 2Cpn	15/10/2008	15/10/2018	14,881	15/04/2018	N	N	868	2,357
PTBCLWXE0003	BCP, S.A.	Mbcp Ob Cx Sub 1 Serie 2008-2018 - 2Cpn	29/09/2008	29/09/2018	51,559	29/03/2018	N	N	2,549	7,740
PTBIPNOM0062	BCP, S.A.	Bcp Obrigacoes Subordinadas June 2020	29/06/2010	29/06/2020	14,786	29/06/2018	N	N	1,470	1,471
PTBCTCOM0026	BCP, S.A.	Bcp Obrigacoes Subordinadas Aug 2020	27/08/2010	27/08/2020	9,278	27/02/2018	N	N	294	1,222
XS0336845333	Bank Millennium	MB Finance AB[(2)]	20/12/2007	20/12/2017			N	N		29,257

[(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).

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)	73,973,333	17,444,444	14,844,444	2,479,167	10,329,667
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
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

(Continues)

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		(1)	(2)	(3)	(4)	(5)
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

		(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)	5,701,111	41,700,611	23,158,333	13,154,167	9,941,111
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
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

(Continues)

(Continuation)

		(6)	(7)	(8)	(9)	(10)
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

		(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.	Bank Millennium, S.A.
2	Unique identifier	PTBIUMOM0082	PTBIZKOM0063	XS0686774752	PTBCPWOM0034	PLBIG0000453
3	Governing law(s) of the Instrument	Portuguese law	Portuguese law	English law	English and Portuguese law	Polish 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)	23,035,000	11,416,667	17,312,382	300,000,000	66,144,822
9	Nominal amount of instrument (2)	51,000,000	25,000,000	98,850,000	300,000,000	PLN 700,000,000 (167,640,579)
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	7 December 2017	7 December 2017
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	3 April 2020	12 April 2020	13 October 2021	7 December 2027	7 December 2027
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.	07 December 2022. Existence of call option, at any moment, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.	08 December 2022. Existence of call option, on each interest payment date, in case of determined tax and regulatory events. If the option is exercised, the notes will be redeemed at par.

(Continues)

(Continuation)

		(11)	(12)	(13)	(14)	(15)
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	Fixed	Fixed	Fixed (reset)	Floating
18	Coupon rate and any related index	9.15%	9.00%	13.00%	First 5 years. 4.5%. Refixing at the end of the 5th year: MS 5y rate + Initial Margin (4,267%)	Wibor 6M + 2.30%
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	N/A	N/A
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

		(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.	Banco Comercial Português, S.A.
2	Unique identifier	PTBSMFOE0006	PTBCLAOE0000	PTBCPZOE0023	PTBCLWXE0003	PTBIPNOM0062
3	Governing law(s) of the Instrument	Portuguese law	Portuguese law	Portuguese law	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	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)]	22,035,076	4,986,000	868,050	2,549,324	1,470,402
9	Nominal amount of instrument [(2)]	PTE 18,000,000,000; € 89,783,621.88	35,000,000	81,000,000	295,000,000	95,000,000

(Continues)

(Continuation)

		(16)	(17)	(18)	(19)	(20)
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	4 December 1997	28 December 2001	15 October 2008	29 September 2008	29 June 2010
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	No maturity	No maturity	15 October 2018	29 September 2018	29 June 2020
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: 4 December 2007	First date: 28 December 2011	First date: 15 October 2013	First date: 29 September 2013	First date: 29 June 2015
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	Floating	Floating	Fixed to Floating	Fixed to Floating	Fixed to floating
18	Coupon rate and any related index	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%	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%
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
22	Noncumulative or cumulative	Cumulative	Cumulative	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	Yes	Yes	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	Full or Partial	Full or Partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	Permanent	Permanent	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

		(21)	(22)	(23)	(24)	(25)
1	Issuer	Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	BCP Finance Company, Ltd.	BCP Finance Company, Ltd.	Banco Comercial Português, S.A.
2	Unique identifier	PTBCTCOM0026	PTBCPMOM0002	XS0194093844	XS0231958520	PTBCPOAM0015
3	Governing law(s) of the Instrument	English and Portuguese law	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
REGULATORY TREATMENT						
4	Transitional CRR rules	Tier 2	Additional Tier 1	Additional Tier 1	Additional Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible	Ineligible	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo / (Sub) consolidated	Solo / (Sub) consolidated	(Sub)consolidated	(Sub)consolidated	Solo / (Sub) consolidated
7	Instrument type	Subordinated Debt	Other Capital Instruments	Preference Shares	Preference Shares	Ordinary Shares
8	Amount recognised in regulatory capital (1)	293,803	2,337,600	1,677,581	115,137	5,596,190 376
9	Nominal amount of instrument (2)	57,000,000	300,000,000	500,000,000	500,000,000	N/A
9a	Issue price	100%	100%	100%	N/A	N/A
9b	Redemption price	100%	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
10	Accounting classification	Liability - amortised cost	Shareholders' equity	Shareholders' equity	Shareholders' equity	Shareholders' equity
11	Original date of issuance	27 August 2010	29 June 2009	9 June 2004	13 October 2005	N/A
12	Perpetual or dated	Dated	Perpetual	Perpetual	Perpetual	No maturity
13	Original maturity date	27 August 2020	No maturity	No maturity	No maturity	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	First date: 27 August 2015	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
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	N/A
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	1st year: 3%; 2nd year: 3.25%; 3rd year: 3.5%; 4th year: 4%; 5th year: 5%; 6th et seq: Euribor 6m + 1.25%	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
19	Existence of a dividend stopper	No	No	No	No	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Fully discretionary	Fully discretionary	Fully discretionary	N/A
21	Existence of step up or other incentive to redeem	Yes	No	Yes	Yes	N/A
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible

(Continues)

(Continuation)

		(21)	(22)	(23)	(24)	(25)
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	Yes	Yes	Yes	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	Always partial	Full or partial	Full or partial	N/A
33	If write-down, permanent or temporary	N/A	Temporary	Permanent	Permanent	N/A
34	If temporary write-down, description of write-up mechanism	N/A	(A)	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Tier 2	Tier 2	Tier 2	Additional Tier 1
36	Non-compliant transitioned features	Yes	Yes	Yes	Yes	No
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	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 Banco de 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 2017

(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

(Thousand euros)

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	Exposure value for Standardised Approach	Exposure value IRB Approach	Sum of long and short position of trading	Value of trading book exposure for internal models	Exposure value for Standardised Approach	Exposure value IRB Approach	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer
Germany	3,958	94,101					5,775			5,775	0.3%	0.000%
Angola	1,837	252,114					30,186			30,186	1.6%	0.000%
Brazil	3,867	54,187					1,086			1,086	0.1%	0.000%
Spain	34,864	121,847					12,933			12,933	0.7%	0.000%
United States of America	1,067	73,542					4,975			4,975	0.3%	0.000%
France	5,200	298,173					12,501			12,501	0.7%	0.000%
Greece	5	76,714					6,992			6,992	0.4%	0.000%
Kuwait		122,092					610			610	0.0%	0.000%
Luxembourg	126	128,660					7,743			7,743	0.4%	0.000%
Mozambique	375,316	141,890					41,445			41,445	2.2%	0.000%
Netherlands	21,735	303,722					12,024			12,024	0.7%	0.000%
Poland	4,279,984	6,551,970					431,070			431,070	23.3%	0.000%
Portugal	1,989,219	34,909,384	0			0	1,273,069	0	0	1,273,069	68.9%	0.000%
United Kingdom	10,770	242,314					3,721			3,721	0.2%	0.000%
Switzerland	831	319,756					4,393			4,393	0.2%	0.000%
TOTAL	6,728,781	43,690,466	0	0	0	0	1,848,525	0	0	1,848,525	-	

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

	(Thousand euros)
Total risk exposure amount	50,419,247
Institution specific countercyclical buffer rate	0.00%
Institution specific countercyclical buffer requirement	0

Market Discipline Report 2017

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

Head Office:
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Share Capital:
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Under the Single Registration and
Tax Identification Number 501 525 882

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